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

FORM 10-Q

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

For the quarterly period ended September 30, 2024

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: 001-39801

XOMA Royalty Corporation
(Exact name of Registrant as specified in its charter)

Delaware	**52-2154066**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2200 Powell Street, Suite 310 Emeryville, California	**94608**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (510) 204-7200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	**Trading symbol(s):**	**Name of each exchange on which registered:**
Common Stock, $0.0075 par value	XOMA	The Nasdaq Global Market
8.625% Series A Cumulative Perpetual Preferred Stock, par value $0.05	XOMAP	The Nasdaq Global Market
Depositary Shares (each representing 1/1000th interest in a share of 8.375% Series B Cumulative Perpetual Preferred Stock, par value $0.05)	XOMAO	The Nasdaq Global Market

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	☐	Accelerated filer	☐
Non-accelerated filer	☒	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 ☒

As of November 4, 2024, the registrant had 11,782,723 shares of common stock, $0.0075 par value per share, outstanding.

XOMA ROYALTY CORPORATION

FORM 10-Q

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GLOSSARY OF TERMS AND ABBREVIATIONS

Abbreviations	Definition
2010 Plan	The Company's 2010 Long Term Incentive and Stock Award Plan, as amended
2018 Common Stock ATM Agreement	At The Market Issuance Sales Agreement with HCW dated December 18, 2018
2021 Series B Preferred Stock ATM Agreement	At The Market Issuance Sales Agreement with B. Riley dated August 5, 2021
AAA	Assignment and Assumption Agreement
Affitech	Affitech Research AS
Affitech CPPA	The Company's Commercial Payment Purchase Agreement with Affitech dated October 6, 2021
Agenus	Agenus, Inc. and certain affiliates
Agenus RPA	The Company's Royalty Purchase Agreement with Agenus dated September 20, 2018
Alora	Alora Pharmaceuticals, LLC
Anti-TGFβ Antibody License Agreement	The Company's License Agreement with Novartis dated September 30, 2015
April 2022 Letter Agreement	The Letter Agreement to Officer Employment Agreement dated August 7, 2017, between the Company and Thomas Burns dated April 1, 2022
Aptevo	Aptevo Therapeutics Inc.
Aptevo CPPA	The Company's Payment Interest Purchase Agreement with Aptevo dated March 29, 2023, referred to herein as "Aptevo Commercial Payment Purchase Agreement" or "Aptevo CPPA"
Aronora	Aronora, Inc.
Aronora RPA	The Company's Royalty Purchase Agreement with Aronora dated April 7, 2019
AstraZeneca	AstraZeneca plc
ASC	Accounting Standards Codification
ASC 450	ASC Topic 450, Contingencies
ASC 606	ASC Topic 606, Revenue from Contracts with Customers
ASC 805	ASC Topic 805, Business Combinations
ASC 815	ASC Topic 815, Derivatives and Hedging
ASC 825	ASC Topic 825, Financial Instruments
ASC 842	ASC Topic 842, Leases
ASU	Accounting Standards Update
Bayer	Bayer Pharma AG
Bayer License Agreement	Out-license agreement to Bayer HealthCare LLC from Daré dated January 10, 2020, related to the development and commercialization of OVAPRENE
Bioasis	Bioasis Technologies, Inc. and certain affiliates
Bioasis RPA	The Company's Royalty Purchase Agreement with Bioasis dated February 25, 2019
Black-Scholes Model	Black-Scholes Option Pricing Model
Blue Owl	Blue Owl Capital Corporation
Blue Owl Loan	Loan pursuant to the Blue Owl Loan Agreement
Blue Owl Loan Agreement	Loan agreement dated as of December 15, 2023, between XRL, the lenders from time to time party thereto and Blue Owl, as administrative agent
Board	The Company's Board of Directors
B. Riley	B. Riley Securities, Inc.
Broadridge	Broadridge Corporate Issuer Solutions, LLC, rights agent under the Kinnate CVR Agreement
BVF	Biotechnology Value Fund, L.P.

Company	XOMA Royalty Corporation (formerly, XOMA Corporation), including its subsidiaries
CMO	Contract manufacturing organization
CPPA	Commercial Payment Purchase Agreement
CVR	Contingent value right
CRO	Contract research organization
Daré	Daré Bioscience, Inc.
Daré RPAs	The Company's Traditional RPA and Synthetic RPA with Daré dated April 29, 2024
Daré Organon License Agreement	Out-license agreement to Organon from Daré dated March 31, 2022, related to the development and commercialization of XACIATO, as amended on July 4, 2023
Day One	Day One Biopharmaceuticals
DSUVIA®	sufentanil sublingual tablet (DZUVEO in European market)
DoD	U.S. Department of Defense
EIR	Effective interest rate
EMA	European Medicines Agency
ESPP	2015 Employee Stock Purchase Plan, as amended
Exchange Act	U.S. Securities Exchange Act of 1934
FDA	U.S. Food and Drug Administration
FDIC	Federal Deposit Insurance Corporation
Fortis	Fortis Advisors LLC, representative of the Kinnate CVR holders under the Kinnate CVR Agreement
GAAP	Generally accepted accounting principles
G&A	General and administrative
Gevokizumab License Agreement	The Company's License Agreement with Novartis dated August 24, 2017
HCRP	Healthcare Royalty Partners II, L.P.
HCW	H.C. Wainwright & Co., LLC
ImmunityBio	ImmunityBio, Inc. (formerly NantCell, Inc.)
ImmunityBio License Agreement	Out-license agreement to ImmunityBio from LadRx dated July 27, 2017, related to the development and commercialization of Aldoxorubicin, as amended on September 27, 2018, terminated on June 3, 2024
IRA	Inflation Reduction Act
IP	Intellectual Property
IPR&D	In-Process Research and Development
IXINITY®	coagulation factor IX (recombinant)
Janssen	Janssen Biotech, Inc.
Kinnate	Kinnate Biopharma Inc.
Kinnate CVR Agreement	The Contingent Value Rights Agreement by and between the Company, Broadridge, and Fortis dated April 3, 2024
Kinnate Merger Agreement	The Agreement and Plan of Merger by and among the Company, XRA, and Kinnate dated February 16, 2024
Kuros	Kuros Biosciences AG, Kuros US LLC, and Kuros Royalty Fund (US) LLC, collectively
Kuros RPA	The Company's Royalty Purchase Agreement with Kuros dated July 14, 2021
LadRx	LadRx Corporation (formerly CytRx Corporation)
LadRx Agreements	LadRx AAA and LadRx RPA
LadRx AAA	The Company’s Assignment and Assumption Agreement with LadRx dated June 21, 2023

