UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2017

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number: 001-36508

KITE PHARMA, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**27-1524986**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
2225 Colorado Avenue Santa Monica, California	**90404**
(Address of Principal Executive Offices)	**(Zip Code)**

(310) 824-9999
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of August 4, 2017, there were 57,181,750 shares of the registrant's common stock, par value $0.001 per share, outstanding.

KITE PHARMA, INC.
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Trademarks and Trade Names

Kite Pharma, Inc. (including its subsidiaries, referred to as "Kite", "the Company", "we", "our", or "us") has common law, unregistered trademarks for Kite based on use of the trademarks in the United States. This Quarterly Report on Form 10-Q, or this Quarterly Report, contains references to our trademarks and to trademarks belonging to other entities. Solely for convenience, trademarks and trade names referred to in this Quarterly Report, including logos, artwork and other visual displays, may appear without the ® or TM symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensor to these trademarks and trade names. We do not intend our use or display of other companies' trade names or trademarks to imply a relationship with, or endorsement or sponsorship of us by, any other companies.

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KITE PHARMA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	JUNE 30, 2017 (UNAUDITED)	DECEMBER 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 147,836	$ 114,561
Marketable securities	633,275	299,861
Prepaid expenses and other current assets	17,169	12,974
Total current assets	798,280	427,396
Restricted cash and investments	16,618	10,669
Property and equipment, net	49,722	44,409
Intangible assets, net	5,358	6,946
Goodwill	26,563	24,452
Other assets	10,572	10,432
Total assets	$ 907,113	$ 524,304
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 15,803	$ 10,660
Accrued expenses and other current liabilities	30,570	29,482
Deferred revenue	42,191	15,000
Total current liabilities	88,564	55,142
Deferred revenue, less current portion	78,354	19,779
Contingent consideration	15,450	14,218
Other non-current liabilities	15,491	7,195
Total liabilities	197,859	96,334
COMMITMENTS AND CONTINGENCIES (NOTE 11)		
STOCKHOLDERS' EQUITY		
Preferred Stock, $0.001 par value, 10,000,000 shares authorized, 0 shares issued and outstanding at June 30, 2017 and December 31, 2016	—	—
Common stock, $0.001 par value, 200,000,000 shares authorized, 57,078,307 and 50,083,355 shares issued and outstanding, excluding 0 and 298,758 shares subject to repurchase at June 30, 2017 and December 31, 2016, respectively	57	50
Additional paid-in capital	1,336,444	855,564
Accumulated other comprehensive loss	(297)	(917)
Accumulated deficit	(626,950)	(426,727)
Total stockholders' equity	709,254	427,970
Total liabilities and stockholders' equity	$ 907,113	$ 524,304

See accompanying notes.

KITE PHARMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except share and per share amounts)
(Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2017	2016	2017	2016
Revenues	$ 10,052	$ 4,795	$ 19,888	$ 9,922
Operating expenses:				
Research and development	70,870	47,356	136,777	81,771
General and administrative	41,101	23,713	76,466	40,395
Total operating expenses	111,971	71,069	213,243	122,166
Loss from operations	(101,919)	(66,274)	(193,355)	(112,244)
Other income (expense):				
Interest income	1,766	953	2,794	1,769
Losses from equity method investments	(544)	(28)	(1,022)	(28)
Other income (expense), net	(2,366)	(5)	(1,942)	25
Total other income (expense), net	(1,144)	920	(170)	1,766
Loss before income taxes	(103,063)	(65,354)	(193,525)	(110,478)
Income tax (provision) benefit	(6,759)	1,080	(6,698)	2,289
Net loss	$ (109,822)	$ (64,274)	$ (200,223)	$ (108,189)
Net loss per share, basic and diluted	$ (1.94)	$ (1.31)	$ (3.69)	$ (2.21)
Weighted-average shares outstanding, basic and diluted	56,662,639	49,156,705	54,264,393	48,876,791
Comprehensive loss:				
Net loss	$ (109,822)	$ (64,274)	$ (200,223)	$ (108,189)
Foreign currency translation adjustments	685	(438)	815	355
Unrealized gain (loss) on available-for-sale securities, net	(297)	175	(195)	627
Comprehensive loss	$ (109,434)	$ (64,537)	$ (199,603)	$ (107,207)

See accompanying notes.

KITE PHARMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	SIX MONTHS ENDED JUNE 30,	
	2017	**2016**
Cash flows from operating activities:		
Net loss	$ (200,223)	$ (108,189)
Adjustment to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	6,616	4,527
Stock-based compensation	49,241	34,622
Amortization on marketable securities	712	791
Fair value adjustment of contingent consideration	2	—
Loss (gain) on sale of available for sale securities, net	28	(444)
Losses from equity method investments	1,022	28
Restricted cash	—	(2,122)
Deferred tax valuation allowance	6,698	—
Other	1,927	314
Changes in operating assets and liabilities:		
Deferred revenue	76,320	(7,204)
Deferred rent	7,021	(191)
Prepaid expenses and other current assets	(4,169)	5,950
Other assets	(1,147)	1,802
Accounts payable	2,045	(1,396)
Accrued expenses and liabilities	931	5,714
Due to related parties	292	15
Net cash used in operating activities	(52,684)	(65,783)
Cash flows from investing activities:		
Purchases of marketable securities	(426,867)	(254,037)
Sales and maturities of marketable securities	86,572	115,181
Purchase of property and equipment	(5,595)	(13,784)
Cash paid for equity investment in Cell Design Labs	—	(6,025)
Net cash used in investing activities	(345,890)	(158,665)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(87)	(57)
Proceeds from issuance of common stock, net of issuance costs	399,682	—
Proceeds from employee stock purchase plan	1,776	841
Proceeds from exercise of stock options	30,290	977
Net cash provided by financing activities	431,661	1,761
Effect of exchange rate changes on cash	188	2
Net change in cash and cash equivalents	33,275	(222,685)
Cash and cash equivalents at beginning of period	114,561	392,843
Cash and cash equivalents at end of period	$ 147,836	$ 170,158
Supplemental schedule of cash flows information:		
Proceeds from employee stock plan received in advance of issuance	$ 1,587	$ 765

See accompanying notes.

NOTE 1—BUSINESS AND NATURE OF OPERATIONS

Nature of Operations

Kite was incorporated on June 1, 2009 in the State of Delaware and is headquartered in Santa Monica, California. The Company is a clinical-stage biopharmaceutical company focused on the development and commercialization of novel cancer immunotherapy products designed to harness the power of a patient's own immune system to eradicate cancer cells. The Company is developing multiple product candidates using its engineered autologous cell therapy, which involves the genetic engineering of T cells to express either chimeric antigen receptors ("CARs") or T cell receptors ("TCRs").

Since commencing operations, the Company has devoted substantially all of its efforts to securing intellectual property rights, performing research and development activities, including conducting clinical trials and manufacturing activities, hiring personnel, preparing for the potential commercial launch of its lead product candidate, KTE-C19, and raising capital to support and expand these activities. On March 17, 2015, the Company acquired T-Cell Factory B.V. ("TCF"), a Dutch company, for the opportunity to expand the Company's pipeline of TCR-based product candidates. TCF has been renamed Kite Pharma EU B.V. ("Kite Pharma EU").

NOTE 2—BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of Kite and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated during consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with GAAP for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the Company's management, the accompanying condensed consolidated financial statements contain all adjustments (consisting of normal recurring accruals and adjustments) necessary to present fairly the financial position, results of operations and cash flows of the Company at the dates and for the periods indicated. Interim results are not necessarily indicative of results for the full fiscal year. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

In 2016, the Company identified that the six months ended June 30, 2016 activities related to the Company's employee stock purchase plan of $0.8 million had been presented in cash flows from operating activities instead of cash flows from financing activities. The Company corrected the previously presented cash flows for these items and in doing so, the condensed consolidated statements of cash flows for the six months ended June 30, 2016 were adjusted to increase the net cash used in operating activities by $0.8 million, and increase the net cash provided from financing activities by $0.8 million. The Company has evaluated the effect of the incorrect presentation, both qualitatively and quantitatively, and concluded that it did not have a material impact on, nor require amendment of, any previously filed annual or quarterly consolidated financial statements.

The Company has not generated any revenue from the sale of products since its inception. The Company has experienced net losses since its inception and has an accumulated deficit of $627.0 million and $426.7 million as of June 30, 2017 and December 31, 2016, respectively. The Company expects to incur losses and have negative net cash flows from operating activities as it prepares for potential commercialization of its lead product candidate, KTE-C19, and as it expands its portfolio and engages in further research and development activities, particularly conducting pre-clinical studies and clinical trials.

The success of the Company depends on its ability to develop its technologies to the point of U.S. Food and Drug Administration ("FDA") approval and subsequent revenue generation or through the sale, merger, or other transfer of all or substantially all of the Company's assets and, accordingly, to raise enough capital to finance these developmental efforts. In the future, management may need to raise additional capital to finance the continued operating and capital requirements of the Company. Any amounts raised may be used for the further development and commercialization of product candidates, to acquire additional product licenses and for other working capital purposes. There can be no assurances that the Company will be able to secure such additional financing, or if available, that it will be sufficient to meet its needs. If the Company cannot obtain adequate working capital, it will be forced to reevaluate its planned business operations.

NOTE 3—SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Estimates are made in these consolidated financial statements, which included but are not limited to contingent consideration, stock-based compensation expense, accrued expenses, revenue, acquisition-date fair value and subsequent fair value estimates used to assess potential impairment of long-lived assets, including goodwill and intangible assets, and income taxes. The Company bases its estimates on historical experience, known trends and other market-specific or other relevant factors that it believes to be reasonable under the circumstances. Actual results may differ from those estimates or assumptions.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consist primarily of money market funds, bank money market accounts, certificates of deposit, and U.S. treasury securities, and are stated at cost, which approximates fair value.

Restricted Cash and Investments

The Company has amounts that are posted as secured collateral in connection with letters of credit relating to the Company's leases of its commercial manufacturing and support facilities. These amounts reported as restricted cash totaled $3.7 million and have been included within the restricted cash and investments caption at June 30, 2017 and December 31, 2016.

In November 2016, the Company pledged $7.0 million of government-related debt securities against a $5.5 million letter of credit to secure a lease agreement entered into in November 2016. See Note 11 for further discussion. These investments, net of maturities have been included within the restricted cash and investments caption at June 30, 2017 and December 31, 2016. The letter of credit amount was increased by $5.5 million in January 2017, resulting in an additional $7.2 million of government-related debt securities pledged as collateral. These investments net of maturities have been included within the restricted cash and investments caption at June 30, 2017.

Marketable Securities

The Company's marketable securities have been classified as "available-for-sale" and are carried at fair value as determined based upon quoted market prices or pricing models for similar securities. Management determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. Unrealized gains and losses are excluded from earnings and are reported as a component of comprehensive loss. Realized gains and losses and declines in fair value judged to be other than temporary, if any, on available-for-sale securities are included in other income (expense), net. The cost of securities sold is based on the specific-identification method. Interest on marketable securities is included in interest income.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist primarily of cash and cash equivalents and marketable securities. The primary objectives for the Company's investment portfolio are the preservation of capital and the maintenance of liquidity. The Company does not enter into any investment transaction for trading or speculative purposes.

The Company's investment policy limits investments to certain types of instruments such as certificates of deposit, money market instruments, obligations issued by the U.S. government and U.S. government agencies as well as corporate debt securities, and places restrictions on maturities and concentration by type and issuer. The Company maintains cash balances in excess of amounts insured by the FDIC and concentrated within a limited number of financial institutions. The accounts are monitored by management to mitigate the risk.

Foreign Currencies

The Company operates in multiple currencies through its foreign subsidiaries. In regards to its wholly-owned subsidiary, Kite Pharma EU, the Company has determined that based on the nature of the transactions occurring within this entity, the functional currency of the subsidiary is the Euro, and accordingly, any net assets of Kite Pharma EU, including goodwill and identifiable intangible assets, are translated into U.S. dollars at the rates prevailing as of the balance sheet dates. The operating results of Kite Pharma EU are translated into U.S. dollars using the average exchange rates for the period correlating with those

operating results. Any translation impact is included as a component of accumulated other comprehensive loss on the condensed consolidated balance sheets.

Income Taxes

The Company provides for income taxes based on pretax income, if any, and applicable tax rates available in the various jurisdictions in which it operates. Deferred income taxes are recorded for the expected tax consequences of temporary differences between the bases of assets and liabilities for financial reporting purposes and amounts recognized for income tax purposes. A valuation allowance is recorded to reduce the Company's deferred tax assets to the amount of future tax benefit that is more likely than not to be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities based on the technical merits of the position. The tax benefit recognized in the financial statements for a particular tax position is based on the largest benefit that is more likely than not to be realized. The amount of unrecognized tax benefits (UTBs) is adjusted as appropriate for changes in facts and circumstances, such as significant amendments to existing tax law, new regulations or interpretations by the taxing authorities, new information obtained during a tax examination, or resolution of an examination. It is the Company's policy to recognize both accrued interest and penalties, if any, related to UTBs in income tax expense. See Note 9 for further discussion related to income taxes.

Equity Investments and Business Combinations

For equity investments in other companies, the Company utilizes the cost method of accounting when it does not have the ability to exercise significant influence over the investee. For equity investments where the Company has the ability to exercise significant influence, the Company utilizes the equity method of accounting in accordance with ASC Topic 323, Investments – Equity Method and Joint Ventures.

For business combinations, the Company utilizes the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations. These standards require that the total cost of an acquisition be allocated to the tangible and intangible assets acquired and liabilities assumed based on their respective fair values at the date of acquisition. The allocation of the purchase price is dependent upon certain valuations and other studies. Acquisition costs are expensed as incurred. The Company recognizes separately from goodwill the fair value of assets acquired and the liabilities assumed. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the acquisition date fair values of the assets acquired and liabilities assumed. While the Company uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, the Company’s estimates are subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the fair value of the assets acquired and liabilities assumed, with the corresponding offset to goodwill in the period in which the amounts are determined. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company’s condensed consolidated statements of operations.

Contingent consideration obligations incurred in connection with a business combination are recorded at their fair values on the acquisition date and remeasured at their fair values each subsequent reporting period until the related contingencies are resolved. The resulting changes in fair values are recorded as general and administrative expense in the condensed consolidated statements of operations. Changes in fair values reflect changes to the Company’s assumptions regarding probabilities of successful achievement of related milestones, the timing in which the milestones are expected to be achieved, and the discount rate used to estimate the fair value of the obligation. See Note 4 for further discussion.

Goodwill and Other Intangible Assets

Certain intangible assets were acquired as part of a business combination, and have been capitalized at their acquisition date fair value. Acquired definite life intangible assets are amortized using the straight-line method over their respective estimated useful lives. The Company evaluates the potential impairment of intangible assets if events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable or that the useful lives of these assets are no longer appropriate. Goodwill is not amortized but is evaluated for impairment within the Company’s single reporting unit on an annual basis, during the fourth quarter, or more frequently if an event occurs or circumstances change that would more-likely-than-not reduce the fair value of the Company’s reporting unit below its carrying amount.

Property and Equipment

Property and equipment is recorded at historical cost, net of accumulated depreciation, amortization and, if applicable, impairment charges. The Company reviews its property and equipment assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Depreciation is provided over the assets' useful lives on a straight-line basis, generally over three to seven years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or lease terms. See Note 5 for further discussion regarding property and equipment.

Patent Costs

The costs related to acquiring patents and to prosecuting and maintaining intellectual property rights are recorded as general and administrative expense as incurred due to the uncertainty surrounding the drug development process and the uncertainty of future benefits.

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following as of June 30, 2017 and December 31, 2016, respectively (in thousands):

	JUNE 30, 2017	DECEMBER 31, 2016
Accrued compensation costs	$ 14,241	$ 14,492
Accrued professional and consulting services	4,487	3,632
Accrued research and development costs	2,054	3,215
Accrued clinical expenses	4,513	4,647
Deferred rent, current	1,160	1,163
Accrued related party costs	982	691
Accrued other expenses	3,133	1,642
Total accrued expenses and other current liabilities	$ 30,570	$ 29,482

Revenues

As of June 30, 2017, the Company's revenue has been exclusively generated from its collaboration and license agreements with Amgen, Inc. ("Amgen"), Daiichi Sankyo Company, Limited ("Daiichi"), Fosun Kite Biotechnology Co. Ltd. ("Fosun Kite Biotechnology"), and Leukemia & Lymphoma Society, Inc. ("LLS"). See Note 6 for more information related to the Amgen research collaboration and license agreement (the "Amgen Agreement"), the Daiichi collaboration and license agreement (the "DS Agreement"), Fosun Kite Biotechnology agreement (the "Fosun Kite Agreement") and the LLS research, development and commercialization agreement (the "LLS Agreement").

Under the Amgen Agreement, the Company received an upfront payment of $60.0 million from Amgen in February 2015. Amgen will fund the research and development costs for all programs with certain limitations through any investigational new drug application ("IND") filing. Each company will then be responsible for clinical development and commercialization of their respective therapeutic candidates, including all related expenses. The Company will be responsible for the manufacturing and processing of Amgen program product candidates under a separately negotiated supply agreement, should Amgen choose not to transition manufacturing to itself or to a mutually agreed upon designee of Amgen. This responsibility expires after a certain period following the completion of any Phase 2 clinical trials.

The Company applied FASB Accounting Standards Update No. 2009-13, Multiple-Deliverable Revenue Arrangements, in evaluating the appropriate accounting for the upfront payment and research funding under the Amgen Agreement. In accordance with this guidance, the Company concluded that the Amgen Agreement should be accounted for as a single unit of accounting and recognize the Amgen Agreement consideration in the same manner as the final deliverable, which is research services. The $60.0 million upfront payment was recorded as deferred revenue and was initially being recognized over a four year period, or the estimated period of performance for the research service under this agreement. The Company periodically reassesses the performance period and during the quarter ended June 30, 2017, the Company and Amgen reviewed the progress of their development activities and the Company determined the estimated performance period under this agreement had been extended by approximately one and a half years. As a result, the Company has prospectively changed the estimated performance period for the remaining deferred revenue in the second quarter of 2017 to approximately three years. In addition, the Amgen research funding relating to Amgen targets, due as the related services are performed under the Amgen Agreement is

recorded as revenue on a time and material basis, with the corresponding cost of revenue recorded as research and development expense in the condensed consolidated statements of operations.

Under certain circumstances, the Company may be required to reimburse Amgen for research and development services for Company targets. The Company will defer the recognition of revenue related to research and development services billed until the potential reimbursement contingency has lapsed. Any costs reimbursed by Amgen that relate to a Company program that progresses to an IND filing are recorded as deferred revenue until either an IND is filed and we are required to reimburse Amgen for such expenses, or the program ends without an IND filing, at which point the revenue would be recognized.

During the three months ended June 30, 2017 and 2016, the Company recognized $3.4 million and $4.7 million of revenue under the Amgen Agreement, respectively and recognized $8.9 million and $9.8 million of revenue for the six months ended June 30, 2017 and 2016, respectively. As of June 30, 2017, the Company had deferred revenue relating to the Amgen Agreement of $31.8 million, of which $6.6 million relates to Kite programs that would be paid back to Amgen in the event that the Kite programs progress to an IND filing.

Under the DS Agreement, the Company received an upfront payment of $50.0 million from Daiichi in January 2017. At the inception of the DS Agreement, the Company's significant deliverables consisted of an exclusive license to develop and commercialize KTE-C19 in Japan and providing certain technical assistance and technology transfer services related to the manufacturing of the licensed product. The Company concluded that the license is not a separate unit of accounting because Daiichi cannot obtain a benefit from the license rights for their intended purpose without the manufacturing technology transfer. Therefore the $50.0 million upfront payment was initially recorded in deferred revenue and is being recognized ratably as revenue over the related technology transfer services period of approximately two years. Additionally, the Company will be responsible for any clinical manufacturing and supply of the licensed product should clinical trials begin before the end of the technology transfer period.

The DS Agreement also included options for DS to license additional product candidates. The Company has concluded that the options to license any additional product candidates are substantive options, and were not considered deliverables at the inception of the DS Agreement since Daiichi is not contractually obligated to exercise the options. Additionally, as a result of the uncertain outcome of the discovery, research and development activities, the Company is at risk with respect to whether Daiichi will exercise the options to license any additional product candidates. Moreover, the Company has concluded that the options are not priced at a significant and incremental discount. Accordingly, the options to other product candidates are not considered deliverables and the associated option fees are not included in allocable arrangement consideration.

During the three and six months ended June 30, 2017 the Company recognized $5.7 million and $9.8 million of revenue, respectively, under the DS Agreement. As of June 30, 2017, the Company had deferred revenue relating to the DS Agreement of $42.9 million.

Under the Fosun Kite Agreement, the Company received an upfront cash payment of $40.0 million from Fosun Kite Biotechnology in May 2017 and noncash consideration in the form of foreign withholding taxes that Fosun Kite Biotechnology agreed to pay on the Company's behalf, amounting to approximately $6.7 million. At the inception of the Fosun Kite Agreement, the Company's significant deliverables consisted of an exclusive license to develop and commercialize KTE-C19 in China, providing certain technical assistance and technology transfer services related to the manufacturing of the licensed product and the equivalent of significant participation in a joint steering committee ("JSC Equivalent") through the Company's substantive participation in the activities of Fosun Kite Biotechnology based on its participation on the Fosun Kite Biotechnology board of directors. The Company concluded that the license is not a separate unit of accounting because Fosun Kite Biotechnology cannot obtain a benefit from the license rights for their intended purpose without the manufacturing technology transfer and the JSC Equivalent participation. Therefore, the $46.7 million upfront consideration was initially recorded in deferred revenue and is being recognized ratably as revenue over the period of the last deliverable, substantive JSC Equivalent participation, which is initially determined to be approximately four and a half years.

The Fosun Kite Agreement also included options for Fosun Kite Biotechnology to license additional product candidates. The Company has concluded that the options to license any additional product candidates are substantive options, and were not considered deliverables at the inception of the Fosun Kite Agreement since Fosun Kite Biotechnology is not contractually obligated to exercise the options. Additionally, as a result of the uncertain outcome of the discovery, research and development activities, the Company is at risk with respect to whether Fosun Kite Biotechnology will exercise the options to license any additional product candidates. Moreover, the Company has concluded that the options are not priced at a significant and incremental discount. Accordingly, the options to other product candidates are not considered deliverables and the associated option fees are not included in allocable arrangement consideration.

During the three and six months ended June 30, 2017, the Company recognized $0.9 million and $0.9 million of revenue, respectively, under the Fosun Kite Agreement. As of June 30, 2017, the Company had deferred revenue relating to the Fosun Kite Agreement of $45.8 million.

In the future, the Company may be eligible for development, regulatory and commercial milestone payments under the Amgen Agreement, the DS Agreement and the Fosun Kite Agreement. The Company recognizes revenue related to the milestones under these agreements in accordance with the Accounting Standards Codification 605-28, Milestone Method of Revenue Recognition ("ASC 605-28"). At the inception of the arrangement the Company evaluates whether each milestone is substantive and at risk. This evaluation includes an assessment of whether: (i) the consideration is commensurate with either the Company's performance to achieve the milestone or the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the Company's performance to achieve the milestone; (ii) the consideration relates solely to past performance; and (iii) the consideration is reasonable relative to all of the deliverables and payment terms within the arrangement. The Company has concluded that all of the development and regulatory milestones pursuant to its collaboration with Amgen are substantive and at risk. Thus, in accordance with ASC 605-28, revenue will be recognized in its entirety upon successful accomplishment of the milestone, assuming all other revenue recognition criteria are met. The Company has concluded that one of the developmental milestones pursuant to the DS Agreement is not considered substantive because the milestone does not meet the criteria above. Accordingly, such milestone would be recognized as revenue over the remaining period of performance obligation, if any, following the achievement of the milestone. Similarly, the Company has concluded that one of the regulatory milestones pursuant to the Fosun Kite Agreement is not considered substantive because the milestone does not meet the criteria above. Accordingly, such milestone would be recognized as revenue over the remaining period of performance obligation, if any, following the achievement of the milestone.

Milestones related to sales-based activities may be triggered upon meeting net sales benchmarks. Under the Amgen Agreement, DS Agreement, and Fosun Kite Agreement the achievement of these commercial milestones is solely dependent on Amgen's, Daiichi's and Fosun Kite Biotechnology's performance, and there are no continuing performance obligations from the Company. These commercial milestones would be achieved after the completion of the Company's performance obligations. Revenue from commercial milestone payments will be accounted for as royalties and recorded as revenue upon achievement of the milestone, assuming all other revenue recognition criteria are met.

During the three months ended June 30, 2017 and 2016, the Company recognized zero and $0.1 million of revenue, respectively, under the LLS Agreement related to research and development activities and clinical milestones achieved, and recognized $0.2 million and $0.2 million of revenue for the six months ended June 30, 2017 and 2016, respectively.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and other staff-related costs, including stock-based compensation, for personnel in executive, commercial, finance, accounting, legal, investor relations, facilities, patent prosecution, business development and human resources functions. Other significant costs include costs relating to preparing for the potential commercial launch of KTE-C19, facilities and overhead costs, sublicense royalties, legal fees relating to corporate and patent matters, insurance, public company expenses relating to maintaining compliance with NASDAQ listing rules and SEC requirements, investor relations costs, fees for accounting and consulting services, and other general and administrative costs. General and administrative costs are expensed as incurred, and the Company accrues for services provided by third parties related to the above expenses by monitoring the status of services provided and receiving estimates from its service providers, and adjusting its accruals as actual costs become known.

Research and Development Expenses

Research and development costs are expensed as incurred. Expenses related to collaborative research and development activities approximate the revenue recognized under these agreements. Research and development costs consist primarily of salaries, benefits, and other staff-related costs including associated stock-based compensation, laboratory supplies, facilities and overhead costs, clinical trial and related clinical manufacturing costs, costs related to manufacturing preparations, fees paid to other entities that conduct certain research and development activities on our behalf and payments made pursuant to license agreements. Clinical trial and other development costs incurred by third parties are expensed as the contracted work is performed. The Company accrues for costs incurred as the services are being provided by monitoring the status of the trial or project and the invoices received from its external service providers. The Company adjusts its accrual as actual costs become known. Where pre-approval contingent milestone payments are due to third parties under research and development arrangements or license agreements, the milestone payment obligations are expensed when the milestone results are achieved.

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the required service period, which is generally equal to the vesting period. Stock-based compensation is recognized only for those awards that are ultimately expected to meet the service and performance vesting conditions. Common stock, stock options, restricted stock units ("RSUs") and warrants or other equity instruments issued to non-employees, including consultants and members of the Company's Scientific Advisory Board as consideration for goods or services received by the Company, are accounted for based on the fair value of the equity instruments issued unless the fair value of the consideration received can be more reliably measured. The fair value of stock options is determined using the Black-Scholes option-pricing model. The fair value of any awards issued to non-employees is marked to market each period and recorded as expense over the vesting period. The fair value of an RSU equals the closing price of our common stock on the grant date. Proceeds from options exercised by employees prior to vesting pursuant to an early exercise provision, the related shares of which the Company has the option to repurchase prior to the vesting date should employment of the early exercised option holder be terminated, are recognized as a liability until the shares vest.

Net Loss per Common Share

Basic net loss per common share is computed by dividing the net loss by the weighted-average number of common shares outstanding. Diluted net loss per common share is computed similarly to basic net loss per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive.

The following table sets forth potentially dilutive securities that were excluded from the calculation of diluted net loss per common share because including them would have had an anti-dilutive effect for the periods ended June 30, 2017 and 2016:

	June 30,	
	2017	2016
Warrants to purchase common stock	86,850	148,444
Unvested restricted stock units	1,624,269	401,286
Unvested early exercise options	—	595,032
Options to purchase common stock	8,955,057	8,366,140
Total	10,666,176	9,510,902

The unvested early exercised options represent stock options that were exercised pursuant to an early exercise provision in the option agreements of certain employees. The Company has the option to repurchase these shares if they do not vest prior to the termination of these employees.

The following table summarizes the calculation of unaudited basic and diluted net loss per common share for the periods presented (in thousands, except share and per share amounts):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2017	2016	2017	2016
Numerator:				
Net loss	$ (109,822)	$ (64,274)	$ (200,223)	$ (108,189)
Denominator:				
Weighted-average common shares outstanding	56,754,946	50,046,668	54,434,257	49,959,382
Less: weighted-average unvested common shares subject to repurchase	(92,307)	(889,963)	(169,864)	(1,082,591)
Weighted-average shares used to compute net loss per share, basic and diluted	56,662,639	49,156,705	54,264,393	48,876,791
Net loss per common share, basic and diluted	$ (1.94)	$ (1.31)	$ (3.69)	$ (2.21)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue From Contracts With Customers (Topic 606), amended by ASU 2015-14 which supersedes most current revenue recognition guidance, including

industry-specific guidance. The new standard provides that an entity recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP, including identifying performance obligations in a contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The new standard allows for two methods of adoption: (a) full retrospective adoption, meaning the standard is applied to all periods presented, or (b) modified retrospective adoption, meaning the cumulative effect of applying the new standard is recognized as an adjustment to the opening retained earnings balance. The guidance becomes effective on January 1, 2018 and early adoption is permitted. The Company expects to adopt ASU 2014-09 in the first quarter of 2018 and is currently determining the transition method it will adopt.

The adoption of ASU 2014-09 may have a material effect on our financial statements. To date, we have derived our revenues from a limited number of license and collaboration agreements. The consideration we are eligible to receive under these agreements includes upfront payments, research and development funding, milestone payments and royalties. Each of our license and collaboration agreements has unique terms that will need to be evaluated separately under the new standard. We have started our preliminary assessment of our active license and collaboration agreements. ASU 2014-09 differs from the current accounting standard in many respects, such as in the accounting for variable consideration, including milestone payments. Accordingly, we expect that our evaluation of the accounting for collaboration agreements under the new revenue standard could identify material changes from the current accounting treatment. For example, we currently recognize milestone revenue using the milestone method specified in ASC 605-28, which generally results in the recognition of milestone revenue in the period that the milestone event is achieved. However, under the new accounting standard, it is possible to start to recognize milestone revenue before the milestone is achieved if management determines with a high degree of certainty that amounts recorded as revenues will not have to be reversed when the uncertainty associated with the variable consideration is subsequently resolved. In addition, the current accounting standards include a presumption that revenue from upfront non-refundable fees are recognized ratably over the performance period, unless another attribution method is determined to more closely approximate the delivery of the goods or services to the customer. The new accounting standard will require entities to determine an appropriate attribution method using either output or input methods and does not include a presumption that entities would default to a ratable attribution approach. These factors could materially impact the amount and timing of our revenue recognition from our license and collaboration agreements under the new revenue standard.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments, which amends the accounting and disclosures of financial instruments and includes a provision that equity investments not accounted for under the equity method of accounting to be measured at fair value, with changes in fair value recognized in current earnings. This standard becomes effective on January 1, 2018 and early adoption is permitted. The Company does not believe the adoption of this standard will have a material impact on its financial position or results of operations.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. Lessees are required to be classified as either operating or finance on the income statements based on criteria that are largely similar to those applied in current lease accounting. The guidance becomes effective on January 1, 2019 and early adoption is permitted. The Company is currently evaluating the impact that the adoption of this update will have on its condensed consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323). The new standard no longer requires that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an adjustment must be made to the investment, results of operations and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The Company elected to early adopt the new standard during the quarter ended June 30, 2016 and the adoption of this standard did not have a material impact on the Company's financial position or results of operations.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718), to simplify various aspects of the accounting for share-based payments, which provides that all of the tax effects related to share-based payments are recorded as part of the provision for income taxes, allows entities to withhold an amount up to the employees' maximum individual tax rate in the relevant jurisdiction, allows entities to estimate the effect of forfeitures or recognized forfeitures when they occur, amends the presentation of the excess tax benefits from employee share-based payments to be included in cash flows from operating activities instead of cash flows from financing activities as under previous guidance, as well as that the cash paid to taxing authorities arising from the withholding of shares from employees be included in cash flows from financing activities instead of cash flows from operating activities as under previous guidance. This standard became effective for fiscal

years beginning after December 15, 2016 and interim periods within those annual periods. Early adoption was permitted, and the Company elected to adopt this standard during the three months ended March 31, 2016. Since the Company has incurred net losses since its inception and maintains a full valuation allowance on its net deferred tax assets, adoption of the new guidance had no significant impact on the Company's condensed consolidated financial statements or its cash flow presentation for the six months ended June 30, 2017 and 2016, respectively.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which (i) significantly changes the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model; and (ii) provides for recording credit losses on available-for-sale (AFS) debt securities through an allowance account. The guidance becomes effective on January 1, 2020. The Company is currently evaluating the potential impact this update may have on its financial position and results of operations.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230), which provides greater clarity to preparers on the treatment of certain items within an entity's statement of cash flows. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance becomes effective on January 1, 2018 and early adoption is permitted. The Company elected to adopt the new standard during the quarter ended September 30, 2016. The early adoption of this standard did not have a material impact on the Company's financial position or results of operations.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which changes the accounting for income tax effects of intra-entity transfers of assets other than inventory. Under the new guidance, entities should recognize the income tax consequences on an intra-entry transfer of an asset other than inventory when the transfer occurs. The guidance becomes effective on January 1, 2018 and early adoption is permitted. The Company is currently evaluating the potential impact this guidance may have on its financial position and results of operations.

In November 2016, the FASB issued ASU 2016-16, Statement of Cash Flows (Topic 230): Restricted Cash, which require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents and when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance becomes effective on January 1, 2018 and early adoption is permitted. The Company expects to adopt this standard in the first quarter of 2018 and does not expect the adoption of this standard to have a material impact on its financial position or results of operations.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which provides additional guidance on evaluating whether transactions should be accounted for as acquisitions of assets or businesses. The standard requires an entity to evaluate if substantially all of the fair value of the assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the new guidance would define this as an asset acquisition; otherwise, the entity would then evaluate whether the asset meets the requirement that a business include, at a minimum, an input and substantive process that together significantly contribute to the ability to create outputs. The standard becomes effective on January 1, 2018, with early adoption permitted. The standard would be applied prospectively to any transaction occurring on or after the adoption date. The Company is currently evaluating the impact that this new standard may have on its financial position and results of operations.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test of Goodwill Impairment, which eliminates the second step in the goodwill impairment test which requires an entity to determine the implied fair value of the reporting unit's goodwill. Instead, entities will record an impairment loss based on the excess of a reporting unit's carrying amount over its fair value, with the impairment loss not to exceed the amount of goodwill allocated to the reporting unit. The standard becomes effective on January 1, 2020 and early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on the Company's financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718) - Scope of Modification Accounting, which amends the scope of modification accounting for share-based payment arrangements. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The Company will adopt the standard effective January 1, 2018. The adoption is not expected to have a material effect on the consolidated financial statements.

NOTE 4—FAIR VALUE MEASUREMENTS AND INVESTMENTS IN MARKETABLE SECURITIES

The Company follows authoritative accounting guidance, which among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

As a basis for considering such assumptions, a three-tier fair value hierarchy has been established, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active; and

Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The carrying amounts of the Company's prepaid expenses, other current assets, accounts payable and accrued liabilities are generally considered to be representative of their fair value because of the short term nature of these instruments. No transfers between levels have occurred during the periods presented.

Assets and liabilities measured at fair value on a recurring basis based on Level 1, Level 2, and Level 3 fair value measurement criteria as of June 30, 2017 is as follows (in thousands):

		Fair Value Measurements Using		
	Balance as of June 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Restricted cash and investments	$ 16,618	$ 3,668	$ 12,950	$ —
Money market funds[1]	27,245	27,245	—	—
Commercial paper	20,173	—	20,173	—
Corporate debt securities[2]	217,924	—	217,924	—
Government sponsored entities and U.S. Treasuries	405,113	—	405,113	—
Total assets	$ 687,073	$ 30,913	$ 656,160	$ —
Liabilities:				
Contingent consideration	$ 15,450	$ —	$ —	$ 15,450

(1) Included within cash and cash equivalents on the Company's condensed consolidated balance sheets.

(2) $9.9 million of corporate debt securities had an original maturity of less than 90 days, and were included within cash and cash equivalents on the Company's condensed consolidated balance sheets.

Assets and liabilities measured at fair value on a recurring basis based on Level 1, Level 2, and Level 3 fair value measurement criteria as of December 31, 2016 is as follows (in thousands):

		Fair Value Measurements Using		
	Balance as of December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Restricted cash and investments	$ 10,669	$ 3,662	$ 7,007	$ —
Money market funds[(1)]	82,364	82,364	—	—
Commercial paper	1,500	—	1,500	—
Corporate debt securities	131,061	—	131,061	—
Government sponsored entities and U.S. Treasuries	167,300	—	167,300	—
Total	$ 392,894	$ 86,026	$ 306,868	$ —
Liabilities:				
Contingent consideration	$ 14,218	$ —	$ —	$ 14,218

(1) Included within cash and cash equivalents on the Company's condensed consolidated balance sheets.

Amounts in the tables above exclude bank account cash of $110.7 million and $32.2 million as of June 30, 2017 and December 31, 2016, respectively.

The Company's investments in money market funds are valued based on publicly available quoted market prices for identical securities as of June 30, 2017 and December 31, 2016. The Company determines the fair value of corporate bonds and other government-sponsored enterprise related securities with the aid of valuations provided by third parties using proprietary valuation models and analytical tools. These valuation models and analytical tools use market pricing or prices for similar instruments that are both objective and publicly available, including matrix pricing or reported trades, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids and/or offers.

Additionally, in connection with the acquisition of Kite Pharma EU, the Company has agreed to pay additional amounts based on the achievement of certain milestones. This contingent consideration obligation is recorded at its estimated fair value, and is revalued at each reporting period until the related contingency is resolved. The fair value measurements of this obligation are based on significant inputs not observable in the market (a Level 3 measurement within the fair value hierarchy) and are reviewed periodically by management. These inputs include the estimated probabilities and timing of achieving specified development and sales milestones, as well as the discount rate used to determine the present value of these milestones. Contingent consideration may change significantly as development progresses and additional data are obtained. Significant changes that would increase or decrease the probabilities or timing of achieving the development and sales milestones would result in a corresponding increase or decrease in the fair value of the contingent consideration obligations, which would be recognized in general and administrative expense in the condensed consolidated statements of operations.

The carrying value of contingent consideration, which is denominated in euros, is affected by fluctuations in currency exchange rates and changes in fair value as described above. During the three and six months ended June 30, 2017, the Company recorded $0.1 million and $2,000, respectively, in general and administrative expense related to the change in the fair value of the contingent consideration. During the three and six months ended June 30, 2016, the Company recorded $0.2 million and $0.3 million, respectively, related to the change in the fair value of the contingent consideration, which was based on the passage of time, as interest expense. This amount has been reclassified to general and administrative expense to conform to the current year presentation.

Investments classified as available-for-sale at June 30, 2017 consisted of the following (in thousands):

	Maturity (in years)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Estimated Fair Value
Marketable Securities:					
Commercial paper	1 year or less	$ 20,173	$ —	$ —	$ 20,173
Corporate debt securities[1]	1 year or less	$163,467	$ 54	$ (124)	$ 163,397
Corporate debt securities	1-2 years	52,721	—	(206)	52,515
Corporate debt securities	More than 2 years	2,030	—	(18)	2,012
Government sponsored entities and U.S. Treasuries	1 year or less	211,842	—	(160)	211,682
Government sponsored entities and U.S. Treasuries	1-2 years	182,917	—	(409)	182,508
Government sponsored entities and U.S. Treasuries	More than 2 years	10,991	—	(68)	10,923
Total available-for-sale securities		$644,141	$ 54	$ (985)	$ 643,210

(1) $9.9 million of corporate debt securities had an original maturity of less than 90 days, and were included within cash and cash equivalents on the Company's condensed consolidated balance sheets.

Investments classified as available-for-sale at December 31, 2016 consisted of the following (in thousands):

	Maturity (in years)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Aggregate Estimated Fair Value
Marketable Securities:					
Commercial paper	1 year or less	$ 1,500	$ —	$ —	$ 1,500
Corporate debt securities	1 year or less	69,511	8	(57)	69,462
Corporate debt securities	1-2 years	40,241	28	(124)	40,145
Corporate debt securities	More than 2 years	21,744	—	(290)	21,454
Government sponsored entities and U.S. Treasuries	1 year or less	66,552	3	(17)	66,538
Government sponsored entities and U.S. Treasuries	1-2 years	61,973	5	(122)	61,856
Government sponsored entities and U.S. Treasuries	More than 2 years	39,110	—	(204)	38,906
Total available-for-sale securities		$ 300,631	$ 44	$ (814)	$ 299,861

The Company has classified all of its available-for-sale investment securities, including those with maturities beyond one year, as current assets on the accompanying condensed consolidated balance sheets based on the highly liquid nature of these investment securities and because these investment securities are considered available for use in current operations.

The Company recognizes realized gains or losses on sales of available-for-sale securities as other income (expense), net. Unrealized gains and losses on available for-sale securities are included as a component of comprehensive loss. At June 30, 2017, the aggregate fair value of securities held by the Company in an unrealized loss position was $575.2 million, which consisted of 195 securities. Of these securities, one security has been in an unrealized loss position for more than twelve months, but has an unrealized loss of approximately $8,000. At December 31, 2016, the aggregate fair value of securities held by the Company in an unrealized loss position was $229.9 million, which consisted of 118 securities. Of these securities, two securities had been in an unrealized loss position for more than twelve months, but have an aggregate unrealized loss of less than $2,000.

The Company reviews its available-for-sale securities for other-than-temporary declines in fair value below its cost basis each quarter and whenever events or changes in circumstances indicate that the cost basis of an asset may not be recoverable. This evaluation is based on a number of factors include the length of time and extent to which fair value has been less than the cost basis and adverse conditions related specifically to the security, and the intent to sell, or whether the Company will more likely than not be required to sell, the security before recovery of its amortized cost basis. The Company's assessment of whether a security is other-than-temporarily impaired could change in the future due to new developments or changes in assumptions related to any particular security. At June 30, 2017, the Company believes its cost basis for its available-for-sale investments were recoverable in all material aspects.

NOTE 5—PROPERTY AND EQUIPMENT

Property and equipment, consists of the following as of June 30, 2017 and December 31, 2016 (in thousands):

	JUNE 30, 2017	DECEMBER 31, 2016
Laboratory equipment	$ 20,038	$ 19,000
Computer equipment and software	6,672	5,380
Office equipment and furniture	3,683	2,747
Leasehold improvements	29,582	25,140
Construction in progress	2,243	135
	62,218	52,402
Less: accumulated depreciation and amortization	(12,496)	(7,993)
Property and equipment, net	$ 49,722	$ 44,409

Depreciation and amortization expense was $2.4 million and $1.6 million for the three months ended June 30, 2017 and 2016, respectively, and was $4.5 million and $2.4 million for the six months ended June 30, 2017 and 2016, respectively.

Amortization related to assets under capital leases were included in the depreciation and amortization expense noted above. The net book value of assets under capital leases at June 30, 2017 and December 31, 2016 was $0.2 million and $0.2 million, respectively, net of accumulated depreciation of $0.3 million and $0.3 million, respectively.

NOTE 6—LICENSE AND COLLABORATION AGREEMENTS

2012 National Cancer Institute ("NCI") Cooperative Research and Development Agreement

In August 2012, the Company entered into a Cooperative Research and Development Agreement (the “CRADA”) with the U.S. Department of Health and Human Services, as represented by the NCI for the research and development of novel engineered peripheral blood autologous T cell therapeutics for the treatment of multiple cancer indications.

The CRADA had a five-year term commencing August 31, 2012 and expiring on August 30, 2017. On February 24, 2015, the Company amended the CRADA by expanding the research plan to include (1) the research and development of the next generation of TCR-based product candidates that are engineered to recognize neo-antigens, which are specific to the unique genetic profile of a patient’s own tumor, (2) the optimization of new methods to manufacture this next generation of TCR-based product candidates and (3) the advancement of CAR-based product candidates for the treatment of clear cell renal cell carcinoma and TCR-based product candidates for the treatment of certain epithelial tumors such as lung and colorectal cancer. To support the additional research activities under the amended CRADA, beginning in the first quarter of 2015, the Company’s quarterly payments to the NCI increased from $250,000 to $750,000. Total expenses recognized under the CRADA were $0.8 million and $0.8 million for the three months ended June 30, 2017 and 2016, respectively, and were $1.5 million and $1.5 million for the six months ended June 30, 2017 and 2016, respectively.

Pursuant to the terms of the CRADA, the Company has agreed to hold the NCI harmless and to indemnify the NCI from all liabilities, demands, damages, expenses and losses arising out of the Company’s use for any purpose of the data generated, materials produced or inventions discovered in whole or in part by NCI employees under the CRADA, unless due to their negligence or willful misconduct. The CRADA may be terminated at any time upon the mutual written consent of the Company and NCI. The Company or NCI may unilaterally terminate the CRADA at any time by providing written notice at least 60 days before the desired termination date.

Pursuant to the terms of the CRADA, the Company has an option to elect to negotiate an exclusive or nonexclusive commercialization license to any inventions discovered in the performance of the CRADA, whether solely by an NCI employee or jointly with a Company employee for which a patent application has been filed.

The parties jointly own any inventions and materials that are jointly produced by employees of both parties in the course of performing activities under the CRADA.

Cabaret License Agreement

On December 12, 2013, the Company entered into an exclusive, worldwide license agreement, including the right to grant sublicenses, with Cabaret Biotech Ltd. (“Cabaret”) and Dr. Zelig Eshhar relating to certain intellectual property and know-how (the “Licensed IP”) owned or controlled by Cabaret (the “Cabaret License”) for use in the treatment of oncology and such other

fields as may be agreed to by the parties. Should Cabaret propose to enter into an agreement with a third party relating to the use of the Licensed IP outside of oncology ("Additional Indications"), then Cabaret shall notify the Company in writing and the Company shall have a 60-day right of first negotiation to acquire a license to the Licensed IP in such Additional Indications.

Pursuant to the Cabaret License, the Company shall be required to make cash milestone payments upon successful completion of clinical and regulatory milestones in the United States and certain major European countries relating to each product covered by the Cabaret License (each, a "Cabaret Licensed Product"). The aggregate potential milestone payments are $3.9 million for each of the first two Cabaret Licensed Products, of which $3.0 million is due only after marketing approval in the United States and at least one major European country. Thereafter, for each subsequent Cabaret Licensed Product such aggregate milestone payments shall be reduced to $2.7 million. The Company has also agreed to pay Cabaret royalties on net sales of Cabaret Licensed Products at rates in the mid-single digits. To the extent the Company enters into a sublicensing agreement relating to a Cabaret Licensed Product, the Company is required to pay Cabaret a percentage of all non-royalty income received as well as payment on Cabaret's behalf of any applicable taxes due, which percentage will decrease based upon the stage of development of the Cabaret Licensed Product at the time of sublicensing.

The Company has agreed to defend, indemnify and hold Dr. Eshhar, Cabaret, its affiliates, directors, officers, employees and agents, and if applicable certain other parties, harmless from all losses, liabilities, damages and expenses (including attorneys' fees and costs) incurred as a result of any claim, demand, action or proceeding to the extent resulting from (a) any breach of the Cabaret License by the Company or its sublicensees, (b) the gross negligence or willful misconduct of the Company or its sublicensees in the performance of its obligations under this Cabaret License, or (c) the manufacture, development, use or sale of Cabaret Licensed Products by the Company or its sublicensees, except in each case to the extent arising from the gross negligence or willful misconduct of Cabaret or Dr. Eshhar or the breach of this Agreement by Dr. Eshhar or Cabaret.

The Cabaret License expires on a product-by-product and country-by-country basis on the date on which the Company, its affiliates and sublicensees permanently cease to research, develop, sell and commercialize the Cabaret Licensed Products in such country. Either party may terminate the Cabaret License in the event of a material breach of the agreement that remains uncured following the date that is 60 days from the date that the breaching party is provided with written notice by the non-breaching party. Additionally, the Company may terminate the Cabaret License at its sole discretion at any time upon 30 days written notice to Cabaret and Dr. Eshhar.

Due to the receipt of the $60.0 million upfront license payment from Amgen in connection with the Amgen Agreement, in April 2015 the Company paid $13.8 million to Cabaret as a sublicense fee, which includes $1.8 million of applicable taxes paid on Cabaret's behalf as required under the Cabaret License. As of June 30, 2017, a $1.9 million deferred asset was recorded under the other current assets caption on the condensed consolidated balance sheets, and a $3.9 million non-current deferred asset was recorded under the other assets caption of the condensed consolidated balance sheets. Both of these amounts will be recognized as sublicense fee expense within general and administrative expense on a straight-line basis over the same period as the recognition of the upfront license payment from the Amgen Agreement. For the three months ended June 30, 2017 and 2016, the Company recorded $0.5 million and $0.9 million, respectively, in sublicense fee expense related to the Cabaret license, and $1.3 million and $1.9 million for the six months ended June 30, 2017 and 2016, respectively.

December 2014 National Institutes of Health ("NIH") License Agreement

Pursuant to a patent license agreement with the NIH, dated December 31, 2014, the Company holds an exclusive, worldwide license to certain intellectual property related to TCR-based product candidates that target HPV antigens E6 and E7 of the HPV subtype 16.

Pursuant to the terms of this license, the Company paid the NIH a cash payment in the aggregate amount of $350,000 in February 2015. The Company is required to make performance-based payments upon successful completion of clinical and regulatory benchmarks relating to the licensed products. The aggregate potential benchmark payments for each licensed product are $6.0 million, of which aggregate payments of $5.0 million are due only after marketing approval in the United States or in Europe, Japan, China or India. The first benchmark payment of $50,000 will be due upon the commencement of the Company's first sponsored Phase 1 clinical trial.

In addition, the Company is required to pay the NIH one-time benchmark payments following aggregate net sales of up to $1.0 billion of licensed products. The aggregate potential amount of these benchmark payments is $7.0 million. The Company must also pay the NIH royalties on net sales of products covered by this license at rates in the mid-single digits. To the extent the Company enters into a sublicensing agreement relating to a licensed product, the Company is required to pay the NIH a percentage of all consideration received from a sublicensee, which percentage will decrease based on the stage of development of the licensed product at the time of the sublicense. Any such sublicense payment is subject to a certain cap.

The license will expire upon expiration of the last patent contained in the licensed patent rights, unless terminated earlier. None of the applications included in the NIH licensed patent rights have been issued yet. Any patents issuing from these applications will have a base expiration date no earlier than 2034. The NIH may terminate or modify the license in the event of a material breach, including if the Company does not meet certain milestones by certain dates, or upon certain insolvency events that remain uncured following the date that is 90 days following written notice of such breach or insolvency event. The Company may terminate the license, or any portion thereof, at its sole discretion at any time upon 60 days written notice to the NIH. In addition, the NIH has the right to require the Company to sublicense the rights to the product candidates covered by the license upon certain conditions, including if the Company is not reasonably satisfying required health and safety needs or if the Company is not satisfying requirements for public use as specified by federal regulations.

October 2015 NIH License Agreement

Pursuant to a patent license agreement with the NIH, dated October 1, 2015, the Company holds an exclusive, worldwide license to certain intellectual property related to TCR-based product candidates directed against MAGE A3 and A3/A6 antigens for the treatment of tumors expressing MAGE. Pursuant to the terms of this license, the Company paid the NIH a cash payment in the aggregate amount of $1.2 million in November 2015.

The Company is also required to make performance-based payments upon successful completion of clinical and regulatory benchmarks relating to the licensed products. The aggregate potential benchmark payments for each licensed product are $8.4 million, of which aggregate payments of $6.0 million are due only after marketing approval in the United States or in Europe, Japan, China or India. Also, a benchmark payment of $150,000 is due upon the commencement of the Company's first sponsored Phase 1 clinical trial for each licensed product in each indication.

In addition, the Company is required to pay the NIH one-time benchmark payments following aggregate net sales of up to $1.0 billion of licensed products. The aggregate potential amount of these benchmark payments is $12.0 million. The Company must also pay the NIH royalties on net sales of products covered by this license at rates in the mid-single digits. To the extent the Company enters into a sublicensing agreement relating to a licensed product, the Company is required to pay the NIH a percentage of all consideration received from a sublicensee, which percentage will decrease based on the stage of development of the licensed product at the time of the sublicense. Any such sublicense payment is subject to a certain cap.

The license will expire upon expiration of the last patent contained in the licensed patent rights, unless terminated earlier. None of the applications included in the NIH licensed patent rights have been issued yet. Any patents issuing from these applications will have a base expiration date no earlier than 2032. The NIH may terminate or modify the license in the event of a material breach, including if the Company does not meet certain milestones by certain dates, or upon certain insolvency events that remain uncured following the date that is 90 days following written notice of such breach or insolvency event. The Company may terminate the license, or any portion thereof, at its sole discretion at any time upon 60 days written notice to the NIH. In addition, the NIH has the right to require the Company to sublicense the rights to the product candidates covered by the license upon certain conditions, including if the Company is not reasonably satisfying required health and safety needs or if the Company is not satisfying requirements for public use as specified by federal regulations.