LadRx RPA	The Company's Royalty Purchase Agreement with LadRx dated June 21, 2023 and subsequently amended on June 3, 2024
Medexus	Medexus Pharmaceuticals, Inc.
Merck KGaA License Agreement	In-license agreement from Merck KGaA to ObsEva related to ebopiprant dated June 10, 2015 and subsequently amended on July 8, 2016 (assumed by the Company as part of the ObsEva IP Acquisition Agreement)
MIPLYFFA™	arimoclomol
NDA	New Drug Application
Novartis	Novartis Pharma AG, Novartis International Pharmaceutical Ltd., Novartis Institutes for Biomedical Research, Inc. and/or Novartis Vaccines and Diagnostics, Inc.
ObsEva	ObsEva SA
ObsEva IP Acquisition Agreement	Company's IP Acquisition Agreement with ObsEva dated November 21, 2022
OJEMDA™	tovorafenib
Organon	Organon International GmbH
OVAPRENE®	An investigational hormone-free monthly intravaginal contraceptive
Palo	Palobiofarma, S.L.
Palo RPA	The Company's Royalty Purchase Agreement with Palo dated September 26, 2019
Pfizer	Pfizer, Inc.
Pierre Fabre	Pierre Fabre Médicament, SAS
PSU	Performance stock unit
R&D	Research and development
Regeneron	Regeneron Pharmaceuticals, Inc.
Rezolute	Rezolute, Inc. (formerly Antria Bio, Inc.)
Rezolute License Agreement	The Company's License Agreement with Rezolute dated December 6, 2017, as amended in March 2018, January 2019, and March 2020
RPA	Royalty Purchase Agreement
Roche	F. Hoffmann-La Roche AG
RSU	Restricted stock unit
SEC	U.S. Securities and Exchange Commission
Series A Preferred Stock	The 8.625% Series A cumulative, perpetual preferred stock issued in December 2020
Series B Preferred Stock	The 8.375% Series B cumulative, perpetual preferred stock issued in April 2021
Series A and Series B Preferred Stock	Series A Preferred Stock and Series B Preferred Stock, collectively
Series B Depositary Shares	The depositary shares, each representing 1/1000th interest in a share of Series B Preferred Stock
Series X Preferred Stock	The Series X Convertible Preferred Stock
Sildenafil Cream	Sildenafil Cream, 3.6%
Sonnet	Sonnet BioTherapeutics, Inc. (formerly Oncobiologics, Inc.)
Sonnet Collaboration Agreement	The Company's Collaboration Agreement with Sonnet dated July 23, 2012, as amended in May 2019
SVB	Silicon Valley Bank
Takeda	Takeda Pharmaceutical Company Limited
Takeda Collaboration Agreement	The Company's Collaboration Agreement with Takeda dated November 1, 2006, as amended in February 2007 and February 2009
Talphera	Talphera, Inc. (formerly AcelRx Pharmaceuticals, Inc. or "AcelRx")
Talphera APA	Asset Purchase Agreement dated March 12, 2023 between AcelRx (now Talphera) and Vertical related to the sale of DSUVIA from Talphera to Vertical

Talphera CPPA	The Company's Payment Interest Purchase Agreement with Talphera dated January 11, 2024, referred to herein as "Talphera Commercial Payment Purchase Agreement" or "Talphera CPPA"
Talphera Marketing Agreement	Marketing Agreement dated April 3, 2023 between AcelRx (now Talphera) and Vertical
TGFβ	transforming growth factor beta
U.S.	United States
VABYSMO®	faricimab-svoa
Vertical	Vertical Pharmaceuticals, LLC, a wholly-owned subsidiary of Alora
Viracta	Viracta Therapeutics, Inc.
Viracta RPA	The Company's Royalty Purchase Agreement with Viracta dated March 22, 2021, as amended March 4, 2024
XACIATO™	Clindamycin phosphate vaginal gel 2%
XOMA	XOMA Royalty Corporation (formerly, XOMA Corporation), a Delaware corporation, including subsidiaries
XRA	XRA 1 Corp. a wholly-owned subsidiary of the Company
XRL	XRL 1 LLC, a wholly-owned subsidiary of the Company
Zevra	Zevra Therapeutics, Inc. (formerly KemPharm Denmark A/S)
Zevra APA	Asset Purchase Agreement dated May 13, 2011 between LadRx and Orphazyme ApS, and assigned to Zevra as of June 1, 2022, related to the sale of arimoclomol from LadRx to Zevra (assumed by the Company as part of LadRx AAA)

PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

XOMA ROYALTY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share amounts)

	September 30, 2024	December 31, 2023[1]
ASSETS	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 142,050	$ 153,290
Short-term restricted cash	80	160
Short-term equity securities	785	161
Trade and other receivables, net	1,045	1,004
Short-term royalty and commercial payment receivables	12,682	14,215
Prepaid expenses and other current assets	2,379	483
Total current assets	159,021	169,313
Long-term restricted cash	4,686	6,100
Property and equipment, net	34	25
Operating lease right-of-use assets	335	378
Long-term royalty and commercial payment receivables	54,207	57,952
Exarafenib milestone asset (Note 4)	3,125	—
Other assets - long term	1,932	533
Total assets	$ 223,340	$ 234,301
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,131	$ 653
Accrued and other liabilities	2,451	2,768
Contingent consideration under RPAs, AAAs, and CPPAs	4,000	7,000
Operating lease liabilities	434	54
Unearned revenue recognized under units-of-revenue method	1,924	2,113
Preferred stock dividend accrual	1,368	1,368
Current portion of long-term debt	9,826	5,543
Total current liabilities	21,134	19,499
Unearned revenue recognized under units-of-revenue method – long-term	5,589	7,228
Exarafenib milestone contingent consideration (Note 4)	3,125	—
Long-term operating lease liabilities	594	335
Long-term debt	108,089	118,518
Total liabilities	138,531	145,580
Commitments and Contingencies (Note 10)		
Stockholders' equity:		
Preferred Stock, $0.05 par value, 1,000,000 shares authorized:		
8.625% Series A cumulative, perpetual preferred stock, 984,000 shares issued and outstanding as of September 30, 2024 and December 31, 2023	49	49
8.375% Series B cumulative, perpetual preferred stock, 1,600 shares issued and outstanding as of September 30, 2024 and December 31, 2023	—	—
Convertible preferred stock, 5,003 shares issued and outstanding as of September 30, 2024 and December 31, 2023	—	—
Common stock, $0.0075 par value, 277,333,332 shares authorized, 11,755,223 and 11,495,492 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively	88	86
Additional paid-in capital	1,317,657	1,311,809
Accumulated other comprehensive income	104	—
Accumulated deficit	(1,233,089)	(1,223,223)
Total stockholders' equity	84,809	88,721
Total liabilities and stockholders' equity	$ 223,340	$ 234,301

The accompanying notes are an integral part of these condensed consolidated financial statements.

[1]The condensed consolidated balance sheet as of December 31, 2023 has been derived from the audited consolidated financial statements as of that date included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

XOMA ROYALTY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Income and revenues:				
Income from purchased receivables	$ 6,463	$ —	$ 11,895	$ —
Revenue from contracts with customers	25	225	6,050	1,350
Revenue recognized under units-of-revenue method	709	605	1,828	1,575
Total income and revenues	7,197	830	19,773	2,925
Operating expenses:				
Research and development	817	25	2,011	118
General and administrative	8,020	6,368	27,485	18,341
Royalty purchase agreement asset impairment	14,000	—	23,000	1,575
Arbitration settlement costs	—	—	—	4,132
Amortization of intangible assets	—	224	—	673
Total operating expenses	22,837	6,617	52,496	24,839
Loss from operations	(15,640)	(5,787)	(32,723)	(21,914)
Other income (expense):				
Gain on the acquisition of Kinnate	—	—	19,316	—
Change in fair value of embedded derivative related to RPA	—	—	8,100	—
Interest expense	(3,493)	—	(10,446)	—
Other income (expense), net	1,890	278	5,900	1,192
Net loss	$ (17,243)	$ (5,509)	$ (9,853)	$ (20,722)
Net loss attributable to common stockholders (Note 3):				
Basic	$ (18,611)	$ (6,877)	$ (13,957)	$ (24,826)
Diluted	$ (18,611)	$ (6,877)	$ (13,957)	$ (24,826)
Net loss per share attributable to common stockholders:				
Basic	$ (1.59)	$ (0.60)	$ (1.20)	$ (2.17)
Diluted	$ (1.59)	$ (0.60)	$ (1.20)	$ (2.17)
Weighted-average shares used in computing net loss per share attributable to common stockholders:				
Basic	11,712	11,473	11,645	11,466
Diluted	11,712	11,473	11,645	11,466

The accompanying notes are an integral part of these condensed consolidated financial statements.

XOMA ROYALTY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited)

(in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net loss	$ (17,243)	$ (5,509)	$ (9,853)	$ (20,722)
Net unrealized gain on available-for-sale debt securities	104	—	104	—
Comprehensive loss	$ (17,139)	$ (5,509)	$ (9,749)	$ (20,722)

The accompanying notes are an integral part of these condensed consolidated financial statements.

XOMA ROYALTY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited)
(in thousands)

	Series A Preferred Stock		Series B Preferred Stock		Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
Balance, December 31, 2023	984	$ 49	2	$ —	5	$ —	11,495	$ 86	$1,311,809	$ —	$ (1,223,223)	$ 88,721
Exercise of stock options	—	—	—	—	—	—	135	1	621	—	—	622
Issuance of common stock related to 401(k) contribution	—	—	—	—	—	—	7	—	118	—	—	118
Stock-based compensation expense	—	—	—	—	—	—	—	—	2,856	—	—	2,856
Preferred stock dividends	—	—	—	—	—	—	—	—	(1,368)	—	—	(1,368)
Repurchase of common stock	—	—	—	—	—	—	(1)	—	—	—	(13)	(13)
Net loss	—	—	—	—	—	—	—	—	—	—	(8,595)	(8,595)
Balance, March 31, 2024	984	$ 49	2	$ —	5	$ —	11,636	$ 87	$1,314,036	$ —	$ (1,231,831)	$ 82,341
Exercise of stock options	—	—	—	—	—	—	15	—	250	—	—	250
Issuance of common stock related to ESPP	—	—	—	—	—	—	7	—	95	—	—	95
Stock-based compensation expense	—	—	—	—	—	—	—	—	2,690	—	—	2,690
Preferred stock dividends	—	—	—	—	—	—	—	—	(1,368)	—	—	(1,368)
Net income	—	—	—	—	—	—	—	—	—	—	15,985	15,985
Balance, June 30, 2024	984	$ 49	2	$ —	5	$ —	11,658	$ 87	$1,315,703	$ —	$ (1,215,846)	$ 99,993
Exercise of stock options	—	—	—	—	—	—	97	1	732	—	—	733
Stock-based compensation expense	—	—	—	—	—	—	—	—	2,590	—	—	2,590
Preferred stock dividends	—	—	—	—	—	—	—	—	(1,368)	—	—	(1,368)
Net unrealized gain on available-for-sale debt securities	—	—	—	—	—	—	—	—	—	104	—	104
Net loss	—	—	—	—	—	—	—	—	—	—	(17,243)	(17,243)
Balance, September 30, 2024	984	$ 49	2	$ —	5	$ —	11,755	$ 88	$1,317,657	$ 104	$ (1,233,089)	$ 84,809

	Series A Preferred Stock		Series B Preferred Stock		Convertible Preferred Stock		Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Income	Deficit	Equity
Balance, December 31, 2022	984	$ 49	2	$ —	5	$ —	11,454	$ 86	$1,306,271	$ —	$ (1,182,392)	$ 124,014
Issuance of common stock related to 401(k) contribution	—	—	—	—	—	—	7	—	123	—	—	123
Stock-based compensation expense	—	—	—	—	—	—	—	—	1,570	—	—	1,570
Preferred stock dividends	—	—	—	—	—	—	—	—	(1,368)	—	—	(1,368)
Net loss	—	—	—	—	—	—	—	—	—	—	(9,813)	(9,813)
Balance, March 31, 2023	984	$ 49	2	$ —	5	$ —	11,461	$ 86	$1,306,596	$ —	$ (1,192,205)	$ 114,526
Exercise of stock options	—	—	—	—	—	—	8	—	153	—	—	153
Issuance of common stock related to ESPP	—	—	—	—	—	—	3	—	50	—	—	50
Stock-based compensation expense	—	—	—	—	—	—	—	—	2,163	—	—	2,163
Preferred stock dividends	—	—	—	—	—	—	—	—	(1,368)	—	—	(1,368)
Net loss	—	—	—	—	—	—	—	—	—	—	(5,400)	(5,400)
Balance, June 30, 2023	984	$ 49	2	$ —	5	$ —	11,472	$ 86	$1,307,594	$ —	$ (1,197,605)	$ 110,124
Stock-based compensation expense	—	—	—	—	—	—	—	—	2,717	—	—	2,717
Preferred stock dividends	—	—	—	—	—	—	—	—	(1,368)	—	—	(1,368)
Net loss	—	—	—	—	—	—	—	—	—	—	(5,509)	(5,509)
Balance, September 30, 2023	984	$ 49	2	$ —	5	$ —	11,472	$ 86	$1,308,943	$ —	$ (1,203,114)	$ 105,964

The accompanying notes are an integral part of these condensed consolidated financial statements.