Amgen Research Collaboration and License Agreement

On December 31, 2014, the Company entered into the Amgen Agreement, pursuant to which the Company and Amgen expect to develop and commercialize CAR-based product candidates directed against a number of Amgen cancer targets. Under the terms of the Amgen Agreement, the Company and Amgen will jointly create preclinical development plans through IND filing with the FDA for the research and development of CAR-based product candidates that target certain antigens expressed on the cell surface of various cancers. The Company and Amgen expect to progress multiple Amgen programs, each consisting of the development of one or more CAR-based product candidates directed against a certain Amgen selected cancer target. The Company and Amgen also expect to progress multiple Company programs, each consisting of the development of one or more CAR-based product candidates directed against a certain Company selected cancer target. Under certain circumstances, the collaboration may be expanded to include the research and development of other product candidates.

The Company received an upfront payment of $60.0 million from Amgen in February 2015 as partial consideration for the rights granted to Amgen by the Company for access to the Company platform technology and the Company undertaking preclinical development under certain programs. Amgen will fund the research and development costs for all programs with certain limitations through any IND filing. The Company will reimburse Amgen for the research and development costs for any Company program that progresses to an IND filing, to the extent that Amgen had previously paid the Company for any such research and development costs. Each party will then be responsible for clinical development and commercialization of their respective therapeutic candidates, including all related expenses.

The Company will be responsible for the manufacturing and processing of Amgen program product candidates under a separately negotiated supply agreement, should Amgen choose not to transition manufacturing to itself or to a mutually agreed upon designee of Amgen. This responsibility expires after a certain period following the completion of any Phase 2 clinical trials. The Company will be eligible to receive up to a $100.0 million milestone payment upon receipt of the first marketing approval for the first Amgen product from each Amgen program to achieve approval and up to $425.0 million in commercial milestone payments for each Amgen program, based on the Amgen program products meeting certain net sales benchmarks in a calendar year, plus tiered high single to low double digit royalties for sales and the license of the Company's intellectual property for CAR-based product candidates. Amgen will be eligible to receive a $100.0 million milestone payment upon receipt of the first marketing approval for the first Company product from each Company program to achieve approval and up to $425.0 million in commercial milestone payments for each Company program, based on the Company program products meeting certain net sales benchmarks in a calendar year, plus tiered single digit sales royalties. The Company does not expect any milestones to be achieved or paid until 2022 at the earliest, as all of the collaboration product candidates are currently in the pre-clinical stage.

In addition, Amgen has a one-time option to convert a Company program to an Amgen program for a fee of $35.0 million at any time on or prior to the 60th day after the later of (a) delivery of a final report with data for use in an IND and (b) filing of the IND for a Company product candidate from a Company program and delivery of such IND to Amgen. This option shall exclude the first and second Company programs for which the Company has filed an IND on the Company program product candidate. In addition to the milestones described above that would be applicable to the converted Company program, the Company shall be eligible to receive additional milestones of $50.0 million upon the initiation of the first Phase 3 clinical trial for the first product from the converted Company program and $50.0 million upon receipt of marketing approval for a second indication from the converted Company program.

The term of the Amgen Agreement will continue on a target-by-target basis until the later of (1) the date on which the product candidates directed against the target are no longer covered by certain intellectual property rights, (2) the loss of certain regulatory exclusivity and (3) a defined term from the first commercial sale of the first product candidate directed against the target. Either party may terminate the agreement on a target-by-target basis with respect to its own programs with prior written notice. Either party may also terminate the agreement with written notice upon material breach by the other party, if such breach has not been cured within a defined period of receiving such notice.

LLS Research, Development and Commercialization Agreement

On June 30, 2015, the Company and LLS entered into a research, development and commercialization agreement to enhance the development of the Company's lead product candidate, KTE-C19. Under the agreement, LLS agreed to contribute up to $2.5 million through its Therapy Acceleration Program to help fund the Company's Phase 1-2 clinical trial of KTE-C19.

Under the LLS Agreement, the Company is required to make certain regulatory and commercial milestone payments to LLS, up to a maximum aggregate amount of $6.3 million, based on the development progress of KTE-C19, or upon certain other events, including the out-licensing to a third party of the rights to develop or commercialize KTE-C19, or if the Company combines with or is sold to another company. During the three and six months ended June 30, 2017, the Company recognized expense of $0 and $3.1 million, respectively, upon the achievement of a regulatory milestone. Additionally, due to the receipt of the $50.0 million upfront license fee under the DS Agreement, and the $40 million cash upfront license fee under the Fosun Kite Agreement, the Company paid LLS $1.8 million in aggregate sublicense fees, which are being recognized as a sublicense fee expense within general and administrative expense on a straight-line basis over the same period as the recognition of the upfront license payment from the respective agreements.

Alpine Immune Sciences, Inc. ("AIS") License and Research Agreement

On October 26, 2015, the Company and AIS entered into an exclusive, worldwide license and research agreement to research, develop, and commercialize engineered autologous T cell therapies incorporating two programs from AIS' transmembrane immunomodulatory protein ("TIP™") technology.

Under the terms of the Agreement, AIS will conduct initial research to deliver two program TIPs with certain pre-defined characteristics. The Company will then conduct further research on the program TIPs with the goal of demonstrating proof-of-concept. If successful, the Company would further engineer the program TIPs into certain CAR and TCR product candidates that would potentially enhance anti-tumor response.

Pursuant to the Agreement, the Company paid AIS a $5.0 million upfront payment and paid $0.5 million in additional payments to support AIS' research. The Company recorded $4.4 million to research and development expense, which includes $0.5 million as an accrued liability that was recognized as research and development expense for certain research and development activities which were performed during 2016. AIS will be eligible to receive up to $530.0 million in total milestone payments based on the successful completion of research, clinical and regulatory milestones relating to both program TIPs. At the

Company's option, a portion of the milestones may be paid in shares of the Company's common stock. AIS will also be eligible to receive a low single digit royalty for sales on a licensed product-by-licensed product and country-by-country basis, until the later of (i) the date on which the licensed product is no longer covered by certain intellectual property rights, and (ii) a defined term from the first commercial sale of the licensed product.

The Company may terminate the agreement with prior written notice after a defined research term. Either party may also terminate the agreement upon certain insolvency events of the other party, or with written notice upon material breach by the other party, if such breach has not been cured within a defined period of receiving such notice.

Cell Design Labs, Inc. ("Cell Design Labs") Research Collaboration and License Agreement

On June 1, 2016, the Company entered into a Research Collaboration and License Agreement with Cell Design Labs for the development of next generation CAR-based product candidates that incorporate Cell Design Labs' molecular "on/off switch" technology.

Under the terms of the agreement, Cell Design Labs is responsible for developing the "on/off switches" for the Company's CAR T cell pipeline. The Company has exclusive worldwide rights to develop and commercialize CAR-based product candidates containing Cell Design Labs' "on/off switches" directed to certain targets that are associated with acute myeloid leukemia. The Company also has the exclusive option for a pre-defined period to develop and commercialize CAR-based product candidates containing "on/off switches" directed to certain targets that are associated with B-cell malignancies. See Note 10 for further discussion.

Daiichi Sankyo Collaboration and License Agreement

In January 2017, the Company entered into the DS Agreement pursuant to which the Company has granted to Daiichi an exclusive license to develop, manufacture and commercialize KTE-C19 in Japan. In addition, under the DS Agreement, Daiichi has a certain period of time to exclusively license in Japan, at its option, additional Kite product candidates that proceed to a U.S. IND filing over the next 3 years. In connection with the execution of the DS Agreement, Daiichi made an upfront non-refundable payment to Kite of $50.0 million. Kite will be eligible to receive future payments totaling up to $20.0 million upon the achievement of development milestones and $180.0 million upon the achievement of commercial sales-based milestones relating to KTE-C19 and future royalties. In addition, for each additional product candidate for which Daiichi exercises its option to acquire an exclusive license, the option exercise and milestone payments to the Company could total up to $200.0 million. The Company does not expect any milestones to be achieved or paid until the second half of 2018, at the earliest, as the licensed product is currently in the pre-clinical stage in Japan.

Under the terms of the DS Agreement, the Company will provide technical assistance and technology transfer services related to the licensed product and will be responsible for any clinical manufacturing and supply of the licensed product until the completion of the technical transfer, at which time Daiichi will be responsible for manufacturing and supply of the product, Daiichi will also be responsible for the development, regulatory approval filings, and commercialization activities of the licensed product in Japan.

The term of the DS Agreement will continue on a licensed product-by-licensed product basis until Daiichi permanently ceases at its sole discretion all development, manufacture and commercialization of such licensed product in Japan. Either party may also terminate the agreement with written notice upon material breach by the other party, if such breach has not been cured within a defined period of receiving such notice, or in the event of the other party's bankruptcy. The Company may terminate the DS Agreement if Daiichi challenges certain of the Company's patents. Daiichi may terminate the DS Agreement with respect to a licensed product if the Company later acquires additional necessary intellectual property for such licensed product, and a license or sublicense to such intellectual property is not available to Daiichi on terms that Daiichi deems to be commercially reasonable.

Fosun Kite Biotechnology

In January 2017, the Company entered into a co-operative joint venture contract agreement (the "JV Agreement") with Shanghai Fosun Pharmaceutical Industrial Development Co., Ltd. ("Fosun Pharma") pursuant to which the parties agreed to establish a joint venture company for the purpose of developing, manufacturing and commercializing KTE-C19 in the mainland of the People's Republic of China, the Hong Kong Special Administration Region and the Macau Special Administration Region (together, the "China Market").

In April 2017, the joint venture company, Fosun Kite Biotechnology was established and obtained its business license in China. In May 2017, Fosun Pharma contributed the RMB equivalent of $60.0 million in cash to the joint venture company and Kite contributed certain exclusive commercial rights set forth in the product and know-how License Agreement, between the Company and Fosun Kite Biotechnology.

In addition, pursuant to the Technology License Agreement, between the Company and Fosun Kite Biotechnology, the Company received a $40.0 million upfront cash payment from Fosun Kite Biotechnology for the contribution of certain intellectual property rights to KTE-C19, and will also be entitled to (a) regulatory and commercial milestone payments of up to $35.0 million and (b) mid-single digit sales royalties, subject to certain conditions. The Company does not expect any milestones to be achieved or paid until the second half of 2021, at the earliest, as the licensed product is currently in the pre-clinical stage in China. The Company and Fosun Pharma each own 50% of Fosun Kite Biotechnology, with 60% of any profits allocated to Fosun Pharma and 40% allocated to the Company.

The term of the JV Agreement is 20 years from the date that the JV Company was established, subject to extension by mutual agreement of the parties. See Notes 3 and 10 for further discussion.

NOTE 7—STOCKHOLDERS' EQUITY

In March 2017, the Company sold 5,462,500 shares of its common stock, which included 712,500 shares pursuant to the full exercise of the underwriters' option, in an underwritten public offering at a price of $75.00 per share, which resulted in gross proceeds of approximately $409.7 million. Net proceeds to the Company after deducting fees, commissions, and other expenses related to the offering were approximately $399.7 million.

NOTE 8—STOCK BASED COMPENSATION

Employee Stock Purchase Plan

Under the 2014 Employee Stock Purchase Plan ("ESPP"), employees can purchase shares of our common stock based on a percentage of their compensation subject to certain limits. The purchase price per share is equal to the lower of 85% of the fair market value of our common stock on the offering date or the purchase date. The ESPP offers a two-year look-back feature as well as an automatic reset feature that provides for an offering period to be reset to a new lower-priced offering if the offering price of the new offering period is less than that of the current offering period. ESPP purchases are settled with common stock from the ESPP's authorized and available pool of shares.

At inception of the ESPP in June 2014, 360,000 shares of our common stock may be sold pursuant to purchase rights under the ESPP, subject to adjustment for stock splits, stock dividends, and comparable restructuring activities. The ESPP also includes an "evergreen" feature, which provides that an additional number of shares will automatically be added to the shares authorized for issuance under the ESPP on January 1st of each year, beginning on the first January 1 immediately following the effective date of June 19, 2014 and ending on (and including) January 1, 2024. The number of shares added each calendar year will be the lesser of (a) 1% of the total number of shares of the Company's capital stock (including all classes of the Company's common stock) outstanding on December 31st of the preceding calendar year, and (b) 720,000 shares. However, the Board may decide to approve a lower number of shares (including no shares) before January 1 of any year. The stock purchasable under the ESPP will be shares of authorized but unissued or reacquired common stock, including shares repurchased by the Company on the open market. If a purchase right under the ESPP terminates without having been exercised in full, any shares not purchased under that purchase right will again become available for issuance under the ESPP.

In January 2016, the maximum number of common shares issuable under the ESPP was increased by 497,630 to 1,297,984 in accordance with the evergreen feature of the ESPP. In January 2017, the maximum number of common shares issuable under the ESPP was increased by 503,821 to 1,801,805 in accordance with the evergreen feature of the ESPP. Stock compensation expense related to the ESPP was $0.5 million and $0.3 million for the three months ended June 30, 2017 and 2016, respectively, and were $0.8 million and $0.5 million for the six months ended June 30, 2017 and 2016, respectively.

Restricted Stock Units and Stock Options

Eligible employees may receive a grant of RSUs annually with the size and type of award generally determined by the employee's salary grade and performance level. In addition, certain management and professional level employees typically receive stock options and RSU grants upon commencement of employment. Eligible employees may also receive a grant of stock options annually. Non-employee members of our Board of Directors will receive a grant of RSUs and stock options annually and any future new directors are expected to receive a grant of RSUs and stock options.

The Company's RSU and stock option grants provide for accelerated or continued vesting in certain circumstances as defined in the plans and related grant agreements, including a termination in connection with a change in control. RSUs generally vest in equal amounts on each of the first four anniversaries of the grant date. Stock options generally vest in a 25% increment upon the first anniversary of the grant date, and in equal monthly amounts for the three years following the one year anniversary of the grant date.

In 2009, the Company established an equity incentive plan (the "Plan") pursuant to which incentives may be granted to officers, employees, directors, consultants and advisors. Incentives under the Plan may be granted in any one or a combination of the following forms: (a) incentive stock options and non-statutory stock options; (b) stock appreciation rights; (c) stock awards; (d) restricted stock; and (e) performance shares.

The Plan is administered by the Board of Directors of the Company or a committee appointed by the Board of Directors, which determines the types of awards to be granted, including the number of shares subject to the awards, the exercise price and the vesting schedule. In June 2014, the Board of Directors approved an amendment and restatement of the Plan, increasing the shares of common stock issuable under the Plan to 9,150,000 shares as well as allowing for an automatic annual increase (the "evergreen provision") to the shares issuable under the Plan to the lower of (i) 5% of the total number of shares of common stock outstanding on December 31 of the preceding calendar year; or (ii) a lower number determined by the Board of Directors (which can also be zero).

The term of any stock option granted under the Plan cannot exceed 10 years. Options shall not have an exercise price less than 100% of the fair market value of the Company's common stock on the grant date, and generally vest over a period of four years. If the individual possesses more than 10% of the combined voting power of all classes of stock of the Company, the exercise price shall not be less than 110% of the fair market value of a common share of stock on the date of grant.

In January 2016, the number of shares of common stock available for issuance under the Plan was automatically increased in accordance with the evergreen provision by 2,488,153 shares of common stock, for a total number of shares of common stock issuable under the Plan of 13,839,925 shares. In January 2017, the number of shares of common stock available for issuance under the Plan was automatically increased in accordance with the evergreen provision by 2,519,105 shares of common stock, for a total number of shares of common stock issuable under the Plan of 16,359,030 shares.

In April 2017, the Company issued a broad-based grant of 297,795 performance-based RSUs primarily to employees of the Company. The majority of the performance-based RSUs vest in total upon the date FDA approval is obtained for KTE-C19. For 50,000 of the performance-based RSUs, in addition to the FDA approval vesting condition, there is also a one year service condition post-approval that is required for vesting. For grants subject to performance conditions, the fair value of the grant is fixed at the grant date; however, the amount of compensation expense will only be recognized if it is probable the performance condition will be met. As of June 30, 2017, the Company has not recorded any compensation expense related to the performance-based grants and will only record expense once FDA approval of KTE-C19 is obtained. For the grants with the additional service condition, the expense recorded if the performance condition is met would be recognized ratably over the entire service period with a cumulative catch-up adjustment for the service period prior to approval.

A summary of the status of the options issued under the Plan as of June 30, 2017, and information with respect to the changes in options outstanding is as follows:

	OUTSTANDING STOCK OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)	AGGREGATE INTRINSIC VALUE
Balance at January 1, 2017	9,728,030	$ 40.03		
Granted under the Plans	416,060	$ 69.23		
Exercised	(1,071,227)	$ 29.81		
Surrendered/Canceled	(117,806)	$ 55.25		
Balance at June 30, 2017	8,955,057	$ 42.41	7.9	$ 548,607,191
Exercisable at June 30, 2017	3,992,615	$ 31.77	7.2	$ 287,072,864

The fair value of each stock option granted has been determined using the Black-Scholes option pricing model. The material factors incorporated in the Black-Scholes model in estimating the fair value of the options granted to employees for the periods presented were as follows:

	SIX MONTHS ENDED JUNE 30,	
	2017	2016
Risk-free interest rate	1.80% - 2.24%	1.28% - 2.00%
Expected volatility	68.6% - 71.8%	67.9% - 72.7%
Stock price	$45.95 - $91.21	$39.95 - $61.92
Expected life	5.27 - 6.25 years	6.25 years
Expected dividend yield	0%	0%

For employees and directors, the expected life was calculated based on the simplified method as described by the SEC Staff Accounting Bulletin No. 110, Share-Based Payment. For other service providers, the expected life was calculated using the contractual term of the award. The Company's estimate of expected volatility was based on the average volatilities of a sampling of five companies with similar attributes to the Company, including: industry, stage of life cycle, size and financial leverage for a period matching the expected term assumption and its own historical and implied future volatility. The risk-free interest rate is based on a U.S. Treasury instrument whose term is consistent with the expected life of the stock options. In addition to the assumptions above, the Company estimated expected forfeitures and is recognizing share-based compensation expense for those equity awards expected to vest.

Stock-based compensation for the three and six months ended June 30, 2017 and 2016 is as follows (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2017	2016	2017	2016
Research and development	$ 13,080	$ 8,472	$ 25,738	$ 16,951
General and administrative	12,083	11,286	23,503	17,671
Total	$ 25,163	$ 19,758	$ 49,241	$ 34,622

The weighted-average grant date fair value per share of options granted under the Plan was $52.69 and $30.53 for the three months ended June 30, 2017 and 2016, respectively, and was $43.26 and $30.96 for the six months ended June 30, 2017 and 2016, respectively.

As of June 30, 2017, total compensation expense for employees not yet recognized related to stock option grants amounted to approximately $217.4 million which will be recognized over a weighted average period of 2.4 years.

The following table summarizes information about stock options outstanding as of June 30, 2017:

	OUTSTANDING			EXERCISABLE	
EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
0.38 - 1.35	1,472,426	6.34	$ 0.95	1,336,750	$ 0.91
6.89 - 32.56	1,100,611	6.85	$ 17.80	697,319	$ 17.78
39.95 - 46.09	1,213,335	9.07	$ 44.99	153,421	$ 43.42
47.46 - 51.15	1,011,981	8.93	$ 49.40	217,609	$ 49.94
51.20 - 53.90	1,012,556	7.78	$ 52.52	493,115	$ 52.57
54.02 - 59.23	954,467	8.60	$ 56.22	258,613	$ 56.87
60.20 - 63.87	1,061,245	8.07	$ 63.03	386,088	$ 63.44
63.89 - 76.05	923,206	7.91	$ 68.09	446,293	$ 67.90
79.34 - 83.89	117,130	9.74	$ 81.76	3,407	$ 81.25
91.21	88,100	9.97	$ 91.21	—	$ —
TOTAL	8,955,057	7.91	$ 42.41	3,992,615	$ 31.77

The following table summarizes information about RSU activity for the six months ended June 30, 2017:

	OUTSTANDING RESTRICTED STOCK UNITS	WEIGHTED-AVERAGE GRANT DATE FAIR VALUE	WEIGHTED-AVERAGE RECOGNITION PERIOD (YEARS)	AGGREGATE INTRINSIC VALUE
Unvested shares as of January 1, 2017	749,491	$ 51.38		
Granted	968,338	$ 79.41		
Vested	(69,565)	$ 48.24		
Forfeited	(23,995)	$ 74.45		
Balance at June 30, 2017	1,624,269	$ 67.88	2.8	$ 168,387,967

NOTE 9—INCOME TAXES

For the three and six month periods ended June 30, 2017, the Company recorded an income tax expense of $6.8 million and $6.7 million, respectively. The Company's income tax expense consists primarily of foreign withholding taxes in China. As discussed further in Note 3, Fosun Kite Biotechnology agreed to pay the withholding taxes on behalf of the Company. Although the withholding taxes paid typically give rise to a future foreign tax credit, the Company continues to maintain a full valuation allowance against deferred tax assets for all jurisdictions.

In evaluating the need for a valuation allowance, the Company considers all sources of taxable income available to realize the deferred tax asset, including the future reversal of existing temporary differences, forecasts of future taxable income, and tax planning strategies. The Company is in a cumulative loss position in all jurisdictions and globally for the years ended 2015 and 2016, and projects losses globally for 2017. The Company will continue to assess the extent to which its deferred tax assets may be realized in the future, and will adjust the valuation allowance as needed.

The Company's policy is to recognize interest and penalties related to uncertain tax positions in income tax expense. The Company does not have any interest or penalties related to uncertain tax positions in income tax expense for the three and six months ended June 30, 2017.

The Company files income tax returns in federal, state, and foreign jurisdictions. The Company is currently subject to examination for years 2012 and forward.

NOTE 10—RELATED PARTIES

Two River Consulting

On June 1, 2009, the Company entered into a services agreement with Two River Consulting, LLC ("TRC") to provide various clinical development, operational, managerial, administrative, accounting and financial services to the Company. The Company's Chairman of the Board of Directors, CEO and President, a director of the Company, and the Company's Secretary are each partners of TRC. The costs incurred for these services were $105,000 and $75,000 for the three months ended June 30, 2017, and 2016, respectively, and were $0.2 million and $0.2 million for the six months ended June 30, 2017 and 2016, respectively.

In addition, from time to time, some of the Company's expenses are paid by TRC. The Company reimburses TRC for these expenses and no interest is charged on the outstanding balance. Reimbursable expenses were $13,000 and $19,480 for the three months ended June 30, 2017 and 2016, respectively, and were $26,985 and $35,601 for the six months ended June 30, 2017 and 2016, respectively.

As of June 30, 2017 and December 31, 2016, the Company had a payable to TRC of $118,000 and $87,500, respectively. The amounts are recorded as accrued expenses and other current liabilities on the condensed consolidated balance sheets. All balances owed as of December 31, 2016 were paid in full during the first quarter of 2017 and all balances owed as of June 30, 2017 are expected to be paid in full during the third quarter of 2017.

In connection with a 2013 financing, the Company issued to certain designees of Riverbank, a FINRA member broker dealer and a related party controlled by certain officers and/or directors of the Company, which acted as placement agent for the Company, Series A Warrants to purchase 148,146 Series A Preferred Shares, which were converted to warrants that are exercisable for shares of common stock at an exercise price equal to $2.04 as a result of the IPO and the conversion of the then outstanding Series A Preferred Shares into common stock. As of June 30, 2017, 86,850 warrants remain outstanding, which are exercisable until May 2018.

Cell Design Labs

The Company accounts for its equity investments under the cost method of accounting when it does not have the ability to exercise significant influence over the investees. For investments where the Company has the ability to exercise significant influence, the equity method of accounting is used. Significant influence is generally deemed to exist if the Company's ownership interest in the voting stock of the investee ranges between 20% and 50%, although other factors, such as representation on the investee's board of directors or any significant business relationships that may exist with the investee, are also considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, the investment is recorded at cost in the condensed consolidated balance sheets under the other assets caption, and adjusted for dividends received and our share of the investee's earnings or losses, together with other-than-temporary impairments which are recorded in the condensed consolidated statements of operations.

The Company's total equity investment in Cell Design Labs as of December 31, 2015 was $1.0 million which was accounted for as a cost method investment. On June 1, 2016, the Company entered into a research collaboration and license agreement with Cell Design Labs to develop "on/off switches" for the Company's CAR T cell pipeline. Pursuant to the agreement, the Company paid Cell Design Labs a $2.0 million upfront payment and will pay up to an additional $9.0 million during the research and development term to support Cell Design Labs' research. The Company previously made a $1.0 million equity investment in Cell Design Labs in December 2015 and, in connection with entering into the agreement, the Company made an additional equity investment in Cell Design Labs of approximately $6.0 million in June 2016.

Cell Design Labs will be eligible to receive up to $56.5 million in total milestone payments based on the successful completion of research, clinical, regulatory and commercial milestones. Cell Design Labs will also be eligible to receive tiered single digit royalties for sales on a licensed product-by-licensed product and country-by-country basis, until the date on which the licensed product is no longer covered by certain intellectual property rights.

The Company may terminate the agreement with prior written notice. Either party may also terminate the agreement upon certain insolvency events of the other party, or with written notice upon material breach by the other party, if such breach has not been cured within a defined period of receiving such notice.

Upon making the additional equity investment in June 2016, the Company reassessed its ability to exert influence over Cell Design Labs by quantitatively assessing its overall ownership position in Cell Design Labs and the number of voting seats it had on the Cell Design Labs board of directors, as well as by qualitatively assessing the effect of its research collaboration on the investee. Due to the Company's increased ownership interest, which remains less than 20%, the Company obtaining a seat on Cell Design Labs' board of directors, and the Company entering into a research collaboration and license agreement with Cell Design Labs, the Company prospectively applied the equity method of accounting to this investment, which is included in the other assets caption within the condensed consolidated balance sheets. The carrying amount of the Company's investment in Cell Design Labs was $5.5 million as of June 30, 2017. During the three months ended June 30, 2017 and 2016, the Company expensed $0.9 million and $0.2 million, respectively, related to the research and development activities conducted by Cell Design Labs under the research collaboration and license agreement, and $1.8 million and $0.2 million for the six months ended June 30, 2017 and 2016, respectively, of which $0.9 million remains payable as of June 30, 2017 and is included in the accrued expenses and other current liabilities caption on the condensed consolidated balance sheets.

To reflect its share of Cell Design Labs' net loss, the Company recognized $0.5 million and $28,000 in expenses during the three months ended June 30, 2017 and 2016, respectively, and $1.0 million and $28,000 for the six months ended June 30, 2017 and 2016, respectively,

Fosun Kite Biotechnology

In January 2017, the Company entered into an agreement with Fosun Pharma to create a joint venture for the purpose of developing, manufacturing and commercializing KTE-C19 in the China Market. In April 2017, the joint venture company, Fosun Kite Biotechnology was established and obtained its business license in China. In May 2017, upon consummation of the joint venture, the Company and Fosun Pharma each received a 50% equity interest in the entity in exchange for their contributions to the entity. The Company determined that Fosun Kite Biotechnology was considered a variable interest entity and concluded that it is not the primary beneficiary of the variable interest entity as based on the joint control mechanisms in the joint venture agreement the company does not have the power to direct the activities of Fosun Kite Biotechnology that most significantly affects its economic performance. As such, the Company did not consolidate Fosun Kite Biotechnology's results in the consolidated financial statements. The Company therefore accounts for its interest in Fosun Kite Biotechnology under the equity method.