XOMA ROYALTY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2024	2023
Cash flows from operating activities:		
Net loss	$ (9,853)	$ (20,722)
Adjustments to reconcile net loss to net cash used in operating activities:		
Income from purchased receivables under effective interest rate method	(9,985)	—
Stock-based compensation expense	8,136	6,450
Royalty purchase agreement asset impairment	23,000	1,575
Gain on the acquisition of Kinnate	(19,316)	—
Change in fair value of contingent consideration under RPAs, AAAs, and CPPAs	—	(75)
Common stock contribution to 401(k)	118	123
Amortization of intangible assets	—	673
Depreciation	8	2
Accretion of long-term debt discount and debt issuance costs	996	—
Non-cash lease expense	45	115
Change in fair value of equity securities	(624)	121
Change in fair value of available-for-sale debt securities classified as cash equivalents	104	—
Changes in assets and liabilities:		
Trade and other receivables, net	(41)	(42)
Prepaid expenses and other assets	(72)	(202)
Accounts payable and accrued liabilities	(1,348)	(554)
Operating lease liabilities	(185)	(120)
Unearned revenue recognized under units-of-revenue method	(1,828)	(1,575)
Net cash used in operating activities	(10,845)	(14,231)
Cash flows from investing activities:		
Net cash acquired in Kinnate acquisition	18,926	—
Payments of consideration under RPAs, AAAs, and CPPAs	(37,000)	(14,650)
Receipts under RPAs, AAAs, and CPPAs	26,263	8,428
Purchase of property and equipment	(17)	—
Net cash provided by (used in) investing activities	8,172	(6,222)
Cash flows from financing activities:		
Principal payments – debt	(6,902)	—
Debt issuance costs and loan fees paid in connection with long-term debt	(740)	—
Payment of preferred stock dividends	(4,104)	(4,104)
Repurchases of common stock	(13)	—
Proceeds from exercise of options and other share-based compensation	4,127	208
Taxes paid related to net share settlement of equity awards	(2,429)	(5)
Net cash used in financing activities	(10,061)	(3,901)
Net decrease in cash, cash equivalents, and restricted cash	(12,734)	(24,354)
Cash, cash equivalents, and restricted cash as of the beginning of the period	159,550	57,826
Cash, cash equivalents, and restricted cash as of the end of the period	$ 146,816	$ 33,472
Supplemental Cash Flow Information:		
Cash paid for interest	$ 9,985	$ —
Right-of-use assets obtained in exchange for operating lease liabilities	$ —	$ 85
Non-cash investing and financing activities:		
Estimated initial fair value of the Exarafenib milestone asset in Kinnate acquisition	$ 2,922	$ —
Estimated initial fair value of the Exarafenib milestone contingent consideration in Kinnate acquisition	$ 2,922	$ —
Right-of-use assets obtained in exchange for operating lease liabilities in Kinnate acquisition	$ 824	$ —
Relative fair value basis reduction of right-of-use assets in Kinnate acquisition	$ (824)	$ —
Accrual of contingent consideration under the Affitech CPPA	$ 3,000	$ 3,000
Accrual of contingent consideration under the LadRx AAA	$ 1,000	$ —
Estimated fair value of contingent consideration under the LadRx Agreements	$ —	$ 1,000
Preferred stock dividend accrual	$ 1,368	$ 1,368

The accompanying notes are an integral part of these condensed consolidated financial statements.

XOMA ROYALTY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description of Business

XOMA Royalty Corporation, a Delaware corporation, is a biotech royalty aggregator with a sizable portfolio of economic rights to future potential milestone and royalty payments associated with partnered commercial and pre-commercial therapeutic candidates. On July 10, 2024, the Company changed its name from XOMA Corporation to XOMA Royalty Corporation. The Company's portfolio was built through the acquisition of rights to future milestone payments, royalties, and commercial payments, since its royalty aggregator business model was implemented in 2017, combined with out-licensing its proprietary products and platforms from its legacy discovery and development business. The Company's drug royalty aggregator business is primarily focused on early to mid-stage clinical assets in Phase 1 and 2 with significant commercial sales potential that are licensed to large-cap partners. XOMA also acquires milestone and royalty revenue streams on late-stage or commercial assets that are designed to address unmet markets or have a therapeutic advantage, have long duration of market exclusivity, and are expected to generate royalty or milestone payments to the Company in a relatively short timeframe. The Company expects most of its future income and revenue to be based on milestone payments the Company may receive for milestones and royalties associated with these programs.

Liquidity and Financial Condition

The Company has incurred significant operating losses and negative cash flows from operations since its inception. As of September 30, 2024, the Company had cash, cash equivalents, and restricted cash of $146.8 million primarily related to financing cash inflows received in December 2023 pursuant to the Blue Owl Loan Agreement (see Note 8).

Based on the Company's current cash balance and its planned spending, such as on royalties and other acquisitions, the Company has evaluated and concluded its financial condition is sufficient to fund its planned operations, commitments, and contractual obligations for a period of at least one year following the date that these condensed consolidated financial statements are issued.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions among consolidated entities were eliminated upon consolidation. The unaudited condensed consolidated financial statements were prepared in accordance with U.S. GAAP for financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial reporting. As permitted under those rules, certain footnotes or other financial information can be condensed or omitted. These condensed consolidated financial statements and related disclosures have been prepared with the assumption that users of the interim financial information have read or have access to the audited consolidated financial statements for the preceding fiscal year. Accordingly, these statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on March 8, 2024.

These condensed consolidated financial statements have been prepared on the same basis as the Company's annual consolidated financial statements and, in the opinion of management, reflect all adjustments, consisting only of normal and recurring adjustments that are necessary for a fair statement of the Company's consolidated financial information. The interim results of operations are not necessarily indicative of the results that may be expected for the full year, or for any other future annual or interim period.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, revenue and expenses, and related disclosures. Management routinely evaluates its estimates including, but not limited to, those related to income from purchased receivables, revenue from contracts with customers, revenue recognized under the units-of-revenue method, royalty and commercial payment receivables, projected cash flows associated with income under the EIR method, the Exarafenib milestone asset and contingent consideration, legal contingencies, contingent consideration for purchased receivables, amortization of the Blue Owl Loan, accrued expenses, and stock-based compensation. The Company bases its estimates on historical experience and on various other market-specific and other relevant assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Actual results may differ significantly from these estimates, including estimates such as the Company's income from purchased receivables, amortization of the payments received from HCRP, and amortization of the Blue Owl Loan. Estimates related to income from purchased receivables is based on the best information available to the Company from its partners or other third parties and changes in expected cash flows for royalty and commercial receivables under the EIR method. Any changes to the estimated payments made by partners can result in a material adjustment to income reported. Under the contracts with HCRP, the amortization for the reporting period is calculated based on the payments expected to be made by the licensees to HCRP over the term of the arrangement. Any changes to the estimated payments by the licensees to HCRP can result in a material adjustment to revenue previously reported. The Company's amortization of the Blue Owl Loan is calculated based on the commercial payments expected to be received from Roche for VABYSMO under the Affitech CPPA. Any changes to the estimated commercial payments from Roche can result in a material adjustment to the interest expense and term loan balance reported.

Cash, Cash Equivalents, and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated statements of cash flows (in thousands):

	September 30, 2024	December 31, 2023
Unrestricted cash	$ 4,018	$ 124,938
Unrestricted cash equivalents	138,032	28,352
Total unrestricted cash and cash equivalents	$ 142,050	$ 153,290
Short-term restricted cash	80	160
Long-term restricted cash	4,686	6,100
Total restricted cash	$ 4,766	$ 6,260
Total unrestricted and restricted cash and cash equivalents	$ 146,816	$ 159,550

Cash and Cash Equivalents

Cash consists of bank deposits held in business checking and interest-bearing deposit accounts. Cash equivalent balances are defined as highly liquid financial instruments with an original maturity of three months or less that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Cash equivalents held by the Company are in money market funds and U.S. treasury bills, and are classified as available-for-sale.

Allowances are recorded for available-for-sale debt securities with unrealized losses. The amount of credit losses that can be recognized for available-for-sale debt securities is limited to the amount by which carrying value exceeds fair value, and previously recognized credit losses are reversed if the fair value increases.

As of September 30, 2024, all investments in debt securities were held in U.S. treasury bills and classified as available-for-sale. There was no allowance for credit losses on investments in debt securities for the three and nine months ended September 30, 2024. There were no investments in debt securities as of December 31, 2023 and during the year ended December 31, 2023.

Cash equivalents classified as available-for-sale debt securities consisted of the following (in thousands):

	September 30, 2024			
	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. treasury bills	$ 25,033	$ 104	$ —	$ 25,137
Total debt securities	$ 25,033	$ 104	$ —	$ 25,137

	December 31, 2023			
	Amortized Cost Basis	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. treasury bills	$ —	$ —	$ —	$ —
Total debt securities	$ —	$ —	$ —	$ —

Restricted Cash

The restricted cash balance may only be used to pay interest expense, administrative fees, and other allowable expenses pursuant to the Blue Owl Loan.

Cash accounts with any type of restriction are classified as restricted cash. If restrictions are expected to be lifted or to be used to pay a third party in the next twelve months, the restricted cash account is classified as current.

On December 15, 2023, XRL deposited $6.3 million into reserve accounts in connection with the funding of the Blue Owl Loan (see Note 8), of which $5.8 million was deposited into a reserve account for interest and administrative fees and $0.5 million was deposited into an operating reserve account to cover operating expenses of XRL. In September 2024, upon receipt of a specified threshold of commercial payments from Roche's VABYSMO, $1.25 million was released from restricted cash to unrestricted cash pursuant to the terms of the Blue Owl Loan Agreement.

Payments of interest under the Blue Owl Loan Agreement are made semi-annually using commercial payments received since the immediately preceding interest payment date under the Affitech CPPA. On each interest payment date, if the commercial payments received are less than the total interest due for the respective quarter, XRL is expected to cover the shortfall in interest payment due from the reserve account.

Payments of administrative fees under the Blue Owl Loan Agreement are made semi-annually on January 1 and July 1 of each year from the reserve account. XOMA will be required to fund an additional $0.8 million into the administrative fee escrow account on July 1, 2027.

Purchase of Rights to Future Milestones, Royalties, and Commercial Payments

The Company has purchased rights to receive a portion of certain future developmental, regulatory and commercial sales milestones, royalties, and option fees on sales of products currently in clinical development or recently commercialized. The Company acquired such rights from various entities and recorded the amount paid for these rights as royalty and commercial payment receivables (see Note 5). In addition, the Company may be obligated to make contingent payments related to certain product development milestones, fees upon exercise of options related to future license products and sales-based milestones. The contingent payments are evaluated to determine if they are freestanding instruments or embedded derivatives. If the contingent payments fall within the scope of ASC 815, the contingent payments are measured at fair value at the inception of the arrangement and are subject to remeasurement to fair value

each reporting period. Any changes in the estimated fair value are recorded in the condensed consolidated statements of operations. Contingent consideration payments that do not fall within the scope of ASC 815 are recognized when the amounts are probable and estimable according to ASC 450.

Cost Recovery Method

When the purchase of rights to future milestones, royalties, and commercial payments involves future cash flows which cannot be reliably estimated, the Company accounts for such rights on a non-accrual basis using the cost recovery method. The Company's assessment of whether cash flows can be reliably estimated depends on a number of factors. For example, the Company has generally determined that rights related to programs in preclinical or clinical stages of development or that have had a very short commercialization period during which payments have not yet been received, generally have uncertain cash flows and therefore are accounted for under the cost recovery method. The related receivable balance is classified as noncurrent or current based on whether payments are probable and reliably estimable to be received in the near term. Under the cost recovery method, any milestone or royalty payment received is recorded as a direct reduction of the recorded receivable balance.

When the recorded receivable balance in royalty and commercial payment receivables has been fully collected, any additional amounts collected are recognized as income from purchased receivables. Receivables from such income from purchased receivables are included in trade and other receivables, net on the condensed consolidated balance sheet and totaled $1.0 million and zero as of September 30, 2024 and December 31, 2023, respectively.

Effective Interest Rate Method

The Company accounts for rights to future milestones, royalties, and commercial payments related to commercial products which have an established reliable sales pattern under the EIR method. The EIR is calculated by forecasting the expected cash flows to be received over the life of the asset relative to the receivable's carrying amount at the time when the Company determines that there are reliable cash flows. The carrying amount of a receivable is made up of the opening balance, which is increased by accrued income and decreased by cash receipts in the period to arrive at the ending balance. The EIR is recalculated at each reporting period as differences between expected cash flows and actual cash flows are realized and as there are changes to the expected future cash flows. Receivables related to income from purchased receivables under the EIR method, all which were short-term receivables, totaled $8.3 million and zero as of September 30, 2024 and December 31, 2023, respectively.

Income from Purchased Receivables

Income from purchased receivables includes both amounts recognized under the EIR method and under the cost recovery method. For amounts recognized under the EIR method, the accretable yield is recognized as income from purchased receivables at the effective rate of return over the expected life of the royalty and commercial payment receivable. The application of the prospective approach to measure income requires judgment in forecasting the expected future cash flows. The amounts and duration of forecasted expected future cash flows used to calculate and measure income are largely impacted by research analyst coverage, commercial performance of the product, and contract or patent duration.

Income from purchased receivables from the cost recovery method includes income from milestone and royalty payments related to royalty and commercial payment transactions for which the cost has been fully recovered or impaired. The excess milestone and royalty payment received over a remaining receivable balance is recognized as income. If the information upon which such income amounts are derived is provided to the Company from partners or other third parties in arrears, the Company estimates the income earned during the period based upon the best information available such that the income recognized is not expected to be subsequently reversed in future periods.