The carrying amount of the Company's basis in the joint venture is zero as noncash intellectual property and know-how was contributed by the Company for its interest in the joint venture and such contribution was recorded at carryover basis. As the carrying amount is zero and the Company does not have any obligations to provide further funding to the joint venture or to absorb any future losses, the Company currently does not record any losses related to the joint ventures activities. Furthermore, the Company has determined the hypothetical liquidation at book value ("HLBV") method would best represent the economics of its share of any income or losses in the future given that there is a disproportionate sharing of gains and losses resulting from the preferential return rights in the benefit of Fosun Pharma on liquidation. This allocation methodology uses a balance sheet approach, which measures the Company's share of income or loss by calculating the change in the amount of net assets the Company would legally be able to claim based on a hypothetical liquidation of the entity at the beginning and end of a reporting period. See Notes 3 and 6 for further details.

NOTE 11—COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company enters into contracts that contain a variety of indemnifications with its employees, licensors, suppliers and service providers. Further, the Company indemnifies its directors and officers who are, or were, serving at the Company's request in such capacities. The Company's maximum exposure under these arrangements is unknown as of June 30, 2017 and December 31, 2016. The Company does not anticipate recognizing any significant losses relating to these arrangements.

In the ordinary course of business, the Company is also involved in various legal proceedings and other matters—including those discussed in this Note—that are complex in nature and have outcomes that are difficult to predict. The Company would record accruals for loss contingencies to the extent that it concludes that it is probable that a liability has been incurred and the amount of the related loss can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal proceedings and other matters that could cause an increase or decrease in the amount of any liability that has been accrued previously.

Juno Therapeutics, Inc. ("Juno") and Memorial Sloan Kettering Cancer and Sloan Kettering Institute for Cancer Research ("MSK") filed a patent infringement lawsuit against the Company on December 19, 2016 in the U.S. District Court of Appeals for the District of Delaware. Juno and MSK claimed that KTE-C19, upon commercialization, will infringe an MSK patent licensed by Juno relating to certain CAR compositions of matter. On February 23, 2017, the Company filed a motion to dismiss this lawsuit based upon lack of subject matter jurisdiction, which the court granted on June 13, 2017. The Company had previously filed a petition with the United States Patent and Trademark Office ("USPTO") to institute an inter partes review ("IPR") proceeding requesting a determination that the claims in the MSK patent are unpatentable. On December 16, 2016, the USPTO Patent Trial and Appeal Board declined to revoke the MSK patent. The Company filed a Notice of Appeal to this decision on February 16, 2017. While the patent infringement lawsuit was dismissed, it is not possible to accurately predict or determine the eventual outcome of the IPR appeal and any future patent infringement lawsuit. An adverse determination could have a material adverse effect on the Company's condensed consolidated results of operations, financial position or cash flows.

Regardless of outcome, litigation can also have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

Leases

In May 2013, the Company entered into a lease agreement for a facility to be used for administrative and research and development activities. The lease commenced on June 15, 2013 and has a 10-year initial term expiring on June 15, 2023. The lease also provides for rent abatements and scheduled increases in base rent. The lease also contains options for the Company to extend the lease upon its initial expiration.

In January 2015, the Company entered into a lease agreement for manufacturing and processing of engineered autologous cell therapy, research and development, and office space in Santa Monica, California. The lease has a 10-year term commencing on February 1, 2015. Upon certain conditions, the Company has two options to extend the lease each for an additional five years. The Company is required to remit base rent of $46,906 per month, which will increase at a rate of 3% per year.

In February 2015, the Company entered into a lease agreement for a manufacturing facility in El Segundo which is adjacent to Los Angeles International Airport. The lease has a 10-year and seven month term commencing on January 1, 2016. Upon certain conditions, the Company has two options to extend the lease, each for an additional five years. The Company paid $124,183 upon execution of the lease and is required to remit base rent of $124,183 per month, which will increase at a rate of 3% per year and are subject to lease abatement terms. The lease provided a contribution from the landlord towards leasehold improvements of $2.6 million, which the Company has received as of December 31, 2016.

In June 2015, the Company entered into a sublease agreement for office space in Santa Monica, California. The lease has a term of 26 months commencing on June 22, 2015. The Company is required to remit base rent of $50,389 from July 1, 2016 to the end of the lease term.

In July 2016, the Company entered into a lease agreement for the lease of primarily office space in El Segundo, which is adjacent to the Company’s manufacturing facility. The lease has a nine year and six month term commencing on February 1, 2017. Upon certain conditions, the Company has two options to extend the lease, each for an additional five years. The Company paid $176,400 upon execution of the lease and is required to remit base rent of $176,400 per month, which will increase at a rate of approximately 3% per year, subject to certain lease abatement terms. Pursuant to the lease, the landlord will contribute an aggregate of $4.4 million, as amended, toward the tenant improvements for the leased space.

On November 4, 2016, the Company entered into a lease agreement for primarily office space in Santa Monica to serve as the Company's future headquarters, with a lease term of fifteen years. Subject to lease commencement and certain lease abatement terms, the Company is required to remit base rent of $876,205 per month, which will increase at a rate of approximately 3% per year for the first ten years and then 3.5% per year during years eleven through fifteen. The Company posted a customary letter of credit in the amount of $5.5 million as a security deposit, which was secured by government securities with a value of $7.0 million. The customary letter of credit amount increased by $5.5 million in January 2017, which was secured by additional government securities with a value of $5.9 million. The amount of the letter of credit may be subject to reductions during the term of the lease beginning in the fourth year of the lease term. Pursuant to the lease, the landlord will contribute an aggregate of $17.5 million toward the tenant improvements for the leased space.

Rent expense charged to operations was $4.9 million and $1.0 million for the three months ended June 30, 2017 and 2016, respectively, and $10.1 million and $2.0 million for the six months ended June 30, 2017 and 2016, respectively. As of June 30, 2017 the Company has incurred expenses eligible for tenant improvement allowances from its landlords of $4.9 million and received $4.7 million from its landlords. These landlord incentives are recorded as deferred rent, and are recognized as reductions to rent expense over the term of the respective leases. The Company has recorded corresponding other current deferred rent liabilities and other non-current deferred rent liabilities related to these tenant improvement allowances within the condensed consolidated balance sheets and recognized a reduction in rent expense of $0.1 million and $0.1 million for the three months ended June 30, 2017 and 2016, respectively, and $0.2 million and $0.2 million for the six months ended June 30, 2017 and 2016, respectively, as a result of the tenant improvement allowances.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed financial statements and related notes included in this Quarterly Report on Form 10-Q, or Quarterly Report, and the audited financial statements and notes thereto as of and for the year ended December 31, 2016 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the year ended December 31, 2016, or Annual Report, which has been filed with the Securities and Exchange Commission, or SEC. Unless the context requires otherwise, references in this Quarterly Report to "we," "us," "our" and "Kite" refer to Kite Pharma, Inc. and its subsidiaries.

Forward-Looking Statements

The information in this discussion contains forward-looking statements and information within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which are subject to the "safe harbor" created by those sections. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, prospects and plans and objectives of management. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation, the risks set forth in Part II, Item 1A, "Risk Factors" in this Quarterly Report and in our other filings with the SEC. The forward-looking statements are applicable only as of the date on which they are made, and we do not assume any obligation to update any forward-looking statements.

OVERVIEW

We are a clinical-stage biopharmaceutical company focused on the development and commercialization of novel cancer immunotherapy products designed to harness the power of a patient's own immune system to target and kill cancer cells. We do this using our engineered autologous cell therapy, which we believe is a transformational approach to the treatment of cancer. Our therapy involves the genetic engineering of T cells to express either chimeric antigen receptors, or CARs, or T cell receptors, or TCRs. These modified T cells are designed to recognize and attack cancer cells.

Our lead product candidate, KTE-C19, is a CAR-based therapy that targets the CD19 antigen, a protein expressed on the cell surface of B-cell lymphomas and leukemias. The United States Adopted Name for KTE-C19 is axicabtagene ciloleucel. Since the second half of 2015, we have been conducting a Phase 2 clinical trial (ZUMA-1) of axicabtagene ciloleucel in patients with relapsed or refractory aggressive diffuse large B cell lymphoma, or DLBCL, primary mediastinal B cell lymphoma, or PMBCL, or transformed follicular lymphoma, or TFL. DLBCL, PMBCL and TFL are types of aggressive non-Hodgkin lymphoma, or NHL.

Based on the results from the primary analysis of ZUMA-1, we completed our submission of a Biologics License Application, or BLA, in March 2017 to the U.S. Food and Drug Administration, or FDA, for the approval of axicabtagene ciloleucel for the treatment of patients with relapsed or refractory aggressive B-cell NHL, who are ineligible for autologous stem cell transplant. The FDA accepted the BLA for priority review and set a Prescription Drug User Fee Act target action date of November 29, 2017. We plan to commercially launch axicabtagene ciloleucel in 2017, if approved. We recently filed a Marketing Authorization Application to the European Medicines Agency for axicabtagene ciloleucel and plan to commercially launch axicabtagene ciloleucel in the European Union in 2018, if approved.

We are conducting other clinical studies of KTE-C19 for additional hematological indications in both North America and the European Union. We are also advancing other CAR- and TCR-based product candidates, including KITE-718 and KITE-585. KITE-718 is a TCR-based therapy targeting a MAGE A3/A6 antigen for the treatment of advanced MAGE A3/A6 positive cancers including non-small cell lung cancer, or NSCLC, and bladder cancer. We filed an investigational new drug application, or IND, to initiate a Phase 1 clinical trial of KITE-718 at the end of 2016 and opened the clinical trial for patient enrollment in the first half of 2017. KITE-585 is a CAR-based therapy targeting B-cell maturation antigen, or BCMA, for the treatment of relapsed/refractory multiple myeloma. We recently filed an IND to initiate a Phase 1 clinical trial of KITE-585.

OUR RESEARCH AND DEVELOPMENT AND LICENSE AGREEMENTS

We have three CRADAs through which we are funding the research and development of product candidates utilizing CARs and TCRs for the treatment of advanced solid and hematological malignancies.

Under the CRADAs, we have an exclusive option to negotiate commercial licenses from the NIH to intellectual property relating to CAR- and TCR-based product candidates developed in the course of the CRADA research plans. We have entered into multiple license agreements with the NIH and have entered into multiple other license and collaboration agreements with commercial entities. For additional information regarding our significant collaborations and license agreements, see Note 6 to our financial statements appearing elsewhere in this Quarterly Report.

COMPONENTS OF OPERATING RESULTS

Revenues

As of June 30, 2017 our revenue has been exclusively generated from our collaboration and license agreements with Amgen, Inc., or Amgen, Daiichi Sankyo Company, Limited, or Daiichi, Fosun Kite Biotechnology Co., Ltd., or Fosun Kite Biotechnology, and Leukemia & Lymphoma Society, Inc., or LLS. See Notes 3 and 6 to our financial statements appearing elsewhere in this Quarterly Report for more information related to our recognition of revenue, the Amgen research collaboration and license agreement, or the Amgen Agreement, the Daiichi collaboration and license agreement, or the DS Agreement, Fosun Kite Biotechnology agreement, or the Fosun Kite Agreement, and the LLS research, development and commercialization agreement, or the LLS Agreement.

In the future, we may generate revenue from a combination of product sales, government or other third-party funding, marketing and distribution arrangements and other collaborations, strategic alliances and licensing arrangements or a combination of these approaches. We expect that any revenue we generate will fluctuate from quarter to quarter as a result of the timing and amount of license fees, milestone and other payments, and the amount and timing of payments that we receive upon the sale of our products, to the extent any are successfully commercialized. If we fail to complete the development of our product candidates in a timely manner or obtain regulatory approval of them, our ability to generate future revenue, and our results of operations and financial position, will be materially adversely affected.

Research and Development Expenses

Research and development costs are expensed as incurred. Research and development costs consist primarily of salaries, benefits, and other staff-related costs including associated stock-based compensation, laboratory supplies, facilities and overhead costs, clinical trial and related clinical manufacturing costs, costs related to manufacturing preparations, fees paid to other entities that conduct certain research and development activities on our behalf and payments made pursuant to license agreements. Clinical trial and other development costs incurred by third parties are expensed as the contracted work is performed.

We accrue for costs incurred as the services are being provided by monitoring the status of the trial or project and the invoices received from our external service providers. We adjust our accrual as actual costs become known. Where contingent milestone payments are due to third parties under research and development arrangements or license agreements, the milestone payment obligations are expensed when the milestone results are achieved.

Under certain circumstances, we may be required to reimburse Amgen for research and development services. We will defer the recognition of revenue related to research and development services billed until the potential reimbursement contingency has lapsed.

Research and development activities are central to our business model. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect our research and development expenses to increase over the next several years as our ZUMA clinical program progresses and as we seek to initiate clinical trials of additional product candidates. We also expect to incur increased research and development expenses as we selectively identify and develop additional product candidates. However, it is difficult to determine with certainty the duration and completion costs of our current or future preclinical programs and clinical trials of our product candidates.

The duration, costs and timing of clinical trials and development of our product candidates will depend on a variety of factors that include, but are not limited to, the following:

- per patient trial costs;
- the number of patients that participate in the trials;
- the number of sites included in the trials;
- the countries in which the trials are conducted;
- the length of time required to enroll eligible patients;
- the number of doses that patients receive;
- the drop-out or discontinuation rates of patients;
- potential additional safety monitoring or other studies requested by regulatory agencies;
- the duration of patient follow-up; and
- the efficacy and safety profile of the product candidates.

In addition, the probability of success for each product candidate will depend on numerous factors, including competition, manufacturing capability and commercial viability. We will determine which programs to pursue and how much to fund each program in response to the scientific and clinical success of each product candidate, as well as an assessment of each product candidate's commercial potential.

Because our product candidates are still in clinical and preclinical development and the outcome of these efforts is uncertain, we cannot estimate the actual amounts necessary to successfully complete the development and commercialization of product candidates or whether, or when, we may achieve profitability. Until such time, if ever, as we can generate substantial product revenue, we expect to finance our cash needs through a combination of equity or debt financings and collaboration arrangements.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and other staff-related costs, including stock-based compensation, for personnel in executive, commercial, finance, accounting, legal, investor relations, facilities, business development and human resources functions. Other significant costs include costs relating to preparing for the potential commercial launch of KTE-C19, facilities and overhead costs, sublicense royalty expenses, legal fees relating to corporate and patent matters, insurance, public company expenses relating to maintaining compliance with NASDAQ listing rules and SEC requirements, investor relations costs, fees for accounting and consulting services, and other general and administrative costs. General and administrative costs are expensed as incurred, and we accrue for services provided by third parties related to the above expenses by monitoring the status of services provided and receiving estimates from our service providers, and adjusting our accruals as actual costs become known.

We anticipate that our general and administrative expenses will increase in the future to support our continued research and development activities, potential commercialization of our product candidates and the increased costs of operating as a public company. These increases will likely include increased costs related to the hiring of additional personnel, continuing the development of our commercial infrastructure, and fees to outside consultants, lawyers and accountants, among other expenses. The increased costs associated with being a public company include expenses related to services associated with maintaining compliance with NASDAQ listing rules and SEC requirements, insurance and investor relations costs.

Critical Accounting Policies and Significant Judgments and Estimates

The preparation of our unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the revenues and expenses incurred during the reported periods. We base our estimates on historical experience and on various other factors that we believe are relevant under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We discussed accounting policies and assumptions that involve a higher degree of judgment and complexity in Note 3 to our financial statements in our Annual Report. There have been no material changes to our critical accounting policies and estimates as compared to those disclosed in our Annual Report.

RESULTS OF OPERATIONS

Comparison of the Three Months Ended June 30, 2017 and 2016

The following table sets forth our results of operations for the three months ended June 30, 2017 and 2016:

	THREE MONTHS ENDED JUNE 30,		CHANGE $
	2017	2016	
	(unaudited, in thousands)		
Revenues	$ 10,052	$ 4,795	$ 5,257
Operating expenses:			
Research and development	70,870	47,356	23,514
General and administrative	41,101	23,713	17,388
Total operating expenses	111,971	71,069	40,902
Loss from operations	(101,919)	(66,274)	(35,645)
Total other income (expense), net	(1,144)	920	(2,064)
Loss before income taxes	(103,063)	(65,354)	(37,709)
Income tax (provision) benefit	(6,759)	1,080	(7,839)
Net loss	$ (109,822)	$ (64,274)	$ (45,548)

Revenue

Revenue was $10.1 million and $4.8 million for the three months ended June 30, 2017 and 2016, respectively. The increase in revenue during this period of $5.3 million was due to $5.7 million of revenue recognized under the DS Agreement and $0.9 million of revenue recognized under the Fosun Kite Agreement, partially offset by a decrease of $1.3 million from revenue recognized under the Amgen Agreement.

Research and Development Expenses

Research and development expenses were $70.9 million and $47.4 million for the three months ended June 30, 2017 and 2016, respectively. The increase in research and development expenses during this period of $23.5 million was primarily due to:

- $13.1 million in costs from an increase in headcount and related costs for our research and development personnel, including increased stock based compensation expense of $4.6 million, to support increased clinical trial activities, including clinical manufacturing, and activities related to preparing for commercial manufacturing;
- $0.8 million in costs related to research and clinical development activities, including costs from our clinical trials and licensing and collaborations;
- $4.7 million of expenses related to facilities and overhead, depreciation and amortization, and other expenses due to expansion of our development activities; and
- $4.9 million in costs related to expanded clinical manufacturing activities and preparation for commercial manufacturing.

General and Administrative Expenses

General and administrative expenses were $41.1 million and $23.7 million for the three months ended June 30, 2017 and 2016, respectively. The increase in general and administrative expenses during this period of $17.4 million was primarily due to:

- $10.3 million in costs resulting from increased headcount and personnel related costs, including increased stock based compensation expense of $0.8 million, to support our growing business and for preparation of commercial launch; and
- $7.1 million of expense related to increased pre-commercial activities and higher consulting and other costs to support our growing business.

Total Other Income (Expense), Net

Total other income (expense), net was $(1.1) million and $0.9 million for the three months ended June 30, 2017 and 2016, respectively. The decrease during this period of $2.1 million was primarily due to $2.4 million of expenses related to foreign exchange losses and $0.5 million of losses from equity method investments, partially offset by $0.8 million of income from investments in marketable securities and cash equivalents.

Income Tax (Provision) Benefit

Income tax (provision) benefit was $(6.8) million and $1.1 million for the three months ended June 30, 2017 and 2016, respectively. The income tax provision in the three month period ended June 30, 2017 consists primarily of withholding taxes in China. These withholding taxes were agreed to be paid by Fosun Kite Biotechnology on our behalf. Although withholding taxes paid typically give rise to a future foreign tax credit, we continue to maintain a full valuation allowance against deferred tax assets for all jurisdictions. The $1.1 million benefit for the three months ended June 30, 2016 primarily related to foreign tax benefit from losses at our Dutch subsidiary.

Comparison of the Six Months Ended June 30, 2017 and 2016

The following table sets forth our results of operations for the six months ended June 30, 2017 and 2016:

	SIX MONTHS ENDED JUNE 30,		CHANGE $
	2017	2016	
	(unaudited, in thousands)		
Revenues	$ 19,888	$ 9,922	$ 9,966
Operating expenses:			
Research and development	136,777	81,771	55,006
General and administrative	76,466	40,395	36,071
Total operating expenses	213,243	122,166	91,077
Loss from operations	(193,355)	(112,244)	(81,111)
Total other income (expense), net	(170)	1,766	(1,936)
Loss before income taxes	(193,525)	(110,478)	(83,047)
Income tax (provision) benefit	(6,698)	2,289	(8,987)
Net loss	$ (200,223)	$ (108,189)	$ (92,034)

Revenue

Revenue was $19.9 million and $9.9 million for the six months ended June 30, 2017 and 2016, respectively. The increase in revenue during this period of $10.0 million was due to $9.8 million of revenue recognized under the DS Agreement and $0.9 million of revenue recognized under the Fosun Kite Agreement, partially offset by a decrease of $0.9 million from revenue recognized under the Amgen Agreement.

Research and Development Expenses

Research and development expenses were $136.8 million and $81.8 million for the six months ended June 30, 2017 and 2016, respectively. The increase in research and development expenses during this period of $55.0 million was primarily due to:

- $25.7 million in costs from an increase in headcount and related costs for our research and development personnel, including increased stock based compensation expense of $8.8 million, to support increased clinical trial activities, including clinical manufacturing, and activities related to preparing for commercial manufacturing;
- $8.3 million in costs related to research and clinical development activities, including costs from our clinical trials and licensing and collaborations;
- $10.2 million of expenses related to facilities and overhead, depreciation and amortization, and other expenses due to expansion of our development activities; and
- $10.8 million in costs related to expanded clinical manufacturing activities and preparation for commercial manufacturing.

General and Administrative Expenses

General and administrative expenses were $76.5 million and $40.4 million for the six months ended June 30, 2017 and 2016, respectively. The increase in general and administrative expenses during this period of $36.1 million was primarily due to:

- $22.6 million in costs resulting from increased headcount and personnel related costs, including increased stock based compensation expense of $5.8 million, to support our growing business and for preparation of commercial launch; and
- $13.4 million of expense related to increased pre-commercial activities and higher consulting and other costs to support our growing business.

Total Other Income (Expense), Net

Total other income (expense), net was $(0.2) million and $1.8 million for the six months ended June 30, 2017 and 2016, respectively. The decrease during this period of $1.9 million was primarily due to $2.0 million of expenses related to foreign exchange losses and $1.0 million of losses from equity method investments, partially offset by $1.0 million of income from investments in marketable securities and cash equivalents.

Income Tax (Provision) Benefit

Income tax (provision) benefit was $(6.7) million and $2.3 million for the six months ended June 30, 2017 and 2016, respectively. The income tax provision in the six month period ended June 30, 2017 consists primarily of withholding taxes in China. These withholding taxes were agreed to be paid by Fosun Kite Biotechnology on our behalf. Although withholding taxes paid typically give rise to a future foreign tax credit, we continue to maintain a full valuation allowance against deferred tax assets for all jurisdictions. The $2.3 million benefit for the six months ended June 30, 2016 primarily related to foreign tax benefit from losses at our Dutch subsidiary.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2017, we had $147.8 million in cash and cash equivalents, and $633.3 million in marketable securities. Cash in excess of immediate requirements is invested in accordance with our investment policy, primarily with a view to liquidity and capital preservation.

We have funded our operations principally from the sale of common stock, and through our licensing and collaborations. In 2015, we received an upfront payment of $60.0 million from Amgen, and raised approximately $300.7 million in net proceeds from our follow-on offering of common shares. We received an upfront payment of $50.0 million from Daiichi in January 2017, and raised an additional $399.7 million in net proceeds from our follow-on offering of common shares, after deducting fees, commissions, and other expenses related to the offering in March 2017. We also received a $40.0 million upfront payment from Fosun Kite Biotechnology in May 2017.

We have incurred losses since our inception in 2009 and, as of June 30, 2017, we had an accumulated deficit of $626.9 million. Our product candidates may never achieve commercialization and we anticipate that we will continue to incur losses for the foreseeable future. We expect that our research and development expenses, general and administrative expenses, and capital expenditures will continue to increase. As a result, until such time, if ever, as we can generate substantial product revenue, we expect to finance our cash needs through a combination of equity or debt financings and collaboration arrangements. Our primary uses of capital are, and we expect will continue to be, compensation and related expenses, third-party clinical research and development services, costs relating to preparing for the potential commercial launch of KTE-C19, license payments or milestone obligations that may arise, laboratory and related supplies, clinical costs, manufacturing costs, legal and other regulatory expenses and general overhead costs.

Cash Flows

The following table sets forth the significant sources and uses of cash for the periods set forth below:

	SIX MONTHS ENDED JUNE 30,	
	2017	2016
	(unaudited, in thousands)	
Net cash provided by (used in):		
Operating activities	$ (52,684)	$ (65,783)
Investing activities	(345,890)	(158,665)
Financing activities	431,661	1,761
Effect of exchange rate changes on cash	188	2
Net change in cash and cash equivalents	$ 33,275	$ (222,685)

Operating Activities

Net cash used in operating activities was $52.7 million during the six months ended June 30, 2017 as compared to $65.8 million in cash used in operating activities during the six months ended June 30, 2016. The decrease in net cash used in operating activities of $13.1 million between the six months ended June 30, 2017 and 2016 was primarily the result of cash received from Daiichi and Fosun Kite Biotechnology as an upfront payment related to the DS Agreement and Fosun Kite Biotechnology Agreement in the six months ended June 30, 2017, partially offset by increased operating expenses due to additional headcount, facilities related costs, and other research and development and clinical activities during the six months ended June 30, 2017 as compared to the six months ended June 30, 2016.

Investing Activities

Net cash used in investing activities was $345.9 million during the six months ended June 30, 2017 as compared to $158.7 million of cash used by investing activities during the six months ended June 30, 2016. The net increase in cash used in investing activities of $187.2 million between the six months ended June 30, 2017 and 2016 was primarily the result of the transactional activity related to our marketable securities portfolio, partially offset by capital expenditures related to our clinical and commercial manufacturing facilities.

Financing Activities

Net cash provided by financing activities was $431.7 million during the six months ended June 30, 2017 as compared to $1.8 million in cash provided by financing activities during the six months ended June 30, 2016. The increase in cash provided by financing activities of $429.9 million between the six months ended June 30, 2017 and 2016 was primarily the result of the $399.7 million in net proceeds received from our follow-on offering and higher proceeds from exercise of stock options during the six months ended June 30, 2017.

Off-Balance Sheet Arrangements

During the periods presented we did not have, nor do we currently have, any off-balance sheet arrangements as defined under SEC rules.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Fluctuation Risk

Some of the securities in which we invest have market risk in that a change in prevailing interest rates may cause the principal amount of the marketable securities to fluctuate. Financial instruments that potentially subject us to significant concentrations of credit risk consist primarily of cash, cash equivalents and marketable securities. As of June 30, 2017, we had $147.8 million in cash and cash equivalents, and $633.3 million in marketable securities. Our cash equivalents and marketable securities are comprised of certificates of deposit, commercial paper and debt instruments of financial institutions, corporations, U.S. government-sponsored agencies and the U.S. Treasury. The primary objectives of our investment activities are to ensure liquidity and to preserve principal while at the same time maximizing the income we receive from our marketable securities without significantly increasing risk. We have established guidelines regarding approved investments and maturities of investments, which are designed to maintain safety and liquidity. Our available for sale securities are subject to interest rate risk and will fall in value if market interest rates increase. If market interest rates were to increase immediately and uniformly by

100 basis points, or one percentage point, from levels at June 30, 2017, the net fair value of our interest-sensitive marketable securities would have resulted in a hypothetical decline of approximately $6.3 million.