Allowance for Current Expected Credit Losses

The Company evaluates the long-term royalty and commercial payment receivables on a collective (i.e., pool) basis if they share similar risk characteristics. The Company evaluates a royalty and commercial payment receivable individually if its risk characteristics are not similar to other royalty and commercial payment receivables. The Company

regularly reviews public information on clinical trials, press releases, and updates from its partners to identify any impairment indicators or changes in expected recoverability of the long-term royalty and commercial payment receivable asset. At each reporting date, if the Company determines expected future cash flows discounted to the current period are less than the carrying value of the asset, the Company will record an impairment charge. The impairment charge will be recognized as an allowance expense that increases the long-term royalty and commercial payment receivable asset's cumulative allowance, which reduces the net carrying value of the long-term royalty and commercial payment receivable asset. In a subsequent period, if there is an increase in expected future cash flows, or if the actual cash flows are greater than previously expected, the Company will reduce the previously established cumulative allowance. Amounts not expected to be collected are written off against the allowance at the time that such a determination is made.

Revenue from Contracts with Customers

The Company recognizes revenue from all contracts with customers according to ASC 606, except for contracts that are within the scope of other standards, such as leases and financial instruments. The Company recognizes revenue when its customer obtains control of promised goods or services in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services.

To determine revenue recognition for arrangements that the Company determines are within the scope of ASC 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of ASC 606, the Company assesses the goods or services promised within each contract on whether each promised good or service is distinct to determine those that are performance obligations. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation based on relative fair values, when (or as) the performance obligation is satisfied.

The Company does not assess whether a contract has a significant financing component if the expectation at contract inception is such that the period between payment by the customer and the transfer of the promised goods or services to the customer will be one year or less.

The Company recognizes revenue from its license and collaboration arrangements and royalties. The terms of the arrangements generally include payment to the Company of one or more of the following: non-refundable, upfront license fees, development, regulatory and commercial milestone payments, and royalties on net sales of licensed products.

License of Intellectual Property

If the license to the Company's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenue from non-refundable, upfront fees allocated to the license when the license is transferred to the customer and the customer is able to use and benefit from the license. For licenses that are bundled with other promises, such as transfer of related materials, process, and know-how, the Company utilizes judgement to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time. Under the Company's license agreements, the nature of the combined performance obligation is the granting of licenses to the customers as the other promises are not separately identifiable in the context of the arrangement. Since the Company grants the license to a customer as it exists at the point of transfer and is not involved in any future development or commercialization of the products related to the license, the nature of the license is a right to use the Company's intellectual property as transferred. As such, the Company recognizes revenue related to the combined performance obligation upon completion of the delivery of the related materials, process, and know-how (i.e., at a point in time).

Deferred revenue is recorded when upfront payments and fees are received prior to the satisfaction of performance obligations. Trade and other receivables, net is recorded when the Company has an unconditional right to consideration.

Milestone Payments

At the inception of each arrangement that includes development and regulatory milestone payments, the Company evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price. ASC 606 suggests two alternatives to use when estimating the amount of variable consideration: the expected value method and the most likely amount method. Under the expected value method, an entity considers the sum of probability-weighted amounts in a range of possible consideration amounts. Under the most likely amount method, an entity considers the single most likely amount in a range of possible consideration amounts. The Company uses the most likely amount method for development and regulatory milestone payments.

If it is probable that a significant cumulative revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Company or the licensee, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis. The Company recognizes revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, the Company re-evaluates the probability or achievement of each such milestone and any related constraint, and if necessary, adjusts its estimates of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect revenue and earnings in the period of adjustment.

Royalties

For arrangements that include sales-based royalties, including milestone payments based on the level of sales, where the license is deemed to be the predominant item to which the royalties relate, the Company recognizes revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied).

Revenue Recognized under Units-of-Revenue Method

The Company has sold its rights to receive certain milestones and royalties on product sales. In the circumstance where the Company has sold its rights to future milestones and royalties under a license agreement and also maintains limited continuing involvement in the arrangement (but not significant continuing involvement in the generation of the cash flows that are due to the purchaser), the Company defers recognition of the proceeds it receives for the sale of milestone or royalty streams and recognizes such unearned revenue as revenue under the units-of-revenue method over the life of the underlying license agreement. Under the units-of-revenue method, amortization for a reporting period is calculated by computing a ratio of the proceeds received from the purchaser to the total payments expected to be made to the purchaser over the term of the agreement, and then applying that ratio to the period's cash payment.

Estimating the total payments expected to be received by the purchaser over the term of such arrangements requires management to use subjective estimates and assumptions. Changes to the Company's estimate of the payments expected to be made to the purchaser over the term of such arrangements could have a material effect on the amount of revenues recognized in any particular period.

Stock-Based Compensation

The Company recognizes compensation expense for all stock-based payment awards made to the Company's employees, consultants, and directors that are expected to vest based on estimated fair values. The valuation of stock option awards is determined at the date of grant using the Black-Scholes Model. The Black-Scholes Model requires inputs such as the expected term of the option, expected volatility, and risk-free interest rate. To establish an estimate of the expected term, the Company considers the vesting period and contractual period of the award and its historical experience of stock option exercises, post-vesting cancellations, and volatility. The estimate of expected volatility is based on the Company's historical volatility. The risk-free rate is based on the yield available on U.S. Treasury zero-coupon issues corresponding to the expected term of the award. The Company records forfeitures when they occur.

The valuation of RSUs is determined at the date of grant using the Company's closing stock price.

The Company records compensation expense for service-based awards on a straight-line basis over the requisite service period, which is generally the vesting period of the award, or to the date on which retirement eligibility is achieved, if shorter.

The grant date fair value of PSUs with market conditions is determined using the Monte Carlo valuation model. The Company records compensation expenses for PSUs based on graded expense attribution over the requisite service periods.

Equity Securities

The Company entered into a license agreement with Rezolute in December 2017, in which it received shares of common stock from Rezolute (see Note 4). Equity investments in Rezolute are classified in the condensed consolidated balance sheets as equity securities. The equity securities are measured at fair value, with changes in fair value recorded in the other income (expense), net line item of the condensed consolidated statement of operations at each reporting period. The Company remeasures its equity investments at each reporting period until such time that the investment is sold or disposed of. If the Company sells an investment, any realized gains and losses on the sale of the securities will be recognized in the condensed consolidated statement of operations in the period of sale.

Asset Acquisitions

As a first step, for each acquisition, the Company determines if it is an acquisition of a business or an asset acquisition under ASC 805. The guidance requires an initial screen test to determine if substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If the screen test is not met, the Company then further evaluates whether the assets or group of assets includes, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Acquisitions of assets or a group of assets that do not meet the definition of a business are accounted for as asset acquisitions under ASC 805-50, using the cost accumulation method, whereby the cost of the acquisition, including certain transaction costs, is allocated to the assets acquired on the basis of relative fair values. If the fair value of net assets acquired, after allocating the excess of the fair value of net assets acquired to certain qualifying assets, exceeds the total cost of the acquisition, a bargain purchase gain is recognized in other income in the condensed consolidated statements of operations.