Inflation Risk

Inflation generally may affect us by increasing our cost of labor and clinical trial costs. Inflation has not had a material effect on our business, financial condition or results of operations during the three and six months ended June 30, 2017 and 2016, respectively.

Foreign Currency Exchange Risk

The majority of our transactions occur in U.S. dollars. However, we do have certain transactions and future potential milestones, including potential contingent consideration payments pursuant to the terms of our TCF acquisition, that are denominated in Euros, and we therefore are subject to foreign exchange risk. Additionally, our subsidiary Kite Pharma EU operates with the Euro as its functional currency. The fluctuation in the value of the U.S. dollar against the Euro affects the reported amounts of revenues, expenses, assets and liabilities. As we expand our international operations, our exposure to exchange rate fluctuations will increase. We currently do not participate in any foreign currency hedging activities. Our other income (expense) is also impacted by the re-measurement of our U.S. Dollar denominated intercompany loans and by any cash held by our overseas subsidiaries in a currency other than its functional currency. An immediate 10% adverse change in foreign exchange rates would result in a foreign currency loss of approximately $3.7 million. Future changes in the U.S. dollar and Euro exchange rate may result in future recognition of exchange rate losses or higher than expected operating expenses as we fund the operations of our subsidiary.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of June 30, 2017, have concluded that, based on such evaluation, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission, and is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the six months ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Certain of the legal proceedings in which we are involved are discussed in Note 11 to our financial statements appearing elsewhere in this Quarterly Report and hereby incorporated by reference.

Item 1A. Risk Factors

An investment in shares of our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information in this report, before deciding whether to purchase, hold or sell shares of our common stock. The occurrence of any of the following risks could harm our business, financial condition, results of operations and growth prospects or cause our actual results to differ materially from those contained in forward-looking statements we have made in this report and those we may make from time to time. You should consider all of the risk factors described when evaluating our business. The risk factors set forth below that are marked with an asterisk (*) contain changes to the similarly titled risk factors included in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016, or Annual Report, which has been filed with the Securities and Exchange Commission, or SEC.

Risks Related to Our Business and Industry

We have incurred net losses in every year since our inception and anticipate that we will continue to incur net losses in the future.*

We are a clinical-stage biopharmaceutical company with a limited operating history. Investment in biopharmaceutical product development is highly speculative because it entails substantial upfront capital expenditures and significant risk that any potential product candidate will fail to demonstrate adequate effect or an acceptable safety profile, gain regulatory approval and become commercially viable. We have no products approved for commercial sale and have not generated any revenue from product sales to date, and we continue to incur significant research and development and other expenses related to our ongoing operations. As a result, we are not profitable and have incurred losses in each period since our inception in June 2009. For the years ended December 31, 2016 and 2015, we reported a net loss of $267.1 million and $101.7 million, respectively. For the six months ended June 30, 2017 and 2016, we reported a net loss of $200.2 million and $108.2 million, respectively. As of June 30, 2017, we had an accumulated deficit of $626.9 million. We expect to continue to incur significant expenditures for the foreseeable future, and we expect these expenditures to increase as we plan for the potential commercial launch of our lead product candidate, KTE-C19, and as we continue our research and development of, and seek regulatory approvals for, product candidates based on our engineered autologous cell therapy. Even if we succeed in commercializing one or more of our product candidates, we will continue to incur substantial research and development and other expenditures to develop and market additional product candidates. We may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may adversely affect our business. The size of our future net losses will depend, in part, on the rate of future growth of our expenses and our ability to generate revenue. Our prior losses and expected future losses have had and will continue to have an adverse effect on our stockholders' equity and working capital.

Our engineered autologous cell therapy represents a novel approach to cancer treatment that creates significant challenges for us.

Our therapy involves (1) harvesting T cells from the patient's blood, (2) engineering T cells to express cancer-specific receptors, (3) increasing the number of engineered T cells and (4) infusing the functional cancer-specific T cells back into the patient. Advancing this novel and personalized therapy creates significant challenges for us, including:

- educating medical personnel regarding the potential side effect profile of our therapy, such as the potential adverse side effects related to cytokine release syndrome, or CRS, neurotoxicity and B-cell aplasia;
- using medicines to manage adverse side effects of our therapy, such as tocilizumab and corticosteroids, which may not adequately control the side effects and/or may have a detrimental impact on the efficacy of the treatment;
- sourcing clinical and, if approved, commercial supplies for the materials used to manufacture and process our product candidates;
- developing a robust and reliable process, while limiting contamination risks, for engineering a patient's T cells *ex vivo* and infusing the engineered T cells back into the patient;
- conditioning patients with chemotherapy in advance of administering our product candidates, which may increase the risk of adverse side effects;
- obtaining regulatory approval, as the U.S. Food and Drug Administration, or FDA, and other regulatory authorities have limited experience with commercial development of T cell therapies for cancer; and

- establishing sales and marketing capabilities upon obtaining any regulatory approval to gain market acceptance of a novel therapy.

In addition, we use manufacturing and processing approaches to produce engineered T cells that are based on the original approach used by our collaborator, the National Cancer Institute, or NCI. While the NCI has and is expected to use CAR- and TCR-based therapies in clinical trials that we are funding under Cooperative Research and Development Agreements, or CRADAs, we cannot be sure that our engineered T cell therapy will obtain the same safety and efficacy results as those obtained or may be obtained by the NCI using its own original production methods.

Our business is highly dependent on the success of KTE-C19, our lead product candidate. If we are unable to obtain approval for KTE-C19 and effectively commercialize KTE-C19 for the treatment of patients in its approved indications, our business would be significantly harmed.*

Our business and future success depends on our ability to obtain regulatory approval of and then successfully commercialize our lead product candidate, KTE-C19. We completed a Biologics License Application, or BLA, submission to the FDA in March 2017 for the approval of KTE-C19 as a treatment for patients with relapsed or refractory aggressive B-cell non-Hodgkin lymphoma, or NHL, who are ineligible for autologous stem cell transplant, or ASCT. If the FDA does not approve our BLA submission, our business would be significantly harmed.

If approved, KTE-C19 will be our only product approved for marketing and our ability to generate revenue from product sales is dependent on our ability to effectively commercialize KTE-C19. Our plans for commercial operations, marketing and account management, and access may fail and we may not be able to fully realize the commercial potential of KTE-C19 for a number of reasons, including:

- we may not be able to obtain and maintain regulatory approval to market KTE-C19 for the indication we are seeking and for additional indications, such as relapsed or refractory mantle cell lymphoma, or MCL, and acute lymphoblastic leukemia, or ALL;
- additional follow-up results from our ZUMA clinical trials or any required post-approval studies may fail to verify the clinical benefit of KTE-C19 in some or all of any approved indications, which could result in the withdrawal of KTE-C19 from the market;
- the use of engineered T cells as a potential cancer treatment is a recent development and may not become broadly accepted by physicians, patients, hospitals, cancer treatment centers and others in the medical community;
- we may not be able to establish or demonstrate in the medical community the safety and efficacy of KTE-C19 and its potential advantages over and side effects compared to existing and future therapeutics;
- physicians may be reluctant to prescribe KTE-C19 until results from any required post-approval studies are available or other long term efficacy and safety data exists;
- if the FDA does not accept our request for regular approval, but provides accelerated approval, pre-approval of promotional materials would be required, which could adversely impact how we market and sell KTE-C19;
- the estimated incidence rate of new patients in any KTE-C19 approved indications may be lower than our projections;
- new competitive therapies may be approved for marketing by regulatory authorities in KTE-C19's labeled indications;
- our commercial manufacturing facility may not pass pre-approval FDA inspection;
- we may not be able to manufacture adequate commercial supplies of KTE-C19 or obtain raw materials to meet demand or at an acceptable cost;
- we may be unable to scale our employee base to meet demands;
- we may be unable to manage the logistics of providing patient-by-patient therapy on a commercial scale;
- our Kite Konnect and associated technology platform, which will track orders from patient enrollment to the collection of the patient's cells to infusion of KTE-C19, may not be sufficiently developed by the time of launch or may face technical issues post-launch;
- we may be unable to develop an adequate in-house marketing organization and sales force;
- if any approval is received sooner than expected, we may not be ready to launch KTE-C19 or meet demand;
- KTE-C19 may receive adverse reimbursement and coverage policies from government and private payors such as Medicare, Medicaid, insurance companies, health maintenance organizations and other plan administrators or may be subject to pricing pressures enacted by industry organizations;
- there may be changed or increased regulatory restrictions; and
- we may not have adequate financial or other resources to effectively commercialize KTE-C19.

To ensure that any site collecting patient white blood cells, known as apheresis centers, is prepared to ship cells to our manufacturing facility, we plan to conduct quality certifications of each apheresis center. Accordingly, while our commercial

plan is to target over 70 key transplant and lymphoma centers over a 12-month period post-launch, the related apheresis centers may not participate in the certification or we may be unable to complete certification in a timely manner or at all.

In addition, because KTE-C19 is our most advanced product candidate, and because our other product candidates are based on similar technology, if KTE-C19 encounters safety, efficacy, manufacturing, regulatory or commercialization difficulties, our development plans and business would be significantly harmed.

Our product candidates may cause undesirable side effects or have other properties that could halt their clinical development, prevent their regulatory approval, limit their commercial potential or result in significant negative consequences.*

Undesirable or unacceptable side effects caused by our product candidates could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restrictive label or the delay or denial of regulatory approval by the FDA or other comparable foreign regulatory authorities. Results of our trials could reveal a high and unacceptable severity and prevalence of side effects or unexpected characteristics.

In the ZUMA clinical trials, the most common severe or life threatening adverse events resulted from CRS and neurologic events, and have also included anemia, neutropenia, decreased neutrophil count, febrile neutropenia, decreased white blood cell count, thrombocytopenia, encephalopathy and decreased lymphocyte count. As reported, patients have died from adverse events related to KTE-C19 and future patients may also experience toxicity resulting in death. These adverse events may include, among others, hemophagocytic lymphohistiocytosis, cardiac arrest, severe CRS, and cerebral edema. As we treat a larger number of patients with KTE-C19 in the ZUMA clinical trials, and, if approved, commercially, new less common side effects may also emerge.

Patients in our clinical trial of KITE-718 and the NCI clinical trials of the TCR-based product candidates are expected to receive interleukin-2, or IL-2, which is associated with toxicities such as capillary leak syndrome, hypotension, impaired kidney and liver function, and mental status changes. While we believe we have optimized KITE-718 from the NCI's anti-MAGE A3/A6 TCR, our optimizations may have adverse outcomes for patients. For instance, we plan to shorten the manufacturing time to eight to ten days and use IL-7/IL-15 plus a protein kinase B (AKT) inhibitor. However, cell products manufactured using IL-7/IL-15 and AKT inhibitor have not been administered in humans to date and may have an adverse impact on efficacy or safety.

If unacceptable toxicities arise in the development of our product candidates, we or the NCI could suspend or terminate our trials or the FDA or comparable foreign regulatory authorities could order us to cease clinical trials or deny approval of our product candidates for any or all targeted indications. Treatment-related side effects could also affect patient recruitment or the ability of enrolled subjects to complete the trial or result in potential product liability claims. In addition, these side effects may not be appropriately recognized or managed by the treating medical staff, particularly outside of the NCI as toxicities resulting from personalized T cell therapy are not normally encountered in the general patient population and by medical personnel. We have trained and expect to have to train medical personnel using CAR- or TCR-based product candidates to understand the side effect profile of our product candidates for both our clinical trials and upon any commercialization of any of our product candidates. Inadequate training in recognizing or managing the potential side effects of our product candidates could result in patient deaths. Any of these occurrences may harm our business, financial condition and prospects significantly.

The market opportunities for our product candidates may be limited to those patients who are ineligible for or have failed prior treatments and may be small.

The FDA often approves new therapies initially only for use in patients with relapsed or refractory metastatic disease. We expect to initially seek approval of KTE-C19 and our other product candidates in this setting. Subsequently, for those products that prove to be sufficiently beneficial, if any, we would expect to seek approval in earlier lines of treatment and potentially as a first line therapy, but there is no guarantee that our product candidates, even if approved, would be approved for earlier lines of therapy, and, prior to any such approvals, we will have to conduct additional clinical trials.

Our projections of both the number of people who have the cancers we are targeting, as well as the subset of people with these cancers in a position to receive second or later lines of therapy, and who have the potential to benefit from treatment with our product candidates, are based on our beliefs and estimates. These estimates have been derived from a variety of sources, including scientific literature, surveys of clinics, patient foundations, or market research, and may prove to be incorrect. Further, new studies may change the estimated incidence or prevalence of these cancers. The number of patients may turn out to be lower than expected. Additionally, the potentially addressable patient population for our product candidates may be limited or may not be amenable to treatment with our product candidates. For instance, we expect our lead product candidate,

KTE-C19, to initially target a small patient population that suffers from aggressive NHL and ALL. Even if we obtain significant market share for our product candidates, because the potential target populations are small, we may never achieve profitability without obtaining regulatory approval for additional indications.

Our clinical trials may fail to demonstrate adequately the safety and efficacy of any of our product candidates, which would prevent or delay regulatory approval and commercialization.

Before obtaining regulatory approvals for the commercial sale of our product candidates, including KTE-C19, we must demonstrate through lengthy, complex and expensive preclinical testing and clinical trials that our product candidates are both safe and effective for use in each target indication. Clinical testing is expensive and can take many years to complete, and its outcome is inherently uncertain. Failure can occur at any time during the clinical trial process. The results of preclinical studies and early clinical trials of our product candidates may not be predictive of the results of later-stage clinical trials, including in any post-approval studies of KTE-C19. We expect there may be greater variability in results for products processed and administered on a patient-by-patient basis, like engineered autologous cell therapy, than for "off-the-shelf" products, like many drugs. There is typically an extremely high rate of attrition from the failure of product candidates proceeding through clinical trials. Product candidates in later stages of clinical trials may fail to show the desired safety and efficacy profile despite having progressed through preclinical studies and initial clinical trials. A number of companies in the biopharmaceutical industry have suffered significant setbacks in advanced clinical trials due to lack of efficacy, insufficient durability of efficacy or unacceptable safety issues, notwithstanding promising results in earlier trials. Most product candidates that commence clinical trials are never approved as products.

We designed our Phase 1-2 (ZUMA-1) single-arm multicenter clinical trial of KTE-C19 primarily to assess safety and efficacy in patients with refractory diffuse large B cell lymphoma, or DLBCL, primary mediastinal B cell lymphoma, or PMBCL, and transformed follicular lymphoma, or TFL. The results from the primary analysis of ZUMA-1 as well as from the NCI clinical trials of anti-CD19 CAR T cell therapy may not predict results for any required post-approval trial of KTE-C19 or in our other clinical trials of KTE-C19 in different indications. Our ongoing clinical trials of KTE-C19 may be halted prior to completion if there is an unacceptable safety risk for patients.

In addition, for ZUMA-1 and any future trials that may be completed, we cannot guarantee that the FDA or foreign regulatory authorities will interpret the results as we do, and more trials could be required before we submit our product candidates for approval. To the extent that the results of the trials are not satisfactory to the FDA or foreign regulatory authorities for support of a marketing application, approval of our product candidates may be significantly delayed, or we may be required to expend significant additional resources, which may not be available to us, to conduct additional trials in support of potential approval of our product candidates.

We may not be able to file investigational new drug applications, or INDs, to commence additional clinical trials on the timelines we expect, and even if we are able to, the FDA may not permit us to proceed.*

We expect to submit IND amendments for additional studies of KTE-C19 in 2017 and INDs for KITE-796 and KITE-439 in 2018. However, our timing of filing on the product candidates is dependent on further research. We cannot be sure that submission of an IND or IND amendment will result in the FDA allowing further clinical trials to begin, or that, once begun, issues will not arise that suspend or terminate such clinical trials. For instance, the FDA may not allow us to use the NCI clinical trial data to support our INDs. Additionally, even if such regulatory authorities agree with the design and implementation of the clinical trials set forth in an IND or clinical trial application, we cannot guarantee that such regulatory authorities will not change their requirements in the future.

We have limited experience as a company conducting clinical trials.*

While we are currently conducting multiple clinical trials of KTE-C19 and a clinical trial of KITE-718, we have limited experience as a company in conducting clinical trials. In part because of this lack of experience, we cannot be certain that our ongoing clinical trials will be completed on time or if the planned clinical trials will begin or be completed on time, if at all. Large-scale trials require significant financial and management resources, and reliance on third-party clinical investigators, contract research organizations, or CROs, or consultants. Relying on third-party clinical investigators or CROs may force us to encounter delays that are outside of our control.

Monitoring safety of patients receiving our product candidates is challenging, which could adversely affect our ability to obtain regulatory approval and commercialize.

For our ongoing clinical trials of KTE-C19 and in our planned sponsored multicenter clinical trials of KTE-C19 and other product candidates, we have and expect to contract with academic medical centers and hospitals experienced in the assessment and management of toxicities arising during clinical trials. Nonetheless, these centers and hospitals may have difficulty observing patients and treating toxicities, which may be more challenging due to personnel changes, inexperience, shift changes, house staff coverage or related issues. This could lead to more severe or prolonged toxicities or even patient deaths, which could result in us or the FDA delaying, suspending or terminating one or more of our clinical trials, and which could jeopardize regulatory approval. We also expect the centers using KTE-C19, if approved, on a commercial basis could similarly have difficulty in managing adverse events. Medicines used at centers to help manage adverse side effects of KTE-C19, such as tocilizumab and corticosteroids, may not adequately control the side effects and/or may have a detrimental impact on the efficacy of the treatment. Use of these medicines may increase with new physicians and centers administering our product candidates.

If we encounter difficulties enrolling patients in our clinical trials, our clinical development activities could be delayed or otherwise adversely affected.

We may experience difficulties in patient enrollment in our clinical trials for a variety of reasons. The timely completion of clinical trials in accordance with their protocols depends, among other things, on our ability to enroll a sufficient number of patients who remain in the study until its conclusion. The enrollment of patients depends on many factors, including:

- the patient eligibility criteria defined in the protocol;
- the size of the patient population required for analysis of the trial's primary endpoints;
- the proximity of patients to study sites;
- the design of the trial;
- our ability to recruit clinical trial investigators with the appropriate competencies and experience;
- our ability to obtain and maintain patient consents; and
- the risk that patients enrolled in clinical trials will drop out of the trials before the manufacturing and infusion of our product candidates or trial completion.

In addition, our clinical trials will compete with other clinical trials for product candidates that are in the same therapeutic areas as our product candidates, and this competition will reduce the number and types of patients available to us, because some patients who might have opted to enroll in our trials may instead opt to enroll in a trial being conducted by one of our competitors. Since the number of qualified clinical investigators is limited, some of our clinical trial sites are also being used by some of our competitors, which may reduce the number of patients who are available for our clinical trials in such clinical trial site. Moreover, because our product candidates represent a departure from more commonly used methods for cancer treatment, potential patients and their doctors may be inclined to use conventional therapies, such as chemotherapy and hematopoietic cell transplantation, rather than enroll patients in any future clinical trial.

Delays in patient enrollment may result in increased costs or may affect the timing or outcome of our ongoing clinical trial and planned clinical trials, which could prevent completion of these trials and adversely affect our ability to advance the development of our product candidates.

Clinical trials are expensive, time-consuming and difficult to design and implement.

Human clinical trials are expensive and difficult to design and implement, in part because they are subject to rigorous regulatory requirements. Because our product candidates are based on new technology and engineered on a patient-by-patient basis, we expect that they will require extensive research and development and have substantial manufacturing and processing costs. In addition, costs to treat patients with relapsed/refractory cancer and to treat potential side effects that may result from our product candidates can be significant. Accordingly, our clinical trial costs are likely to be significantly higher than for more conventional therapeutic technologies or drug products. In addition, our proposed personalized product candidates involve several complex and costly manufacturing and processing steps, the costs of which will be borne by us.

KTE-C19 has received orphan drug status, but we may be unable to maintain or receive the benefits associated with orphan drug status, including market exclusivity.

Under the Orphan Drug Act, the FDA may grant orphan designation to a drug or biologic intended to treat a rare disease or condition or for which there is no reasonable expectation that the cost of developing and making available in the United States

a drug or biologic for a disease or condition will be recovered from sales in the United States for that drug or biologic. If a product that has orphan drug designation subsequently receives the first FDA approval for the disease for which it has such designation, the product is entitled to orphan product exclusivity, which means that the FDA may not approve any other applications, including a full BLA to market the same biologic for the same indication for seven years, except in limited circumstances, such as a showing of clinical superiority to the product with orphan drug exclusivity.

We have received orphan drug status for KTE-C19 for the treatment of DLBCL, PMBCL, ALL, MCL, chronic lymphocytic leukemia, or CLL, and follicular lymphoma, or FL, but exclusive marketing rights in the United States may be limited if we seek approval for an indication broader than the orphan designated indication and may be lost if the FDA later determines that the request for designation was materially defective or if we are unable to assure the availability of sufficient quantities of the product to meet the needs of patients with the rare disease or condition. The European Commission has also granted KTE-C19 orphan drug designation for the treatment of DLBCL, PMBCL, ALL, MCL, CLL/small lymphocytic lymphoma, and FL. The designation may provide 10 years of market exclusivity in Europe, but is subject to certain limited exceptions. Even though we have obtained orphan drug designation for KTE-C19 for certain indications, we may be unable to obtain orphan drug designation for our future product candidates and we may not be the first to obtain marketing approval for any particular orphan indication.

KTE-C19 has received breakthrough therapy designation in the United States for the treatment of refractory DLBCL, PMBCL and TFL and was granted access to Priority Medicines regulatory support in the European Union for the treatment of refractory DLBCL, but there can be no assurance that such designations will result in expedited review or approval.

Breakthrough therapy designation is granted by the FDA and is intended to expedite the development and review of products that treat serious or life-threatening conditions. Access to the Priority Medicines, or PRIME, initiative is granted by the European Medicines Agency, or EMA, to support the development and accelerate the review of new therapies to treat patients with unmet medical need.

We have received breakthrough therapy designation for KTE-C19 for the treatment of refractory DLBCL, PMBCL and TFL and received access to PRIME for the treatment of refractory DLBCL, but there can be no assurance that such designations will result in expedited review or approval. The FDA may also rescind the breakthrough therapy designation for KTE-C19 if subsequent data no longer support the designation. Breakthrough therapy designation and access to PRIME does not change the standards for product approval. While we intend to seek breakthrough therapy designation and access to PRIME for other product candidates, we may never receive such designations.

Our product candidates may not achieve commercialization and our commercial opportunity may be limited.

In addition to KTE-C19, we have developed a broad pipeline of product candidates, including additional TCR- and CAR-based product candidates. However, further development and obtaining regulatory approval for and commercializing additional product candidates will require substantial additional funding and are prone to the risks of failure inherent in medical product development. We cannot provide you any assurance that we will be able to successfully advance any of these additional product candidates through the development process.

Even if we receive FDA approval to market additional product candidates for the treatment of cancer, we cannot assure you that any such product candidates will be successfully commercialized, widely accepted in the marketplace or more effective than other commercially available alternatives. If we are unable to successfully develop and commercialize additional product candidates, our commercial opportunity will be limited. Moreover, a failure in obtaining regulatory approval of additional product candidates may have a negative effect on the approval process of any other, or result in losing approval of any approved, product candidate.

We operate our own clinical manufacturing facility and intend to operate our own commercial manufacturing facility, which will require significant resources and we may fail to successfully operate either or both facilities, which could adversely affect our clinical trials and the commercial viability of our product candidates.

We have not yet manufactured our product candidates on a commercial scale, and may not be able to achieve commercial manufacturing and cell processing on our own, including on a patient-by-patient basis, to satisfy demands for any of our product candidates. While we believe the manufacturing and processing approaches are appropriate to support our clinical product development, we have limited experience in managing the T cell engineering process, and our processes may be more difficult or more expensive than the approaches taken by our competitors. We cannot be sure that the manufacturing processes employed by us will result in T cells that will be safe and effective, or have the same clinical properties as those used in any NCI-based T cell therapy.

We have leased approximately 18,000 square feet near our headquarters in Santa Monica, California, which we use as our primary clinical manufacturing facility and have also leased approximately 43,500 square feet in El Segundo, California to develop our commercial manufacturing facility. We are currently operating our clinical manufacturing facility, but our operations remain subject to review and oversight by the FDA and the FDA could object to our use of our clinical manufacturing facility. While we have completed construction of our commercial manufacturing facility, we must receive approval from the FDA prior to licensure to manufacture our product candidates, which we may never obtain. Even if approved, we would be subject to ongoing periodic unannounced inspection by the FDA, the Drug Enforcement Administration and corresponding state agencies to ensure strict compliance with current good manufacturing practices, or cGMPs, and other government regulations. Our license to manufacture product candidates will be subject to continued regulatory review.

Our cost of goods development is at an early stage. The actual cost to manufacture and process our product candidates could be greater than we expect and could materially and adversely affect the commercial viability of our product candidates.

The manufacture of medical products is complex and requires significant expertise, including the development of advanced manufacturing techniques and process controls. Manufacturers of cell therapy products often encounter difficulties in production, particularly in scaling out and validating initial production and ensuring the absence of contamination. These problems include difficulties with production costs and yields, quality control, including stability of the product, quality assurance testing, operator error, shortages of qualified personnel, as well as compliance with strictly enforced federal, state and foreign regulations. Furthermore, if contaminants are discovered in our supply of product candidates or in the manufacturing facilities, such manufacturing facilities may need to be closed for an extended period of time to investigate and remedy the contamination. We cannot assure you that any stability or other issues relating to the manufacture of our product candidates will not occur in the future.

We may fail to manage the logistics of collecting and shipping patient material to the manufacturing site and shipping the product candidate back to the patient. Logistical and shipment delays and problems caused by us, our vendors or other factors not in our control, such as weather, could prevent or delay the delivery of product candidates to patients. Additionally, we have to maintain a complex chain of identity and chain of custody with respect to patient material as it moves to the manufacturing facility, through the manufacturing process, and back to the patient. Failure to maintain chain of identity and chain of custody could result in patient death, loss of product or regulatory action.

We may also experience manufacturing difficulties due to resource constraints or as a result of labor disputes. If we were to encounter any of these difficulties, our ability to provide our product candidates to patients would be jeopardized.