Contingent payments in asset acquisitions are evaluated whether they are freestanding instruments or embedded derivatives. If the contingent payments fall within the scope of ASC 815, the contingent payments are measured at fair value at the acquisition date, and are subject to remeasurement to fair value each reporting period. The estimated fair value at the acquisition date is included in the cost of the acquired assets. Any subsequent changes in the estimated fair value are recorded in the condensed consolidated statements of operations. Contingent consideration payments that are related to IPR&D assets are expensed as incurred. Contingent consideration payments that do not fall within the scope of ASC 815 are recognized when the amount is probable and estimable according to ASC 450.

Cash payments related to acquired assets are reflected as an investing cash flow in the Company's condensed consolidated statements of cash flows.

Leases

The Company leases its headquarters in Emeryville, California and acquired a lease from the Kinnate acquisition. The Company determines the initial classification and measurement of its right-of-use assets and lease liabilities at the lease commencement date and thereafter if modified. For leases acquired in asset acquisitions, the Company determines the initial classification and measurement of its right-of-use assets and lease liabilities at the acquisition date and thereafter if modified. The lease term includes any renewal options and termination options that the Company is reasonably certain to exercise. The present value of lease payments is determined by using the interest rate implicit in the lease, if that rate is readily determinable; otherwise, the Company uses its incremental borrowing rate. The incremental borrowing rate is determined by using the rate of interest that the Company would pay to borrow on a collateralized basis an amount equal to the lease payments for a similar term and in a similar economic environment. The Company estimated its incremental borrowing rate by adjusting the interest rate on its fully collateralized debt for the lease term length.

Rent expense for the operating lease is recognized on a straight-line basis, over the reasonably assured lease term based on total lease payments and is included in G&A expense in the condensed consolidated statements of operations.

The Company has elected the practical expedient to not separate lease and non-lease components. The Company's non-lease components are primarily related to property maintenance, which varies based on future outcomes, and thus are recognized in rent expense when incurred.

The Company has also elected not to record on the consolidated balance sheets a lease for which the term is 12 months or less and does not include a purchase option that the Company is reasonably certain to exercise.

Long-Term Debt

Long-term debt represents the Company's term loan under the Blue Owl Loan Agreement, which the Company has accounted for as a debt financing arrangement. Interest expense is accrued using the EIR method over the estimated period the loan will be repaid. The allocated debt discount and debt issuance costs have been recorded as a direct deduction from the carrying amount of the related debt in the consolidated balance sheets and are being amortized and recorded as interest expense throughout the expected life of the Blue Owl Loan using the EIR method. The Company considered whether there were any embedded features in the Blue Owl Loan Agreement that require bifurcation and separate accounting as derivative financial instruments pursuant to ASC 815. See Note 8.

Warrants

The Company has issued warrants to purchase shares of its common stock in connection with its financing activities. The Company classifies these warrants as equity and recorded the warrants at fair value as of the date of issuance on the Company's consolidated balance sheet with no subsequent remeasurement. The issuance date fair value of the outstanding warrants was estimated using the Black-Scholes Model. The Black-Scholes Model required inputs such as the expected term of the warrants, expected volatility, and risk-free interest rate. These inputs were subjective and required significant analysis and judgment. For the estimate of the expected term, the Company used the full remaining contractual term of the warrant. The estimate of expected volatility assumption is based on the historical price volatility observed on the Company's common stock. The risk-free rate is based on the yield available on U.S. Treasury zero-coupon issues corresponding to the expected term of the warrants.

Income Taxes

The Company accounts for income taxes using the liability method under which deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount which is more likely than not to be realizable.

The recognition, derecognition and measurement of a tax position is based on management's best judgment given the facts, circumstances, and information available at each reporting date. The Company's policy is to recognize interest and penalties related to the underpayment of income taxes as a component of income tax expense. To date, there have been no interest or penalties charged in relation to the unrecognized tax benefits.

Net Income (Loss) per Share Available to (Attributable to) Common Stockholders

The Company calculates basic and diluted income (loss) per share available to (attributable to) common stockholders using the two-class method. The Company's convertible Series X Preferred Stock participate in any dividends declared by the Company on its common stock and are therefore considered to be participating securities. The Company's Series A and Series B Preferred Stock do not participate in any dividends or distribution by the Company on its common stock and are therefore not considered to be participating securities.

Under the two-class method, net income, as adjusted for any accumulated dividends on Series A and Series B Preferred Stock for the period, is allocated to each class of common stock and participating security as if all of the net income for the period had been distributed. Undistributed earnings allocated to participating securities are subtracted from net income in determining net income available to common stockholders. During periods of loss, the Company allocates no loss to participating securities because they have no contractual obligation to share in the losses of the Company. Basic net income (loss) per share available to (attributable to) common stockholders is then calculated by dividing the net income (loss) available to (attributable to) common stockholders by the weighted-average number of shares of common stock outstanding during the period. All participating securities are excluded from the basic weighted-average common shares outstanding.

Diluted net income (loss) per share available to (attributable to) common stockholders is based on the weighted-average number of shares outstanding during the period, adjusted to include the assumed exercise of certain stock options and warrants for common stock using the treasury method, if dilutive. The calculation assumes that any proceeds that could be obtained upon exercise of options and warrants would be used to purchase common stock at the average market price during the period. Adjustments to the denominator are required to reflect the related dilutive shares. The Company's Series A and Series B Preferred Stock become convertible upon the occurrence of specific events other than a change in the Company's share price and, therefore, are not included in the diluted shares until the contingency is resolved.

Share Repurchases

The Company has a stock repurchase program that is executed through purchases made from time to time, including in the open market. The Company retires repurchased shares of common stock, reducing common stock with any excess of cost over par value recorded to accumulated deficit. Issued and outstanding shares of common stock are reduced by the number of shares repurchased. No treasury stock is recognized in the condensed consolidated financial statements. In August 2022, the IRA enacted a 1% excise tax on net share repurchases after December 31, 2022. Any excise tax incurred on share repurchases is recognized as part of the cost basis of the shares acquired.

Concentration of Risk

Cash, cash equivalents, restricted cash, and receivables are financial instruments which potentially subject the Company to concentrations of credit risk, as well as liquidity risk.

The Company maintains cash balances at commercial banks. Balances commonly exceed the amount insured by the FDIC. The Company has not experienced any losses in such accounts.

The Company monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business but does not generally require collateral on receivables.

For the three months ended September 30, 2024, three partners represented 75%, 14% and 10% of total income and revenues, respectively. For the nine months ended September 30, 2024, three partners represented 50%, 25% and 10% of total income and revenues, respectively. For the three months ended September 30, 2023, two partners represented 73% and 24% of total income and revenues, respectively. For the nine months ended September 30, 2023, two partners represented 54% and 44% of total income and revenues, respectively. One partner represented 96% of the trade and other receivables, net as of September 30, 2024. One partner represented 100% of the trade and other receivables, net as of December 31, 2023.

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of two components: net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to gains and losses that under U.S. GAAP are recorded as an element of stockholders' equity but are excluded from net income (loss).