We are partly reliant on the National Cancer Institute for research and development and early clinical testing of certain of our product candidates.*

A portion of our research and development has been conducted by the NCI under the CRADA entered into in August 2012. In January 2016 and June 2016, we entered into additional CRADAs for the research and clinical development of additional engineered T cell therapies, including a fully human CAR-based therapy directed against the CD19 antigen for the treatment of B cell lymphomas and leukemias and TCR-based therapies directed against the HPV-16 E7 oncoprotein and in combination with a checkpoint inhibitor in HPV-16 associated solid tumors.

The NCI, with Dr. Steven A. Rosenberg as the principal investigator, is responsible for conducting multiple clinical trials of engineered T cell therapy targeting various antigens in small numbers of patients under the 2012 CRADA. In April 2016, the National Institutes of Health, or NIH, announced that it had initiated an evaluation of all of its facilities producing sterile or infused products for administration to research participants. Preliminary findings identified the NCI cell therapy laboratory that makes products for the clinical trials under the 2012 CRADA as not in compliance with quality and safety standards, and not suitable for the production of sterile or infused products. According to the NIH, there is no evidence that any patients have been harmed, but a rigorous clinical review is being undertaken. The NCI has begun the screening and enrollment of new patients in affected trials.

While we expect to have the NCI, with Drs. James N. Kochenderfer and Christian Hinrichs as principal investigators, conduct additional clinical trials under the 2016 CRADAs that are unaffected by the NIH facility evaluation, we have limited control over the nature or timing of the NCI's clinical trials and limited visibility into their day-to-day activities, including with respect to how they are providing and administering T cell therapy. For example, the research we are funding constitutes only a small portion of the NCI's overall research. Additionally, other research being conducted by Dr. Rosenberg, Dr. Kochenderfer or Dr. Hinrichs may at times receive higher priority than research on our programs.

We are dependent on the NIH for licensing intellectual property rights to certain future product candidates.*

Under each CRADA, we have an exclusive option to negotiate commercial licenses from the NIH to intellectual property relating to CAR- and TCR-based product candidates developed in the course of the CRADA research plan. However, we would have to negotiate with the NIH for such a license. There can be no assurance that we would be able to successfully complete such negotiations and ultimately acquire the rights to the intellectual property surrounding the additional product candidates that we may seek to acquire. Further, to the extent we would like to negotiate a license to a patent filed before the relevant CRADA was entered into, another party may object to the NIH granting us a license during a 15-day public notification period, and the NIH may decide not to grant us the license.

Though each CRADA has a five-year term, the NIH review of NCI manufacturing facilities has not reached a final resolution and the NCI may unilaterally terminate any of the CRADAs at any time for any reason or for no reason upon at least 60 days prior written notice. We are also in the process of negotiating new agreements with the NCI to cover similar research programs as the 2012 CRADA, which we may be unable to complete prior to the 2012 CRADA expiration on August 30, 2017 or at all. If the NCI unilaterally terminates one or both of the 2016 CRADAs or the 2012 CRADA lapses without any extension, part or all of the research and development of engineered autologous cell therapy would be suspended, and we may be unable to research, develop and license future product candidates.

A variety of risks associated with conducting research and clinical trials abroad and marketing our product candidates internationally could materially adversely affect our business.*

We initiated a clinical program for KTE-C19 in Europe in the first half of 2017 and ultimately plan to seek regulatory approval of our product candidates outside of the United States. Accordingly, we expect that we will be subject to additional risks related to operating in foreign countries, including:

- differing regulatory requirements in foreign countries;
- unexpected changes in tariffs, trade barriers, price and exchange controls and other regulatory requirements;
- increased difficulties in managing the logistics and transportation of collecting and shipping patient material to a manufacturing site in the United States and shipping the product candidate back to the patient abroad;
- import and export requirements and restrictions;
- economic weakness, including inflation, or political instability in particular foreign economies and markets;
- compliance with tax, employment, immigration and labor laws for employees living or traveling abroad;
- foreign taxes, including withholding of payroll taxes;
- foreign currency fluctuations, which could result in increased operating expenses and reduced revenue, and other obligations incident to doing business in another country;
- difficulties staffing and managing foreign operations;
- workforce uncertainty in countries where labor unrest is more common than in the United States;
- differing payor reimbursement regimes, governmental payors or patient self-pay systems, and price controls;
- potential liability under the Foreign Corrupt Practices Act of 1977 or comparable foreign regulations;
- challenges enforcing our contractual and intellectual property rights, especially in those foreign countries that do not respect and protect intellectual property rights to the same extent as the United States;
- production shortages resulting from any events affecting raw material supply or manufacturing capabilities abroad; and
- business interruptions resulting from geo-political actions, including war and terrorism.

These and other risks associated with our international operations, including the operations of our European subsidiaries and of our joint venture in China with Shanghai Fosun Pharmaceutical Industrial Development Co., Ltd., or Fosun Pharma, may materially adversely affect our ability to attain or maintain profitable operations.

We face significant competition from other biotechnology and pharmaceutical companies, and our operating results will suffer if we fail to compete effectively.*

The biopharmaceutical industry is characterized by intense competition and rapid innovation. Our competitors may be able to develop other compounds or drugs that are able to achieve similar or better results. Our potential competitors include major multinational pharmaceutical companies, established biotechnology companies, specialty pharmaceutical companies and universities and other research institutions. Many of our competitors have substantially greater financial, technical and other resources, such as larger research and development staff and experienced marketing and manufacturing organizations and well-established sales forces. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large, established companies. Mergers and acquisitions in the biotechnology and pharmaceutical industries may result in even more resources being concentrated in our competitors. Competition may increase further as a result of advances in the commercial applicability of technologies and greater availability of capital for investment in these industries. Our competitors, either alone or with collaborative partners, may succeed in developing, acquiring or licensing on an exclusive basis drug or biologic products that are more effective, safer, more easily commercialized or less costly than our product candidates or may develop proprietary technologies or secure patent protection that we may need for the development of our technologies and products. We believe the key competitive factors that will affect the development and commercial success of our product candidates are efficacy, safety, tolerability, reliability, convenience of use, price and reimbursement.

Specifically, engineered T cells faces significant competition in both the CAR and TCR technology space from multiple companies. Even if we obtain regulatory approval of our product candidates, the availability and price of our competitors' products could limit the demand and the price we are able to charge for our product candidates. We may not be able to implement our business plan if the acceptance of our product candidates is inhibited by price competition or the reluctance of physicians to switch from existing methods of treatment to our product candidates, or if physicians switch to other new drug or biologic products or choose to reserve our product candidates for use in limited circumstances. For additional information regarding our competition, see "Item 1. Business-Competition" in our Annual Report.

We are highly dependent on our key personnel, and if we are not successful in attracting and retaining highly qualified personnel, we may not be able to successfully implement our business strategy.

Our ability to compete in the highly competitive biotechnology and pharmaceutical industries depends upon our ability to attract and retain highly qualified managerial, scientific and medical personnel. We are highly dependent on our management, scientific and medical personnel, including our President and Chief Executive Officer, our Executive Vice President of Research & Development and Chief Medical Officer, our Chief Operating Officer, our Chief Commercial Officer, our Executive Vice President of Technical Operations and our Chief Financial Officer. The loss of the services of any of our executive officers, other key employees, and other scientific and medical advisors, and our inability to find suitable replacements could result in delays in product development and harm our business. Our strong relationship with the NCI is bolstered by our President and Chief Executive Officer's relationship with Dr. Rosenberg of the NCI. If we lose our President and Chief Executive Officer or if Dr. Rosenberg leaves the NCI, our relationship with the NCI may deteriorate and our business could be harmed. We conduct substantially all of our operations at our facilities in Southern California. This region is headquarters to many other biopharmaceutical companies and many academic and research institutions. Competition for skilled personnel in our market is intense and may limit our ability to hire and retain highly qualified personnel on acceptable terms or at all.

To induce valuable employees to remain at our company, in addition to salary and cash incentives, we have provided stock options and restricted stock units, or RSUs, that vest over time. The value to employees of stock options or RSUs that vest over time may be significantly affected by movements in our stock price that are beyond our control, and may at any time be insufficient to counteract more lucrative offers from other companies. Despite our efforts to retain valuable employees, members of our management, scientific and development teams may terminate their employment with us on short notice. Although we have employment agreements with our key employees, these employment agreements provide for at-will employment, which means that any of our employees could leave our employment at any time, with or without notice. We do not maintain "key man" insurance policies on the lives of these individuals or the lives of any of our other employees. Our success also depends on our ability to continue to attract, retain and motivate highly skilled junior, mid-level and senior managers as well as junior, mid-level and senior scientific and medical personnel.

We have grown rapidly and will need to continue to grow the size of our organization, and we may experience difficulties in managing this growth.

As our development and commercialization plans and strategies develop, and as we continue to transition into operating as a public company, we have rapidly expanded our employee base and expect to continue to add managerial, operational, sales, research and development, marketing, financial and other personnel. Current and future growth imposes significant added responsibilities on members of management, including:

- identifying, recruiting, integrating, maintaining and motivating additional employees;
- managing our internal development efforts effectively, including the clinical and FDA review process for our product candidates, while complying with our contractual obligations to contractors and other third parties; and
- improving our operational, financial and management controls, reporting systems and procedures.

Our future financial performance and our ability to commercialize our product candidates will depend, in part, on our ability to effectively manage our growth, and our management may also have to divert a disproportionate amount of its attention away from day-to-day activities in order to devote a substantial amount of time to managing these growth activities.

We currently rely, and for the foreseeable future will continue to rely, in substantial part on certain independent organizations, advisors and consultants to provide certain services, including substantial aspects of regulatory approval, clinical management, manufacturing and preparation for potential commercial launch. There can be no assurance that the services of independent organizations, advisors and consultants will continue to be available to us on a timely basis when needed, or that we can find qualified replacements. In addition, if we are unable to effectively manage our outsourced activities or if the quality or accuracy of the services provided by consultants is compromised for any reason, our clinical trials may be extended, delayed or terminated, and we may not be able to obtain regulatory approval of our product candidates or otherwise advance our business. There can be no assurance that we will be able to manage our existing consultants or find other competent outside contractors and consultants on economically reasonable terms, or at all.

If we are not able to effectively expand our organization by hiring new employees and expanding our groups of consultants and contractors, we may not be able to successfully implement the tasks necessary to further develop and commercialize our product candidates and, accordingly, may not achieve our research, development and commercialization goals.

We may form or seek strategic alliances or enter into additional licensing arrangements in the future, and we may not realize the benefits of such alliances or licensing arrangements.

We may form or seek strategic alliances, create joint ventures or collaborations or enter into additional licensing arrangements with third parties that we believe will complement or augment our development and commercialization efforts with respect to our product candidates and any future product candidates that we may develop. Any of these relationships may require us to incur non-recurring and other charges, increase our near and long-term expenditures, issue securities that dilute our existing stockholders or disrupt our management and business. In addition, we face significant competition in seeking appropriate strategic partners and the negotiation process is time-consuming and complex. Moreover, we may not be successful in our efforts to establish a strategic partnership or other alternative arrangements for our product candidates because they may be deemed to be at too early of a stage of development for collaborative effort and third parties may not view our product candidates as having the requisite potential to demonstrate safety and efficacy. Any delays in entering into new strategic partnership agreements related to our product candidates could delay the development and commercialization of our product candidates in certain geographies for certain indications, which would harm our business prospects, financial condition and results of operations.

If we license products or businesses, we may not be able to realize the benefit of such transactions if we are unable to successfully integrate them with our existing operations and company culture. For instance, our research collaboration with Amgen Inc., our collaboration with bluebird bio, Inc., our license and research agreement with Alpine Immune Sciences, Inc. and our research collaboration and license agreement with Cell Design Labs, Inc. all require significant research and development commitments that may not result in the development and commercialization of additional product candidates. In addition, our collaboration with GE Global Research may not result in automation technologies that improve engineered T cell manufacturing. We cannot be certain that, following a strategic transaction or license, we will achieve the results, revenue or specific net income that justifies such transaction.

We may not realize the benefits of acquisitions or other strategic transactions.*

We acquired T-Cell Factory B.V., or TCF, on March 17, 2015 and renamed the acquired company Kite Pharma EU B.V. On January 10, 2017, KP EU C.V., our wholly owned indirect subsidiary, entered into a cooperative joint venture agreement with Fosun Pharma for the purpose of developing, manufacturing and commercializing KTE-C19 in the mainland of the People's Republic of China, the Hong Kong Special Administration Region and the Macau Special Administration Region. On January 5, 2017, Kite Pharma EU B.V. entered into a Collaboration and License Agreement with Daiichi Sankyo Company, Limited, or Daiichi Sankyo, pursuant to which we have granted to Daiichi Sankyo an exclusive license to develop and commercialize KTE-C19 in Japan.

We actively evaluate various strategic transactions on an ongoing basis. We may acquire other businesses, products or technologies as well as pursue joint ventures or investments in complementary businesses. The success of our strategic transactions, including our acquisition of TCF and partnerships with Fosun Pharma and Daiichi Sankyo, and any future strategic transactions depends on the risks and uncertainties involved including:

- unanticipated liabilities related to acquired companies or joint ventures;
- difficulties integrating acquired personnel, technologies and operations into our existing business;
- retention of key employees;
- diversion of management time and focus from operating our business to management of strategic alliances or joint ventures or acquisition integration challenges;
- increases in our expenses and reductions in our cash available for operations and other uses;
- disruption in our relationships with collaborators or suppliers as a result of such a transaction; and
- possible write-offs or impairment charges relating to acquired businesses or joint ventures.

If any of these risks or uncertainties occur, we may not realize the anticipated benefit of any acquisition or strategic transaction. For example, TCF's TCR-GENErator technology platform may fail to identify TCR-based product candidates that are safe and effective, or at all. Additionally, foreign acquisitions and joint ventures are subject to additional risks, including those related to integration of operations across different cultures and languages, currency risks, potentially adverse tax consequences of overseas operations and the particular economic, political and regulatory risks associated with specific countries. For instance, we owe significant milestone payments to the sellers of TCF in euros, rather than dollars, and we have not hedged these payments.

In addition, any payments due to us from our joint venture with Fosun Pharma may be restricted due to governmental or other regulatory controls. We may also face difficulties or be unable to successfully transfer our manufacturing process to China and Japan, which would prevent any development or commercialization of KTE-C19 in China and Japan.

Future acquisitions or dispositions could result in potentially dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization expenses or write-offs of goodwill, any of which could harm our financial condition.

If we fail to obtain additional financing, we may be unable to complete the development and commercialization of our product candidates.*

Our operations have consumed substantial amounts of cash since inception. We expect to continue to spend substantial amounts to continue the clinical development of our product candidates, including KTE-C19. If approved, we may require significant additional amounts in order to launch and commercialize our product candidates.

Changing circumstances may cause us to consume capital significantly faster than we currently anticipate, and we may need to spend more money than currently expected because of circumstances beyond our control. We may require additional capital for the further development and commercialization of our product candidates, including funding our internal manufacturing capabilities and Kite Pharma EU B.V. or our joint venture with Fosun Pharma and may need to raise additional funds sooner if we choose to expand more rapidly than we presently anticipate.

We cannot be certain that additional funding will be available on acceptable terms, or at all. We have no committed source of additional capital and if we are unable to raise additional capital in sufficient amounts or on terms acceptable to us, we may have to significantly delay, scale back or discontinue the development or commercialization of our product candidates or other research and development initiatives. Our license agreements and CRADAs may also be terminated if we are unable to meet the payment obligations under the agreements. We could be required to seek collaborators for our product candidates at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available or relinquish or license on unfavorable terms our rights to our product candidates in markets where we otherwise would seek to pursue development or commercialization ourselves.

Any of the above events could significantly harm our business, prospects, financial condition and results of operations and cause the price of our common stock to decline.

Raising additional capital may cause dilution to our existing stockholders, restrict our operations or require us to relinquish rights to our technologies or product candidates.

We may seek additional capital through a combination of public and private equity offerings, debt financings, strategic partnerships and alliances and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms may include liquidation or other preferences that adversely affect your rights as a stockholder. The incurrence of indebtedness would result in increased fixed payment obligations and could involve certain restrictive covenants, such as limitations on our ability to incur additional debt, limitations on our ability to acquire or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. If we raise additional funds through strategic partnerships and alliances and licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies or product candidates, or grant licenses on terms unfavorable to us.

Our internal computer systems, or those used by our CROs or other contractors or consultants, may fail or suffer security breaches.

Despite the implementation of security measures, our internal computer systems, our Kite Konnect technology platform and the systems of our CROs, contractors and consultants are vulnerable to damage from computer viruses and unauthorized access. While we have not experienced any such material system failure or security breach to date, if such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our development programs and our business operations. For example, the loss of clinical trial data from completed or future clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. A failure in the Kite Konnect platform, or any of the associated IT platform solutions, could also result in the loss of product or regulatory action. Likewise, we partly rely on NCI for research and development of our product candidates and other third parties to conduct clinical trials, and similar events relating to their computer systems could also have a material adverse effect on our business. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the further development and commercialization of our product candidates could be delayed.

Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.

Our operations, and those of our CROs and other contractors and consultants, could be subject to earthquakes, power shortages, telecommunications failures, water shortages, floods, hurricanes, typhoons, fires, extreme weather conditions, medical epidemics and other natural or man-made disasters or business interruptions, for which we are predominantly self-insured. The occurrence of any of these business disruptions could seriously harm our operations and financial condition and increase our costs and expenses. In addition, we are reliant on the NCI for conducting research and development of certain of our product candidates. The NCI has been affected by the NIH evaluation of its manufacturing facilities, which is delaying clinical trials of early-stage product candidates under our 2012 CRADA, and the NCI may be further affected by government shutdowns or withdrawn funding.

Our ability to manufacture our product candidates could be disrupted if our operations or those of our suppliers are affected by a man-made or natural disaster or other business interruption. Our corporate headquarters, the location of our manufacturer of the viral vector that delivers the CAR gene, and our clinical and commercial manufacturing facilities are located in California near major earthquake faults and fire zones. The ultimate impact on us, our significant suppliers and our general infrastructure of being located near major earthquake faults and fire zones and being consolidated in certain geographical areas is unknown, but our operations and financial condition could suffer in the event of a major earthquake, fire or other natural disaster.

Our employees, independent contractors, consultants, commercial partners and vendors may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements, or our business may be found to be not compliant with regulatory standards requirements.

We are exposed to the risk of employee fraud or other illegal activity by our employees, independent contractors, consultants, commercial partners and vendors. Misconduct by these parties could include intentional, reckless and/or negligent conduct that fails to: comply with the laws of the FDA and other similar foreign regulatory bodies, provide true, complete and accurate information to the FDA and other similar foreign regulatory bodies, comply with manufacturing standards we have established, comply with healthcare fraud and abuse laws in the United States and similar foreign fraudulent misconduct laws, or report

financial information or data accurately or to disclose unauthorized activities to us. Similarly, our business could be found to be noncompliant with healthcare regulatory requirements. If we obtain FDA approval of any of our product candidates and begin commercializing those products in the United States, our potential exposure under such laws will increase significantly, and our costs associated with compliance with such laws are also likely to increase. These laws may impact, among other things, our current activities with principal investigators and research patients, as well as proposed and future sales, marketing and education programs. In particular, the promotion, sales and marketing of healthcare items and services, as well as certain business arrangements in the healthcare industry, are subject to extensive laws designed to prevent fraud, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, structuring and commission(s), certain customer incentive programs and other business arrangements generally. Activities subject to these laws also involve the improper use of information obtained in the course of patient recruitment for clinical trials. The healthcare laws and regulations that may affect our ability to operate include, but are not limited to:

- the federal Anti-Kickback Statute, which prohibits, among other things, any person or entity from knowingly and willfully, offering, paying, soliciting or receiving any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, to induce, or in return for, the purchasing, leasing, ordering or arranging for the purchase, lease, or order of any item or service reimbursable under Medicare, Medicaid or other federal healthcare programs;
- federal civil and criminal false claims laws and civil monetary penalty laws, including the federal civil False Claims Act, which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment or approval from Medicare, Medicaid, or other federal government programs that are false or fraudulent or knowingly making a false statement to improperly avoid, decrease or conceal an obligation to pay money to the federal government;
- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which created new federal criminal statutes that prohibit knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program or obtain, by means of false or fraudulent pretenses, representations, or promises, any of the money or property owned by, or under the custody or control of, any healthcare benefit program, including private third-party payors and knowingly and willfully falsifying, concealing or covering up by any trick, scheme or device, a material fact or making any materially false, fictitious or fraudulent statements in connection with the delivery of, or payment for, healthcare benefits, items or services;
- HIPAA, as amended by HITECH and their respective implementing regulations, which impose requirements on certain covered healthcare providers, health plans, and healthcare clearinghouses as well as their respective business associates that perform services for them that involve the use, or disclosure of, individually identifiable health information, relating to the privacy, security and transmission of individually identifiable health information without appropriate authorization;
- the federal Physician Payment Sunshine Act, created under the Patient Protection and Affordable Care Act, as amended by the Health Care Education Reconciliation Act, which we refer to collectively as the Affordable Care Act, and its implementing regulations, which require certain manufacturers of drugs, devices, biologicals and medical supplies for which payment is available under Medicare, Medicaid or the Children's Health Insurance Program (with certain exceptions) to report annually to the United States Department of Health and Human Services' Centers for Medicare & Medicaid Services, or CMS, information related to payments or other transfers of value made to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, as well as ownership and investment interests held by physicians and their immediate family members; and
- federal consumer protection and unfair competition laws, which broadly regulate marketplace activities and activities that potentially harm consumers.

Additionally, we may be subject to state and foreign equivalents of each of the healthcare laws described above, among others, some of which may be broader in scope. For example, we may be subject to the following: state anti-kickback and false claims laws that may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third party payors, including private insurers; state laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government; state laws that require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures; and state and foreign laws governing the privacy and security of health information in some circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

We have adopted a code of business conduct and ethics, but it is not always possible to identify and deter employee misconduct or business noncompliance, and the precautions we take to detect and prevent inappropriate conduct may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. Efforts to ensure that our business

arrangements will comply with applicable healthcare laws may involve substantial costs. It is possible that governmental and enforcement authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law interpreting applicable fraud and abuse or other healthcare laws and regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of civil, criminal and administrative penalties, damages, disgorgement, monetary fines, possible exclusion from participation in Medicare, Medicaid and other federal healthcare programs, contractual damages, reputational harm, diminished profits and future earnings, additional reporting requirements and/or oversight if we become subject to a corporate integrity agreement or similar agreement to resolve allegations of non-compliance with these laws, and curtailment of our operations, any of which could adversely affect our ability to operate our business and our results of operations. In addition, the approval and commercialization of any of our product candidates outside the United States will also likely subject us to foreign equivalents of the healthcare laws mentioned above, among other foreign laws.

If product liability lawsuits are brought against us, we may incur substantial liabilities and may be required to limit commercialization of our product candidates.

We face an inherent risk of product liability as a result of the clinical testing of our product candidates and will face an even greater risk if we commercialize any products. For example, we may be sued if our product candidates cause or are perceived to cause injury or are found to be otherwise unsuitable during clinical testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the product, negligence, strict liability or a breach of warranties. Claims could also be asserted under state consumer protection acts. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our product candidates. Even successful defense would require significant financial and management resources. Regardless of the merits or eventual outcome, liability claims may result in:

- decreased demand for our product candidates;
- injury to our reputation;
- withdrawal of clinical trial participants;
- initiation of investigations by regulators;
- costs to defend the related litigation;
- a diversion of management’s time and our resources;
- substantial monetary awards to trial participants or patients;
- product recalls, withdrawals or labeling, marketing or promotional restrictions;
- loss of revenue;
- exhaustion of any available insurance and our capital resources;
- the inability to commercialize any product candidate; and
- a decline in our share price.

Our inability to obtain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of products we develop, alone or with corporate collaborators. Our insurance policies may also have various exclusions, and we may be subject to a product liability claim for which we have no coverage. While we have obtained clinical trial insurance for our clinical trials of KTE-C19, we may have to pay amounts awarded by a court or negotiated in a settlement that exceed our coverage limitations or that are not covered by our insurance, and we may not have, or be able to obtain, sufficient capital to pay such amounts. Even if our agreements with any future corporate collaborators entitle us to indemnification against losses, such indemnification may not be available or adequate should any claim arise.

Our ability to utilize our net operating loss carryforwards and certain other tax attributes will be limited.

Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an “ownership change” (generally defined as a greater than 50% change (by value) in its equity ownership over a three-year period), the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income may be limited. As of December 31, 2016, we have U.S. and state net operating loss carryforwards of approximately $167.5 million and $468.6 million, respectively. As a result of our private placements, we triggered two “ownership changes”. The ownership change resulted in a limitation in utilization of pre-change attributes. We may also experience ownership changes in the future as a result of subsequent shifts in our stock ownership. Accordingly, if we earn net taxable income, our ability to use our pre-change net operating loss carryforwards to offset U.S. federal and state taxable income may be subject to limitations, which will result in increased future tax liability to us.

Unstable market and economic conditions may have serious adverse consequences on our business, financial condition and stock price.*

As widely reported, global credit and financial markets have experienced extreme volatility and disruptions in the past several years, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. There can be no assurance that further deterioration in credit and financial markets and confidence in economic conditions will not occur. Our general business strategy may be adversely affected by any such economic downturn, volatile business environment or continued unpredictable and unstable market conditions. If the current equity and credit markets deteriorate, or do not improve, it may make any necessary debt or equity financing more difficult, more costly, and more dilutive. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our growth strategy, financial performance and stock price and could require us to delay or abandon clinical development plans. In addition, there is a risk that one or more of our current service providers, manufacturers and other partners may not survive these difficult economic times, which could directly affect our ability to attain our operating goals on schedule and on budget.

At June 30, 2017, we had approximately $147.8 million of cash and cash equivalents and $633.3 million of marketable securities. While we are not aware of any downgrades, material losses or other significant deterioration in the fair value of our cash equivalents and marketable securities since June 30, 2017, no assurance can be given that further deterioration of the global credit and financial markets would not negatively impact our current portfolio of cash equivalents and marketable securities or our ability to meet our financing objectives. Furthermore, our stock price may decline due in part to the volatility of the stock market and the general economic downturn.

Risks Related to Our Reliance on Third Parties

We are partly relying on third parties to assist in preparing for commercial launch and to commercialize KTE-C19, if approved.

We are partly relying on key collaborators to prepare for commercial launch and for the successful marketing and delivery of KTE-C19, if approved. In particular, we are relying on technology partners to assist in the development of the Kite Konnect technology platform. This platform is critical to ensure positive prescriber and patient experience as well as chain of identity and chain of custody of the product. If the technology platform is incomplete or develops technological issues, we may be unable to launch KTE-C19 or have to suspend sales post-launch.

In addition, we expect to rely on apheresis sites, shippers, couriers, and hospitals for the logistical collection of patient white blood cells and ultimate delivery of KTE-C19 to patients. Any disruption or difficulties incurred by any of these vendors could result in product loss and regulatory action and significantly harm our business.

We rely and will rely on third parties to conduct our clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may not be able to obtain regulatory approval of or commercialize our product candidates.

We depend and will depend upon independent investigators and collaborators, such as universities, medical institutions, CROs and strategic partners to conduct our preclinical and clinical trials under agreements with us, including without limitation the NCI. We negotiate budgets and contracts with CROs and study sites, which may result in delays to our development timelines and increased costs. We will rely heavily on these third parties over the course of our clinical trials, and we control only certain aspects of their activities. Nevertheless, we are responsible for ensuring that each of our studies is conducted in accordance with applicable protocol, legal, regulatory and scientific standards, and our reliance on third parties does not relieve us of our regulatory responsibilities. We and these third parties are required to comply with current good clinical practices, or cGCPs, which are regulations and guidelines enforced by the FDA and comparable foreign regulatory authorities for product candidates in clinical development. Regulatory authorities enforce these cGCPs through periodic inspections of trial sponsors, principal investigators and trial sites. If we or any of these third parties fail to comply with applicable cGCP regulations, the clinical data generated in our clinical trials may be deemed unreliable and the FDA or comparable foreign regulatory authorities may require us to perform additional clinical trials before approving our marketing applications. We cannot assure you that, upon inspection, such regulatory authorities will determine that any of our clinical trials comply with the cGCP regulations. In addition, our clinical trials must be conducted with biologic product produced under cGMPs and will require a large number of test patients. Our failure or any failure by these third parties to comply with these regulations or to recruit a sufficient number of patients may require us to repeat clinical trials, which would delay the regulatory approval process. Moreover, our business may be implicated if any of these third parties violates federal or state fraud and abuse or false claims laws and regulations or healthcare privacy and security laws.

Any third parties conducting our clinical trials are and will not be our employees and, except for remedies available to us under our agreements with such third parties, we cannot control whether or not they devote sufficient time and resources to our ongoing preclinical, clinical and nonclinical programs. These third parties may also have relationships with other commercial entities, including our competitors, for whom they may also be conducting clinical studies or other drug development activities, which could affect their performance on our behalf. If these third parties do not successfully carry out their contractual duties or obligations or meet expected deadlines, if they need to be replaced or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical protocols or regulatory requirements or for other reasons, our clinical trials may be extended, delayed or terminated and we may not be able to complete development of, obtain regulatory approval of or successfully commercialize our product candidates. As a result, our financial results and the commercial prospects for our product candidates would be harmed, our costs could increase and our ability to generate revenue could be delayed.

Switching or adding third parties to conduct our clinical trials involves substantial cost and requires extensive management time and focus. In addition, there is a natural transition period when a new third party commences work. As a result, delays occur, which can materially impact our ability to meet our desired clinical development timelines.

We may rely on third parties to manufacture our clinical product supplies, and we may have to rely on third parties to produce and process our product candidates, if approved.

If we are unable to develop or obtain regulatory approval of our own commercial manufacturing facility for any commercial product supplies or engage any future third-party manufacturer, we are exposed to the following risks:

- We may be unable to identify manufacturers on acceptable terms or at all because the number of potential manufacturers is limited and the FDA may have questions regarding any replacement contractor. This may require new testing and regulatory interactions. In addition, a new manufacturer would have to be educated in, or develop substantially equivalent processes for, production of our products after receipt of FDA questions, if any.
- Our third-party manufacturers might be unable to timely formulate and manufacture our product or produce the quantity and quality required to meet our clinical and commercial needs, if any.
- Contract manufacturers may not be able to execute our manufacturing procedures appropriately.
- Our future contract manufacturers may not perform as agreed or may not remain in the contract manufacturing business for the time required to supply our clinical trials or to successfully produce, store and distribute our products.
- Manufacturers are subject to ongoing periodic unannounced inspection by the FDA, the Drug Enforcement Administration and corresponding state agencies to ensure strict compliance with cGMP and other government regulations and corresponding foreign standards. We do not have control over third-party manufacturers' compliance with these regulations and standards.
- We may not own, or may have to share, the intellectual property rights to any improvements made by our third-party manufacturers in the manufacturing process for our products.
- Our third-party manufacturers could breach or terminate their agreement with us.

Our contract manufacturers would also be subject to the same risks we face in developing our own manufacturing capabilities, as described above. Each of these risks could delay our clinical trials, the approval, if any of our product candidates by the FDA or the commercialization of our product candidates or result in higher costs or deprive us of potential product revenue. In addition, we will rely on third parties to perform release tests on our product candidates prior to delivery to patients. If these tests are not appropriately done and test data are not reliable, patients could be put at risk of serious harm. We also plan to rely on a contract manufacturer to assist with part of the manufacturing process for our clinical trials in Europe and any non-performance by such manufacturer will adversely affect our clinical trials in Europe.

Cell-based therapies rely on the availability of specialty raw materials, which may not be available to us on acceptable terms or at all.

Our product candidates require many specialty raw materials, including viral vectors that deliver the CAR or TCR sequence, some of which are manufactured by small companies with limited resources and experience to support a commercial product, and the suppliers may not be able to deliver raw materials to our specifications. In addition, those suppliers normally support blood-based hospital businesses and generally do not have the capacity to support commercial products manufactured under cGMP by biopharmaceutical firms. The suppliers may be ill-equipped to support our needs, especially in non-routine circumstances like an FDA inspection or medical crisis, such as widespread contamination. We also do not have contracts with many of these suppliers, and may not be able to contract with them on acceptable terms or at all. Accordingly, we may experience delays in receiving key raw materials to support clinical or commercial manufacturing.

In addition, some raw materials are currently available from a single supplier, or a small number of suppliers. We cannot be sure that these suppliers will remain in business, or that they will not be purchased by one of our competitors or another company that is not interested in continuing to produce these materials for our intended purpose.

If we or our third-party suppliers use hazardous and biological materials in a manner that causes injury or violates applicable law, we may be liable for damages.

Our research and development activities involve the controlled use of potentially hazardous substances, including chemical and biological materials. We and our suppliers are subject to federal, state and local laws and regulations in the United States governing the use, manufacture, storage, handling and disposal of medical and hazardous materials. Although we believe that we and our suppliers' procedures for using, handling, storing and disposing of these materials comply with legally prescribed standards, we and our suppliers cannot completely eliminate the risk of contamination or injury resulting from medical or hazardous materials. As a result of any such contamination or injury, we may incur liability or local, city, state or federal authorities may curtail the use of these materials and interrupt our business operations. In the event of an accident, we could be held liable for damages or penalized with fines, and the liability could exceed our resources. We do not have any insurance for liabilities arising from medical or hazardous materials. Compliance with applicable environmental laws and regulations is expensive, and current or future environmental regulations may impair our research, development and production efforts, which could harm our business, prospects, financial condition or results of operations.

Risks Related to Government Regulation

The FDA regulatory approval process is lengthy and time-consuming, and we may experience significant delays in the clinical development and regulatory approval of our product candidates.*

A BLA must include extensive preclinical and clinical data and supporting information to establish the product candidate's safety and effectiveness for each desired indication. The BLA must also include significant information regarding the chemistry, manufacturing and controls for the product, including with respect to chain of identity and chain of custody of the product. In March 2017, we completed our submission of the BLA for the approval of KTE-C19 as a treatment for patients with relapsed or refractory aggressive B-cell NHL, who are ineligible for ASCT. However, the FDA may require additional information.

We expect the novel nature of our product candidates to create further challenges in obtaining regulatory approval. For example, the FDA has limited experience with commercial development of T cell therapies for cancer. We also intend to obtain regulatory approval of future TCR-based product candidates regardless of cancer type or origin, which the FDA may have difficulty accepting if our clinical trials only involved cancers of certain origins. Accordingly, the regulatory approval pathway for our product candidates may be uncertain, complex, expensive and lengthy, and approval may not be obtained.

We may also experience delays in completing planned clinical trials for a variety of reasons, including delays related to:

- the availability of financial resources to commence and complete the planned trials;
- reaching agreement on acceptable terms with prospective CROs and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- obtaining approval at each clinical trial site by an independent institutional review board, or IRB;
- recruiting suitable patients to participate in a trial;
- having patients complete a trial, including having patients enrolled in clinical trials dropping out of the trial before the product candidate is manufactured and returned to the site, or return for post-treatment follow-up;
- clinical trial sites deviating from trial protocol or dropping out of a trial;
- adding new clinical trial sites; or
- manufacturing sufficient quantities of qualified materials under cGMPs and applying them on a patient by patient basis for use in clinical trials.

We could also encounter delays if physicians encounter unresolved ethical issues associated with enrolling patients in clinical trials of our product candidates in lieu of prescribing existing treatments that have established safety and efficacy profiles. Further, a clinical trial may be suspended or terminated by us, the IRBs for the institutions in which such trials are being conducted or by the FDA or other regulatory authorities due to a number of factors, including failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols, inspection of the clinical trial operations or trial site by the FDA or other regulatory authorities resulting in the imposition of a clinical hold, unforeseen safety issues or adverse side effects, failure to demonstrate a benefit from using a product candidate, changes in governmental regulations or administrative actions, lack of adequate funding to continue the clinical trial, or based on a recommendation by the Data Monitoring Committee. The FDA's review of our data of our ongoing clinical trials of KTE-C19 may, depending on the data, also result in

the delay, suspension or termination of one or more clinical trials of KTE-C19, which would also delay or prevent the initiation of our other planned clinical trials. If we experience termination of, or delays in the completion of, any clinical trial of our product candidates, the commercial prospects for our product candidates will be harmed, and our ability to generate product revenue will be delayed. In addition, any delays in completing our clinical trials will increase our costs, slow down our product development and approval process and jeopardize our ability to commence product sales and generate revenue. The NCI is also experiencing difficulties in completing ongoing clinical trials and conducting future clinical trials of product candidates due to the NIH facility evaluation.

Many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may ultimately lead to the denial of regulatory approval of our product candidates.

The FDA may disagree with our regulatory plan and we may fail to obtain regulatory approval of our product candidates.*

While we believe the primary analysis supports our BLA submission for approval of KTE-C19, the FDA may disagree or the FDA could require longer-term follow-up results, additional data from our clinical trial or additional information relating to GMP or GCP compliance and chain of identity and chain of custody that could delay or prevent FDA's approval of KTE-C19. The FDA may issue a complete response letter on the basis that the benefits of KTE-C19 do not outweigh its risks, or if there are data integrity or GMP or GCP compliance concerns. While the FDA is not convening a public advisory committee, the FDA's targeted action date remains unchanged and we may not receive approval at all.

In addition, the general approach for FDA approval of a new biologic or drug is dispositive data from two well-controlled, Phase 3 clinical studies of the relevant biologic or drug in the relevant patient population. Phase 3 clinical studies typically involve hundreds of patients, have significant costs and take years to complete. We believe our approval strategy is warranted given the limited alternatives for patients with aggressive NHL, but the FDA may ultimately require a Phase 3 clinical trial prior to approval, particularly since our product candidates represent a novel and personalized treatment. In addition, the standard of care may change with the approval of new products in the same indications that we are studying. This may result in the FDA or other regulatory agencies requesting additional studies to show that our product candidate is superior to the new products.

Our clinical trial results may also not support approval. In addition, our product candidates could fail to receive regulatory approval for many reasons, including the following:

- the FDA or comparable foreign regulatory authorities may disagree with the design or implementation of our clinical trials;
- we may be unable to demonstrate to the satisfaction of the FDA or comparable foreign regulatory authorities that our product candidates are safe and effective for any of their proposed indications;
- the results of clinical trials may not meet the level of statistical significance required by the FDA or comparable foreign regulatory authorities for approval, including due to the heterogeneity of patient populations;
- we may be unable to demonstrate that our product candidates' clinical and other benefits outweigh their safety risks;
- the FDA or comparable foreign regulatory authorities may disagree with our interpretation of data from preclinical studies or clinical trials;
- the data collected from clinical trials of our product candidates may not be sufficient to the satisfaction of the FDA or comparable foreign regulatory authorities to support the submission of a BLA or other comparable submission in foreign jurisdictions or to obtain regulatory approval in the United States or elsewhere;
- the FDA or comparable foreign regulatory authorities will inspect our commercial manufacturing facility and may not approve our facility; and
- the approval policies or regulations of the FDA or comparable foreign regulatory authorities may significantly change in a manner rendering our clinical data insufficient for approval.

The FDA may also approve an indication that is narrower than the indication we are seeking, such as limiting to the indication studied in ZUMA-1, or grant accelerated approval if the FDA believes our results do not support regular approval, which may require us to conduct a confirmatory study to verify the predicted clinical benefit and additional safety studies. The results from the confirmatory study may not support the clinical benefit, which would result in the approval being withdrawn. In addition, accelerated approval would require the pre-approval of promotional materials, which could adversely impact how we market and sell KTE-C19.

Obtaining and maintaining regulatory approval of our product candidates in one jurisdiction does not mean that we will be successful in obtaining regulatory approval of our product candidates in other jurisdictions.

Obtaining and maintaining regulatory approval of our product candidates in one jurisdiction does not guarantee that we will be able to obtain or maintain regulatory approval in any other jurisdiction, while a failure or delay in obtaining regulatory approval in one jurisdiction may have a negative effect on the regulatory approval process in others. For example, even if the FDA grants marketing approval of a product candidate, comparable regulatory authorities in foreign jurisdictions must also approve the manufacturing, marketing and promotion of the product candidate in those countries. Approval procedures vary among jurisdictions and can involve requirements and administrative review periods different from, and greater than, those in the United States, including additional preclinical studies or clinical trials as clinical studies conducted in one jurisdiction may not be accepted by regulatory authorities in other jurisdictions. In many jurisdictions outside the United States, a product candidate must be approved for reimbursement before it can be approved for sale in that jurisdiction. In some cases, the price that we intend to charge for our products is also subject to approval.

We may also submit marketing applications in other countries. Regulatory authorities in jurisdictions outside of the United States have requirements for approval of product candidates with which we must comply prior to marketing in those jurisdictions. Obtaining foreign regulatory approvals and compliance with foreign regulatory requirements could result in significant delays, difficulties and costs for us and could delay or prevent the introduction of our products in certain countries. If we fail to comply with the regulatory requirements in international markets and/or receive applicable marketing approvals, our target market will be reduced and our ability to realize the full market potential of our product candidates will be harmed.

Even if we receive regulatory approval of our product candidates, we will be subject to ongoing regulatory obligations and continued regulatory review, which may result in significant additional expense and we may be subject to penalties if we fail to comply with regulatory requirements or experience unanticipated problems with our product candidates.*

Any regulatory approvals that we receive for our product candidates will require surveillance to monitor the safety and efficacy of the product candidate. The FDA may also require a risk evaluation and mitigation strategy in order to approve our product candidates, which could entail requirements for a medication guide, physician communication plans or additional elements to ensure safe use, such as restricted distribution methods, patient registries and other risk minimization tools. In addition, if the FDA or a comparable foreign regulatory authority approves our product candidates, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion, import, export and recordkeeping for our product candidates will be subject to extensive and ongoing regulatory requirements. These requirements include submissions of safety and other post-marketing information and reports, registration, as well as continued compliance with cGMPs and cGCPs for any clinical trials that we conduct post-approval. In addition, the FDA could require us to conduct another study to obtain additional safety or biomarker information. Later discovery of previously unknown problems with our product candidates, including adverse events of unanticipated severity or frequency, or with our third-party suppliers or manufacturing processes, or failure to comply with regulatory requirements, may result in, among other things:

- restrictions on the marketing or manufacturing of our product candidates, withdrawal of the product from the market, or voluntary or mandatory product recalls;
- fines, warning letters or holds on clinical trials;
- refusal by the FDA to approve pending applications or supplements to approved applications filed by us or suspension or revocation of license approvals;
- product seizure or detention, or refusal to permit the import or export of our product candidates; and
- injunctions or the imposition of civil or criminal penalties.

The FDA's and other regulatory authorities' policies may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of our product candidates. We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action, either in the United States or abroad. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained and we may not achieve or sustain profitability.

Coverage and reimbursement may be limited or unavailable in certain market segments for our product candidates, which could make it difficult for us to sell our product candidates, if approved, profitably.

Successful sales of our product candidates, if approved, depend on the availability of coverage and adequate reimbursement from third-party payors. In addition, because our product candidates represent new approaches to the treatment of cancer, we cannot accurately estimate the potential revenue from our product candidates.

Patients who are provided medical treatment for their conditions generally rely on third-party payors to reimburse all or part of the costs associated with their treatment. Obtaining coverage and adequate reimbursement from governmental healthcare programs, such as Medicare and Medicaid, and commercial payors is critical to new product acceptance.

Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which drugs and treatments they will cover and the amount of reimbursement. Reimbursement by a third-party payor may depend upon a number of factors, including, but not limited to, the third-party payor's determination that use of a product is:

- a covered benefit under its health plan;
- safe, effective and medically necessary;
- appropriate for the specific patient;
- cost-effective; and
- neither experimental nor investigational.

Obtaining coverage and reimbursement approval of a product from a government or other third-party payor is a time-consuming and costly process that could require us to provide to the payor supporting scientific, clinical and cost-effectiveness data for the use of our products. Even if we obtain coverage for a given product, if the resulting reimbursement rates are deemed to be insufficient, hospitals may not approve our product for use in their facility or may require co-payments that patients find unacceptably high. Patients are unlikely to use our product candidates unless coverage is provided and reimbursement is adequate to cover a significant portion of the cost of our product candidates.

In the United States, no uniform policy of coverage and reimbursement for products exists among third-party payors. Therefore, coverage and reimbursement for products can differ significantly from payor to payor. As a result, the coverage determination process is often a time-consuming and costly process that will require us to provide scientific and clinical support for the use of our product candidates to each payor separately, with no assurance that coverage and adequate reimbursement will be obtained.

We intend to seek approval to market our product candidates in both the United States and in selected foreign jurisdictions. If we obtain approval in one or more foreign jurisdictions for our product candidates, we will be subject to rules and regulations in those jurisdictions. In some foreign countries, particularly those in Europe, the pricing of biologics is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after obtaining marketing approval of a product candidate. In addition, market acceptance and sales of our product candidates will depend significantly on the availability of coverage and adequate reimbursement from third-party payors for our product candidates and may be affected by existing and future health care reform measures.

The advancement of healthcare reform may negatively impact our ability to sell our product candidates, if approved, profitably.*

Third-party payors, whether domestic or foreign, or governmental or commercial, are developing increasingly sophisticated methods of controlling healthcare costs. In both the United States and certain foreign jurisdictions, there have been a number of legislative and regulatory changes to the health care system that could impact our ability to sell our product candidates, if approved, profitably. In particular, in 2010 the Affordable Care Act was enacted. The Affordable Care Act and its implementing regulations, among other things, revised the methodology by which rebates owed by manufacturers to the state and federal government for covered outpatient drugs and certain biologics, including our product candidates, under the Medicaid drug rebate program are calculated, increased the minimum Medicaid rebates owed by most manufacturers under the Medicaid drug rebate program, extended the Medicaid drug rebate program to utilization of prescriptions of individuals enrolled in Medicaid managed care organizations, subjected manufacturers to new annual fees and taxes for certain branded prescription drugs, and provided incentives to programs that increase the federal government's comparative effectiveness research. Additionally, the Affordable Care Act expanded eligibility criteria for Medicaid programs, imposed a new Medicare Part D coverage gap discount program, expanded the entities eligible for discounts under the Public Health Service pharmaceutical pricing program, and implemented a new Patient-Centered Outcomes Research Institute. We are still unsure of the full impact that the Affordable Care Act will have on our business.

Further, since its enactment, there have been judicial and Congressional challenges to numerous provisions of the Affordable Care Act. In January, Congress voted to adopt a budget resolution for fiscal year 2017, or the Budget Resolution, that authorizes the implementation of legislation that would repeal portions of the Affordable Care Act. The Budget Resolution is not a law, but it is widely viewed as the first step toward the passage of legislation that would repeal certain aspects of the Affordable Care Act. Further, on January 20, 2017, President Trump signed an Executive Order directing federal agencies with

authorities and responsibilities under the Affordable Care Act to waive, defer, grant exemptions from, or delay the implementation of any provision of the Affordable Care Act that would impose a fiscal or regulatory burden on states, individuals, healthcare providers, health insurers, or manufacturers of pharmaceuticals or medical devices. Congress also could consider subsequent legislation to replace elements of the Affordable Care Act that are repealed.

There have been, and likely will continue to be, legislative and regulatory proposals at the foreign, federal and state levels directed at broadening the availability of healthcare and containing or lowering the cost of healthcare. For example, there has been increasing legislative and enforcement interest in the United States with respect to specialty drug pricing practices. Specifically, there have been several recent U.S. Congressional inquiries and proposed bills designed to, among other things, bring more transparency to drug pricing, review the relationship between pricing and manufacturer patient assistance programs, and reform government program reimbursement methodologies for drugs. Further, in April 2016, CMS' final rule regarding the Medicaid drug rebate program took effect, among other things, revising the manner in which the "average manufacturer price" is to be calculated by manufacturers participating in the program and implementing certain amendments to the Medicaid rebate statute created under the Affordable Care Act. We cannot predict the initiatives that may be adopted in the future. The continuing efforts of the government, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce costs of healthcare and/or impose price controls may adversely affect:

- the demand for our product candidates, if we obtain regulatory approval;
- our ability to set a price that we believe is fair for our products;
- our ability to generate revenue and achieve or maintain profitability;
- the level of taxes that we are required to pay; and
- the availability of capital.

Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payors, which may adversely affect our future profitability.

Risks Related to Our Intellectual Property

We depend on intellectual property licensed from third parties and termination of any of these licenses could result in the loss of significant rights, which would harm our business.

We are dependent on patents, know-how and proprietary technology, both our own and licensed from others.

We have several license agreements, including with Cabaret Biotech Ltd., or Cabaret, and Dr. Zelig Eshhar, the NIH, Amgen Inc., Alpine Immune Sciences, Inc., The Regents of the University of California and Cell Design Labs, Inc. These licenses may be terminated upon certain conditions. Any termination of these licenses could result in the loss of significant rights and could harm our ability to commercialize our product candidates. In addition, Cabaret and other of our licensors in-license some of the intellectual property rights they are licensing to us. To the extent these licensors fail to meet their obligations under their license agreements, which we are not in control of, we may lose the benefits of our license agreements with these licensors.

Disputes may also arise between us and our licensors regarding intellectual property subject to a license agreement, including:

- the scope of rights granted under the license agreement and other interpretation-related issues;
- whether and the extent to which our technology and processes infringe on intellectual property of the licensor that is not subject to the licensing agreement;
- our right to sublicense patent and other rights to third parties under collaborative development relationships;
- our diligence obligations with respect to the use of the licensed technology in relation to our development and commercialization of our product candidates, and what activities satisfy those diligence obligations; and
- the ownership of inventions and know-how resulting from the joint creation or use of intellectual property by our licensors and us and our partners.

If disputes over intellectual property that we have licensed prevent or impair our ability to maintain our current licensing arrangements on acceptable terms, we may be unable to successfully develop and commercialize the affected product candidates.

In addition, our subsidiary, Kite Pharma EU B.V., has licenses to certain intellectual property rights relating to its TCR-GENErator platform, and we are subject to the same risks of termination and disputes with respect to our subsidiary's licenses. We are generally also subject to all of the same risks with respect to protection of intellectual property that we license, as we

are for intellectual property that we own, which are described below. If we or our licensors fail to adequately protect this intellectual property, our ability to commercialize products could suffer.

If our efforts to protect the proprietary nature of the intellectual property related to our technologies are not adequate, we may not be able to compete effectively in our market.*

We rely upon a combination of patents, trade secret protection and license agreements to protect the intellectual property related to our technologies. Any disclosure to or misappropriation by third parties of our confidential proprietary information could enable competitors to quickly duplicate or surpass our technological achievements, thus eroding our competitive position in our market.

We primarily rely on our license agreement with Cabaret with respect to CAR-based product candidates generally and KTE-C19 specifically, and rely and expect to rely on license agreements with the NIH for other product candidates. Certain intellectual property which is covered by these agreements has been developed with funding from the U.S. government. As such, our rights in this intellectual property are subject to certain research and other rights of the government.

Additional patent applications have been filed, and we anticipate additional patent applications will be filed, both in the United States and in other countries, as appropriate. However, we cannot predict:

- if and when patents will issue;
- the degree and range of protection any issued patents will afford us against competitors including whether third parties will find ways to invalidate or otherwise circumvent our patents;
- whether or not others will obtain patents claiming aspects similar to those covered by our patents and patent applications; or
- whether we will need to initiate litigation or administrative proceedings which may be costly whether we win or lose.

Composition of matter patents for biological and pharmaceutical products such as CAR- or TCR-based product candidates are generally considered to be the strongest form of intellectual property protection for those types of products, as such patents provide protection without regard to any method of use. We cannot be certain that the claims in our pending patent applications covering composition of matter of our product candidates will be considered patentable by the United States Patent and Trademark Office, or the USPTO, or by patent offices in foreign countries, or that the claims in any of our issued patents will be considered patentable by courts in the United States or foreign countries. Method of use patents protect the use of a product for the specified method. This type of patent does not prevent a competitor from making and marketing a product that is identical to our product for an indication that is outside the scope of the patented method. Moreover, even if competitors do not actively promote their product for our targeted indications, physicians may prescribe these products “off-label.” Although off-label prescriptions may infringe or contribute to the infringement of method of use patents, the practice is common and such infringement is difficult to prevent or prosecute.

The strength of patents in the biotechnology and pharmaceutical field involves complex legal and scientific questions and can be uncertain. The patent applications that we own or in-license may fail to result in issued patents with claims that cover our product candidates or uses thereof in the United States or in other foreign countries. Even if the patents do successfully issue, third parties may challenge the patentability, validity, enforceability or scope thereof, for example through inter partes review, or IPR, post-grant review or ex parte reexamination before the USPTO or oppositions and other comparable proceedings in foreign jurisdictions, which may result in such patents being cancelled, narrowed, invalidated or held unenforceable. For example, on November 16, 2015, March 18, 2016 and August 5, 2016, one or more anonymous parties filed for ex parte reexaminations of certain patents that we licensed pursuant to our agreement with Cabaret. On December 12, 2016, we achieved a favorable outcome in one of these reexaminations: the USPTO maintained the patent with its expiration date unchanged. On June 26, 2017, we also achieved a favorable outcome in the remaining two reexaminations of one of our CAR-related patents, expiring in 2027. The USPTO issued a Notice of Intent to Issue a Reexamination Certificate, confirming the patentability of amended claims in this patent. Even with the favorable outcomes at the USPTO or if our patents and applications are unchallenged, they may not adequately protect our intellectual property or prevent others from designing around our claims.

If the breadth or strength of protection provided by the patents and patent applications we hold with respect to our product candidates is threatened, it could dissuade companies from collaborating with us to develop, and threaten our ability to commercialize, our product candidates. Further, if we encounter delays in our clinical trials, the period of time during which we could market our product candidates under patent protection would be reduced. United States patent applications containing or that at any time contained a claim not entitled to a priority date before March 16, 2013 are subject to the “first to file” system implemented by the America Invents Act (2011).

This first to file system will require us to be cognizant going forward of the time from invention to filing of a patent application. Since patent applications in the United States and most other countries are confidential for a period of time after filing, we cannot be certain that we were the first to file any patent application related to our product candidates. Furthermore, for United States applications in which all claims are entitled to a priority date before March 16, 2013, an interference proceeding can be provoked by a third-party or instituted by the USPTO, to determine who was the first to invent any of the subject matter covered by the patent claims of our applications.

In addition to the protection afforded by patents, we seek to rely on trade secret protection and confidentiality agreements to protect proprietary know-how that is not patentable, processes for which patents are difficult to enforce and any other elements of our product discovery and development processes that involve proprietary know-how, information, or technology that is not covered by patents. Although we require all of our employees to assign their inventions to us, and require all of our employees, consultants, advisors and any third parties who have access to our proprietary know-how, information, or technology to enter into confidentiality agreements, we cannot be certain that our trade secrets and other confidential proprietary information will not be disclosed or that competitors will not otherwise gain access to our trade secrets or independently develop substantially equivalent information and techniques. Furthermore, the laws of some foreign countries do not protect proprietary rights to the same extent or in the same manner as the laws of the United States. As a result, we may encounter significant problems in protecting and defending our intellectual property both in the United States and abroad. If we are unable to prevent unauthorized material disclosure of our intellectual property to third parties, we will not be able to establish or maintain a competitive advantage in our market, which could materially adversely affect our business, operating results and financial condition.

Third-party claims of intellectual property infringement may prevent or delay our product discovery and development efforts.*

Our commercial success depends in part on our avoiding infringement of the patents and proprietary rights of third parties. There is a substantial amount of litigation involving patents and other intellectual property rights in the biotechnology and pharmaceutical industries. Numerous U.S. and foreign issued patents and pending patent applications, which are owned by third parties, exist in the fields in which we are developing our product candidates. As described in more detail below, we have faced litigation in which a third party claimed that our lead product candidate, KTE-C19, infringes or will infringe its patent rights.

The patent-in-suit in the litigation in which we were involved is owned by Memorial Sloan Kettering Cancer and Sloan Kettering Institute for Cancer Research, or MSK, and licensed to Juno Therapeutics, Inc., or Juno, and relates to certain CAR compositions of matter. Juno is a publicly held biotherapeutics company developing CAR and TCR technologies. On August 13, 2015, we filed a petition with the USPTO to institute an IPR proceeding of the MSK patent. The purpose of the IPR petition was to seek a determination before the Patent Trial and Appeal Board, or PTAB, that the claims recited in the patent licensed to Juno were invalid. A decision was issued in the IPR on December 16, 2016 wherein the PTAB declined to hold the claims invalid. On February 16, 2017, we filed a Notice of Appeal to the Court of Appeals for the Federal Circuit.

Separately, on December 19, 2016, Juno and MSK filed a patent infringement lawsuit against us in the U.S. District Court for the District of Delaware with respect to the MSK patent. On February 23, 2017, we filed a motion to dismiss this lawsuit based upon lack of subject matter jurisdiction. While the court granted our motion to dismiss on June 13, 2017, MSK may nonetheless bring another lawsuit in the future. Based on the controlling statute, in our defense against the infringement claims we would be precluded, or "estopped" from asserting that the patent at issue is invalid on any ground that we raised or reasonably could have raised during the IPR proceeding. The precise scope of this statutory estoppel is evolving in the courts, and we are not estopped from raising additional invalidity challenges to the patent, as well as defenses in the lawsuit, based on grounds other than those that we raised or reasonably could have raised during the IPR.

To have succeeded in the IPR proceeding, we would have needed to establish invalidity of the MSK patent by a "preponderance of the evidence," meaning that, based on the evidence, it is more likely than not that the claims in the patent are invalid. In contrast, in any separate infringement lawsuit filed against us, we would need to prove invalidity by "clear and convincing evidence," a heightened standard of proof. In the U.S., issued patents enjoy a presumption of validity in court, but not at the USPTO. If the MSK patent were upheld in the IPR appeal and were held by a court of competent jurisdiction to be not invalid, and that it covers KTE-C19, and if a court were to grant an injunction, Juno and MSK may be able to block our ability to sell the product unless we obtained a license or until such patent expires (which we believe will be in 2024) or is finally determined to be not infringed, unpatentable, invalid or unenforceable. While we believe that we have a meritorious basis for asserting that the MSK patent is invalid, patent litigation is inherently uncertain, and therefore we cannot be certain that we will prevail in these proceedings.

Additionally, there may be third-party patents of which we are currently unaware with claims to materials, formulations, methods of manufacture or methods for treatment related to the use or manufacture of our product candidates. Because patent applications can take many years to issue, there may be currently pending patent applications which may later result in issued patents that our product candidates may infringe. In addition, third parties may obtain patents in the future and claim that use of our technologies infringes upon these patents. If any third-party patents were held by a court of competent jurisdiction to cover the manufacturing process of our product candidates, constructs or molecules used in or formed during the manufacturing process, or any final product itself, the holders of any such patents may be able to block our ability to commercialize the product candidate unless we obtained a license under the applicable patents, or until such patents expire or they are finally determined to be held not infringed, unpatentable, invalid or unenforceable. Similarly, if any third-party patent were held by a court of competent jurisdiction to cover aspects of our formulations, processes for manufacture or methods of use, including combination therapy or patient selection methods, the holders of any such patent may be able to block our ability to develop and commercialize the product candidate unless we obtained a license or until such patent expires or is finally determined to be held not infringed, unpatentable, invalid or unenforceable. In either case, such a license may not be available on commercially reasonable terms or at all. If we are unable to obtain a necessary license to a third-party patent on commercially reasonable terms, or at all, our ability to commercialize our product candidates may be impaired or delayed, which could in turn significantly harm our business. Parties making claims against us may seek and obtain injunctive or other equitable relief, which could effectively block our ability to further develop and commercialize our product candidates. Defense of these claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of employee resources from our business. In the event of a successful claim of infringement against us, we may have to pay substantial damages, including treble damages and attorneys' fees for willful infringement, obtain one or more licenses from third parties, pay royalties or redesign our infringing products, which may be impossible or require substantial time and monetary expenditure. We cannot predict whether any such license would be available at all or whether it would be available on commercially reasonable terms. These risks apply to the MSK patent and the related legal proceedings as well as to any other relevant third-party patent. Furthermore, even in the absence of litigation, we may need to obtain licenses from third parties to advance our research or allow commercialization of our product candidates. We may fail to obtain any of these licenses at a reasonable cost or on reasonable terms, if at all. In that event, we would be unable to further develop and commercialize our product candidates, which could harm our business significantly.

We may not be successful in obtaining or maintaining necessary rights to product components and processes for our development pipeline through acquisitions and in-licenses.

Presently we have rights to the intellectual property, through licenses from third parties and under patent applications that we own or will own, to develop KTE-C19 and certain other product candidates. Because our programs may involve additional product candidates that may require the use of proprietary rights held by third parties, the growth of our business will likely depend in part on our ability to acquire, in-license or use these proprietary rights. For instance, while we have certain intellectual property directed to a CAR-based product candidate that targets the EGFRvIII antigen, we may require an additional license relating to the EGFRvIII scFv target binding site in order to commercialize a CAR-based product candidate that targets the EGFRvIII antigen. In addition, while we have patent rights directed to certain CAR constructs, we do not have, and do not expect to obtain, any intellectual property to broad TCR constructs. Rather, any intellectual property directed to TCR-based product candidates that we may obtain would likely be product and/or construct specific.

Our product candidates may also require specific formulations to work effectively and efficiently and these rights may be held by others. We may be unable to acquire or in-license any compositions, methods of use, processes or other third-party intellectual property rights from third parties that we identify. Even if we are able to obtain a license, it may be non-exclusive, thereby giving our competitors access to the same technologies licensed to us. In that event, we may be required to expend significant time and resources to develop or license replacement technology.

The licensing and acquisition of third-party intellectual property rights is a competitive area, and companies, which may be more established, or have greater resources than we do, may also be pursuing strategies to license or acquire third-party intellectual property rights that we may consider necessary or attractive in order to commercialize our product candidates. More established companies may have a competitive advantage over us due to their size, cash resources and greater clinical development and commercialization capabilities.

For example, for licenses to additional product candidates, we would have to negotiate a license with the NIH or other third parties for the rights to certain patents and patent applications relating to such product candidates. There can be no assurance that we will be able to successfully complete such negotiations and ultimately acquire the rights to the intellectual property surrounding the additional product candidates that we may seek to acquire.

We may be involved in lawsuits to protect or enforce our patents or the patents of our licensors, which could be expensive, time-consuming and unsuccessful.

Competitors may infringe our patents or the patents of our licensors. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time-consuming. In addition, in an infringement proceeding, a court may decide that one or more of our patents is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the technology in question. An adverse result in any litigation or defense proceedings could put one or more of our patents at risk of being invalidated, held unenforceable, or interpreted narrowly and could put our patent applications at risk of not issuing. Defense of these claims, regardless of their merit, would involve substantial litigation expense and would be a substantial diversion of employee resources from our business. In the event of a successful claim of infringement against us, we may have to pay substantial damages, including treble damages and attorneys' fees for willful infringement, obtain one or more licenses from third parties, pay royalties or redesign our infringing products, which may be impossible or require substantial time and monetary expenditure.

Interference proceedings provoked by third parties or brought by the USPTO may be necessary to determine the priority of inventions with respect to our patents or patent applications or those of our licensors. An unfavorable outcome could result in a loss of our current patent rights and could require us to cease using the related technology or to attempt to license rights to it from the prevailing party. Our business could be harmed if the prevailing party does not offer us a license on commercially reasonable terms. Litigation or interference proceedings may result in a decision adverse to our interests and, even if we are successful, may result in substantial costs and distract our management and other employees. We may not be able to prevent, alone or with our licensors, misappropriation of our trade secrets or confidential information, particularly in countries where the laws may not protect those rights as fully as in the United States.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock.

Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

Periodic maintenance fees on any issued patent are due to be paid to the USPTO and foreign patent agencies in several stages over the lifetime of the patent. The USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Noncompliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. In such an event, our competitors might be able to enter the market, which would have a material adverse effect on our business.

Issued patents covering our product candidates could be found unpatentable, invalid or unenforceable if challenged in court or the USPTO.

If we or one of our licensing partners initiate legal proceedings against a third party to enforce a patent covering one of our product candidates, the defendant could counterclaim that the patent covering our product candidate, as applicable, is invalid and/or unenforceable. In patent litigation in the United States, defendant counterclaims alleging invalidity and/or unenforceability are commonplace, and there are numerous grounds upon which a third party can assert invalidity or unenforceability of a patent. Third parties may also raise similar claims before administrative bodies in the United States or abroad, even outside the context of litigation. Such mechanisms include IPR, ex parte re-examination and post grant review in the United States, and equivalent proceedings in foreign jurisdictions (e.g., opposition proceedings). For example, on November 16, 2015, March 18, 2016 and August 5, 2016, one or more anonymous parties filed for ex parte reexaminations of certain patents that we licensed pursuant to our agreement with Cabaret. On December 12, 2016, we achieved a favorable outcome in one of these reexaminations: the USPTO maintained the patent with its expiration date unchanged. On June 26, 2017, we also achieved a favorable outcome in the remaining two reexaminations of one of our CAR-related patents, expiring in 2027. The USPTO issued a Notice of Intent to Issue a Reexamination Certificate, confirming the patentability of amended claims in this patent. New proceedings could result in ultimate revocation, truncation of term, or amendment to our patents in

such a way that they no longer cover our product, or competitor product, candidates. The outcome following legal assertions of unpatentability, invalidity and unenforceability is unpredictable. With respect to the validity question, for example, we cannot be certain that there is no invalidating prior art, of which we, our patent counsel and the patent examiner were unaware during prosecution. If a defendant were to prevail on a legal assertion of unpatentability, invalidity and/or unenforceability, we would lose at least part, and perhaps all, of the patent protection on our product candidates. Such a loss of patent protection could have a material adverse impact on our business.

Changes in U.S. patent law could diminish the value of patents in general, thereby impairing our ability to protect our products.

As is the case with other biopharmaceutical companies, our success is heavily dependent on intellectual property, particularly patents. Obtaining and enforcing patents in the biopharmaceutical industry involve both technological and legal complexity, and is therefore costly, time-consuming and inherently uncertain. Recent U.S. Supreme Court rulings have narrowed the scope of patent protection available in certain circumstances and weakened the rights of patent owners in certain situations. In addition to increasing uncertainty with regard to our ability to obtain patents in the future, this combination of events has created uncertainty with respect to the value of patents, once obtained. Depending on decisions by the U.S. Congress, the federal courts, and the USPTO, the laws and regulations governing patents could change in unpredictable ways that would weaken our ability to obtain new patents or to enforce our existing patents and patents that we might obtain in the future. For example, in the recent case, *Assoc. for Molecular Pathology v. Myriad Genetics, Inc.*, the U.S. Supreme Court held that certain claims to DNA molecules are not patentable. While we do not believe that any of the patents owned or licensed by us will be found invalid based on this decision, we cannot predict how future decisions by the courts, the U.S. Congress or the USPTO may impact the value of our patents.

We have limited foreign intellectual property rights and may not be able to protect our intellectual property rights throughout the world.

We have limited intellectual property rights outside the United States, and, in particular, our patents directed to CAR constructs licensed from Cabaret do not extend outside of the United States. Filing, prosecuting and defending patents on product candidates in all countries throughout the world would be prohibitively expensive, and our intellectual property rights in some countries outside the United States can be less extensive than those in the United States. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as federal and state laws in the United States. Consequently, we may not be able to prevent third parties from practicing our inventions in all countries outside the United States, or from selling or importing products made using our inventions in and into the United States or other jurisdictions. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and further, may export otherwise infringing products to territories where we have patent protection, but enforcement is not as strong as that in the United States. These products may compete with our products and our patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents, trade secrets and other intellectual property protection, particularly those relating to biopharmaceutical products, which could make it difficult for us to stop the infringement of our patents or marketing of competing products in violation of our proprietary rights generally. Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing and could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially meaningful. Accordingly, our efforts to enforce our intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that we develop or license.

We may be subject to claims that our employees, consultants or independent contractors have wrongfully used or disclosed confidential information of third parties.

We have received confidential and proprietary information from third parties. In addition, we employ individuals who were previously employed at other biotechnology or pharmaceutical companies. We may be subject to claims that we or our employees, consultants or independent contractors have inadvertently or otherwise used or disclosed confidential information of these third parties or our employees' former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial cost and be a distraction to our management and employees.

Risks Related to Our Common Stock

The price of our stock has been and may continue to be highly volatile, and you could lose all or part of your investment.

Prior to our initial public offering in 2014, there was no public market for our common stock. We cannot assure you that an active, liquid trading market for our shares will develop or persist. You may not be able to sell your shares quickly or at a recently reported market price if trading in our common stock is not active. The trading price of our common stock following our initial public offering has been and is likely to continue to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control, including limited trading volume. In addition to the factors discussed in this "Risk Factors" section, these factors include:

- any delay in our regulatory filings for our product candidates and any adverse development or perceived adverse development with respect to the applicable regulatory authority's review of such filings, including without limitation the FDA's issuance of a "refusal to file" letter or a request for additional information;
- our failure to commercialize our product candidates;
- the commencement, enrollment or results of our ongoing and planned clinical trials of our product candidates or any future clinical trials we may conduct, or changes in the development status of our product candidates;
- adverse results or delays in clinical trials;
- our or NCI's decision to initiate a clinical trial, not to initiate a clinical trial or to terminate an existing clinical trial;
- the resolution of the NIH facility evaluation and the ability and timing of the NCI to advance clinical trials under the 2012 CRADA and 2016 CRADAs;
- adverse regulatory decisions, including failure to receive regulatory approval of our product candidates;
- changes in laws or regulations applicable to our products, including but not limited to clinical trial requirements for approvals;
- adverse developments concerning our manufacturers or suppliers;
- our inability to obtain adequate product supply for any approved product or inability to do so at acceptable prices;
- our inability to establish collaborations if needed;
- additions or departures of key scientific or management personnel;
- unanticipated serious safety concerns related to immuno-oncology or related to the use of our product candidates;
- introduction of new products or services offered by us or our competitors;
- announcements of significant acquisitions, strategic partnerships, joint ventures or capital commitments by us or our competitors;
- our ability to effectively manage our growth;
- the size and growth of our initial cancer target markets;
- our ability to successfully treat additional types of cancers or at different stages, including the ability of Kite Pharma EU B.V. to discover new TCR-based product candidates;
- actual or anticipated variations in quarterly operating results;
- our cash position;
- our failure to meet the estimates and projections of the investment community or that we may otherwise provide to the public;
- publication of research reports about us or our industry, or immunotherapy in particular, or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- changes in the market valuations of similar companies;
- overall performance of the equity markets;
- sales of our common stock by us or our stockholders in the future;
- trading volume of our common stock;
- changes in accounting practices;
- ineffectiveness of our internal controls;
- disputes or other developments relating to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our technologies;
- significant lawsuits, including patent or stockholder litigation;
- general political and economic conditions; and
- other events or factors, many of which are beyond our control.

In addition, the stock market in general, and The NASDAQ Global Select Market and biopharmaceutical companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. Broad market and industry factors may negatively affect the market price of our common stock, regardless of our actual operating performance. In the past, securities class action litigation has often been instituted against companies following periods of volatility in the market price of a company's securities. This type of litigation,

if instituted, could result in substantial costs and a diversion of management's attention and resources, which would harm our business, operating results or financial condition.

We do not intend to pay dividends on our common stock so any returns will be limited to the value of our stock.

We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. Any return to stockholders will therefore be limited to the appreciation of their stock.

Our principal stockholders and management own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.*

As of August 1, 2017, our executive officers, directors, and 10% stockholders beneficially owned approximately 25% of our voting stock, a significant portion of which is beneficially owned by Arie Belldegrun, our President, Chief Executive Officer and Chairman. These stockholders may be able to determine all matters requiring stockholder approval. For example, these stockholders may be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders.

Failure to establish and maintain adequate finance infrastructure and accounting systems and controls could impair our ability to comply with the financial reporting and internal controls requirements for publicly traded companies.

As a public company, we operate in an increasingly demanding regulatory environment, including with respect to more complex accounting rules. Company responsibilities required by the Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, include establishing and maintaining corporate oversight and adequate internal control over financial reporting and disclosure controls and procedures. Effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent financial fraud.

Our compliance with Section 404 of the Sarbanes-Oxley Act requires that we incur substantial accounting expense and expend significant management efforts. We complied with Section 404 at December 31, 2015 and 2016 and while our testing did not reveal any material weaknesses in our internal controls, subsequent testing by our independent registered public accounting firm may reveal material weaknesses in our internal controls that we would be required to remediate in a timely manner so as to be able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act each year. If we are not able to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner each year, we could be subject to sanctions or investigations by the SEC, NASDAQ or other regulatory authorities which would require additional financial and management resources and could adversely affect the market price of our common stock. Furthermore, if we cannot provide reliable financial reports or prevent fraud, our business and results of operations could be harmed and investors could lose confidence in our reported financial information.

We have incurred and will incur significant increased costs as a result of operating as a public company, and our management has to devote substantial time to new compliance initiatives.

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company. We are subject to the reporting requirements of the Exchange Act, which requires, among other things, that we file with the SEC annual, quarterly and current reports with respect to our business and financial condition. In addition, the Sarbanes-Oxley Act, as well as rules subsequently adopted by the SEC and The NASDAQ Global Select Market to implement provisions of the Sarbanes-Oxley Act, impose significant requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. Further, in July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was enacted. There are significant corporate governance and executive compensation related provisions in the Dodd-Frank Act that require the SEC to adopt additional rules and regulations in these areas such as "say on pay" and proxy access. Stockholder activism, the current political environment and the current high level of government intervention and regulatory reform may lead to substantial new regulations and disclosure obligations, which may lead to additional compliance costs and impact the manner in which we operate our business in ways we cannot currently anticipate.

We expect the rules and regulations applicable to public companies to continue to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. If these requirements divert the attention of our management and personnel from other business concerns, they could have a material adverse effect on our business, financial condition and results of operations. The increased costs will decrease our net income or increase our net loss, and may require

us to reduce costs in other areas of our business or increase the prices of our products or services. For example, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to incur substantial costs to maintain the same or similar coverage. We cannot predict or estimate the amount or timing of additional costs we may incur to respond to these requirements. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

Sales of a substantial number of shares of our common stock by our existing stockholders in the public market could cause our stock price to fall.

Sales of a substantial number of shares of our common stock in the public market or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that sales may have on the prevailing market price of our common stock.

Sales of our common stock by current stockholders may make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate, and make it more difficult for you to sell shares of our common stock.

Certain holders of our securities are entitled to rights with respect to the registration of their shares under the Securities Act. Any sales of securities by these stockholders could have a material adverse effect on the trading price of our common stock.

We have registered on Form S-8 all shares of common stock that are issuable under our 2014 Equity Incentive Plan, as amended, or the EIP. As a consequence, these shares can be freely sold in the public market upon issuance, subject to volume limitations applicable to affiliates.

Actual or potential sales of our common stock by our employees, including our directors and executive officers, pursuant to pre-arranged stock trading plans could cause our stock price to fall or prevent it from increasing for numerous reasons, and actual or potential sales by such persons could be viewed negatively by other investors.

In accordance with the guidelines specified under Rule 10b5-1 of the Exchange Act, and our policies regarding stock transactions, a number of our employees, including certain executive officers, have adopted and may continue to adopt stock trading plans pursuant to which they arrange to sell shares of our common stock from time to time in the future. Generally, sales under such plans by our executive officers require public filings. Actual or potential sales of our common stock by such persons could cause the price of our common stock to fall or prevent it from increasing for numerous reasons. For example, a substantial number of shares of our common stock becoming available (or being perceived to become available) for sale in the public market could cause the market price of our common stock to fall or prevent it from increasing. Also, actual or potential sales by such persons could be viewed negatively by other investors.

Future sales and issuances of our common stock or rights to purchase common stock, including pursuant to the EIP, could result in additional dilution of the percentage ownership of our stockholders and could cause our stock price to fall.

We expect that significant additional capital may be needed in the future to continue our planned operations, including conducting clinical trials, commercialization efforts, expanded research and development activities and costs associated with operating a public company. To raise capital, we may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. If we sell common stock, convertible securities or other equity securities, investors may be materially diluted by subsequent sales. Such sales may also result in material dilution to our existing stockholders, and new investors could gain rights, preferences and privileges senior to the holders of our common stock.

Pursuant to the EIP, our management is authorized to grant stock options and other equity awards to our employees, directors and consultants.

The number of shares of our common stock reserved for issuance under our EIP will automatically increase on January 1 of each year continuing through and including January 1, 2024, by 5% of the total number of shares of our capital stock outstanding on December 31 of the preceding calendar year, or such lesser number of shares determined by our board of directors. In addition, the number of shares of our common stock reserved for issuance under our 2014 Employee Stock Purchase Plan, or ESPP, will automatically increase on January 1 of each year continuing through and including January 1, 2024, by the lesser of (1) 1% of the total number of shares of our common stock outstanding on December 31 of the preceding calendar year, (2) 720,000 shares, or (3) a number determined by our board of directors that is less than (1) and (2). Unless our

board of directors elects not to increase the number of shares underlying our EIP and ESPP each year, our stockholders may experience additional dilution, which could cause our stock price to fall.

Anti-takeover provisions under our charter documents and Delaware law could delay or prevent a change of control which could limit the market price of our common stock and may prevent or frustrate attempts by our stockholders to replace or remove our current management.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could delay or prevent a change of control of our company or changes in our board of directors that our stockholders might consider favorable. Some of these provisions include:

- a board of directors divided into three classes serving staggered three-year terms, such that not all members of the board will be elected at one time;
- a prohibition on stockholder action through written consent, which requires that all stockholder actions be taken at a meeting of our stockholders;
- a requirement that special meetings of stockholders be called only by the chairman of the board of directors, the chief executive officer, or by a majority of the total number of authorized directors;
- advance notice requirements for stockholder proposals and nominations for election to our board of directors;
- a requirement that no member of our board of directors may be removed from office by our stockholders except for cause and, in addition to any other vote required by law, upon the approval of not less than two-thirds of all outstanding shares of our voting stock then entitled to vote in the election of directors;
- a requirement of approval of not less than two-thirds of all outstanding shares of our voting stock to amend any bylaws by stockholder action or to amend specific provisions of our certificate of incorporation; and
- the authority of the board of directors to issue preferred stock on terms determined by the board of directors without stockholder approval and which preferred stock may include rights superior to the rights of the holders of common stock.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporate Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These anti-takeover provisions and other provisions in our amended and restated certificate of incorporation and amended and restated bylaws could make it more difficult for stockholders or potential acquirors to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors and could also delay or impede a merger, tender offer or proxy contest involving our company. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing or cause us to take other corporate actions you desire. Any delay or prevention of a change of control transaction or changes in our board of directors could cause the market price of our common stock to decline.

If securities or industry analysts issue an adverse or misleading opinion regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If any of the analysts who cover us issue an adverse or misleading opinion regarding us, our business model, our intellectual property or our stock performance, or if the clinical trials and operating results fail to meet the expectations of analysts, our stock price would likely decline. If one or more analysts do not initiate coverage of us, cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed as part of this report:

Number	Description
3.1(1)	Amended and Restated Certificate of Incorporation of the Registrant.
3.2(1)	Amended and Restated Bylaws of the Registrant.
4.1(2)	Form of Common Stock Certificate of the Registrant.
4.2(2)	Amended and Restated Investors' Rights Agreement by and among the Registrant and certain of its stockholders, dated April 25, 2014.
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

(1) Incorporated by reference to Kite Pharma, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (File No. 001-36508).

(2) Incorporated by reference to Kite Pharma, Inc.'s Registration Statement on Form S-1 (File No. 333-196081), as amended.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KITE PHARMA, INC.

August 8, 2017

By: /s/ Arie Belldegrun, M.D.

Arie Belldegrun, M.D.

President and Chief Executive Officer

August 8, 2017

By: /s/ Paul Jenkinson

Paul Jenkinson

Chief Financial Officer