Accounting Pronouncements Recently Adopted

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting*, which expands annual and interim disclosure requirements for reportable segments, primarily through enhanced disclosures about significant segment expenses. The amendments in ASU 2023-07 are effective for all public entities for fiscal years beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company adopted annual requirements under ASU 2023-07 on January 1, 2024 and plans to adopt interim requirements under ASU 2023-07 on January 1, 2025. The Company will begin including financial statement disclosures in accordance with ASU 2023-07 in the Company's Annual Report on Form 10-K for the year ended December 31, 2024.

Recent Accounting Pronouncements Not Yet Adopted

In October 2023, the FASB issued ASU 2023-06, *Disclosure Improvements: Codification Amendments in Response to the Securities and Exchange Commission's Disclosure Update and Simplification Initiative*. ASU 2023-06 incorporates 14 of the 27 disclosure requirements published in SEC Release No. 33-10532: Disclosure Update and Simplification into various topics within the ASC. ASU 2023-06's amendments represent clarifications to, or technical corrections of, current requirements. For SEC registrants, the effective date for each amendment will be the date on which the SEC removes that related disclosure from its rules. Early adoption is prohibited. The Company does not expect the standard to have a material impact on its consolidated financial statements and disclosures.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which includes amendments that further enhance income tax disclosures, primarily through standardization and disaggregation of rate reconciliation categories and income taxes paid by jurisdiction. The amendments are effective for all public entities for fiscal years beginning after December 15, 2024. Early adoption is permitted and should be applied either prospectively or retrospectively. The Company plans to adopt ASU 2023-09 and related updates on January 1, 2025. The Company is currently evaluating the impact that the updated standard will have on its financial statement disclosures.

3. Condensed Consolidated Financial Statements Details

Equity Securities

As of September 30, 2024 and December 31, 2023, equity securities consisted of an investment in Rezolute's common stock of $0.8 million and $0.2 million, respectively (see Note 4). For the three and nine months ended September 30, 2024, the Company recognized a gain of $0.1 million and $0.6 million, respectively, due to the change in fair value of its investment in Rezolute's common stock, which is included in the other income (expense), net line item of the condensed consolidated statements of operations. For both the three and nine months ended September 30, 2023, the Company recognized a loss of $0.1 million due to the change in fair value of its investment in Rezolute.

Accrued and Other Liabilities

Accrued and other liabilities consisted of the following (in thousands):

	September 30, 2024	December 31, 2023
Accrued incentive compensation	$ 1,171	$ 1,203
Other accrued liabilities	445	625
Accrued legal and accounting fees	637	791
Accrued payroll and benefits	198	149
Total	$ 2,451	$ 2,768

Net Loss Per Share Attributable to Common Stockholders

The following table includes the computation of basic and diluted net loss per share attributable to common stockholders (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator				
Net loss	$ (17,243)	$ (5,509)	$ (9,853)	$ (20,722)
Less: Series A accumulated dividends	(530)	(530)	(1,591)	(1,591)
Less: Series B accumulated dividends	(838)	(838)	(2,513)	(2,513)
Net loss attributable to common stockholders, basic	$ (18,611)	$ (6,877)	$ (13,957)	$ (24,826)
Net loss attributable to common stockholders, diluted	$ (18,611)	$ (6,877)	$ (13,957)	$ (24,826)
Denominator				
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic	11,712	11,473	11,645	11,466
Weighted-average shares used in computing net loss per share attributable to common stockholders, diluted	11,712	11,473	11,645	11,466
Net loss per share attributable to common stockholders, basic	$ (1.59)	$ (0.60)	$ (1.20)	$ (2.17)
Net loss per share attributable to common stockholders, diluted	$ (1.59)	$ (0.60)	$ (1.20)	$ (2.17)

Potentially dilutive securities are excluded from the calculation of diluted net loss per share attributable to common stockholders if their inclusion is anti-dilutive.

The following table shows the weighted-average shares from outstanding securities considered anti-dilutive and therefore excluded from the computation of diluted net loss per share attributable to common stockholders (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Convertible preferred stock	5,003	5,003	5,003	5,003
Common stock options	1,473	1,804	1,775	1,781
Warrants for common stock	131	6	131	6
Total	6,607	6,813	6,909	6,790

For PSUs with market conditions, if the market conditions have not been satisfied by the end of the reporting period, the number of shares that would be issuable based on the market price at the end of the reporting period, as if the end of the reporting period were the end of the contingency period, will be included in the calculation of diluted earnings per share if the effect is dilutive. No shares would be issuable based on the market price of $26.48 per share as of September 30, 2024.

4. Acquisitions, Licensing, and Other Arrangements

Kinnate Acquisition

On February 16, 2024, the Company entered into the Kinnate Merger Agreement, pursuant to which the Company acquired Kinnate through a tender offer for (i) $2.5879 in cash per share of Kinnate common stock, plus (ii) one non-transferable contractual CVR per share of Kinnate common stock. The merger closed on April 3, 2024 (the "Kinnate Merger Closing Date"), and XRA merged with and into Kinnate. Following the merger, Kinnate continued as the surviving entity in the merger and a wholly-owned subsidiary of the Company.

Each Kinnate CVR represents the right to receive potential payments pursuant to the terms and subject to the conditions of the Kinnate CVR Agreement. Prior to the Kinnate Merger Closing Date, on February 27, 2024, Kinnate sold one of its lead clinical drug candidates, exarafenib and related IP to Pierre Fabre for an upfront cash consideration of $0.5 million and contingent consideration of $30.5 million upon the achievement of a certain specified milestone (the "Exarafenib Sale"). Kinnate CVR holders are entitled to 100% of the proceeds of the $30.5 million contingent consideration from the Exarafenib Sale less any deductible expenses, if any, until the fifth anniversary of the Kinnate Merger Closing Date, together with 85% of net proceeds, if any, from any license or other disposition of any or all rights to any product, product candidate or research program active at Kinnate as of the closing that occurs within one year of the Kinnate Merger Closing Date, in each case subject to and in accordance with the terms of the Kinnate CVR Agreement. Under the Kinnate CVR Agreement, the Company is responsible for the collection and disbursement of any proceeds that Kinnate CVR holders could be entitled to Broadridge, the Kinnate CVR holders' rights agent.

As part of the Kinnate Merger Agreement, XOMA acquired an IPR&D asset related to KIN-3248, a Fibroblast Growth Factor Receptors inhibitor, designed for the treatment of patients with intrahepatic cholangiocarcinoma, and urothelial carcinoma, as well as certain other solid tumors; the molecule is currently in a Phase 1 clinical study. Additionally, XOMA acquired pre-clinical intangible assets related to IP for the following: (i) KIN-8741, a highly selective c-MET inhibitor with broad mutational coverage, including acquired resistance mutations, in certain solid tumors driven by exon 14-altered and/or amplified c-MET; (ii) KIN-7136, a brain-penetrant MEK inhibitor; and (iii) CDK4, a potential brain-penetrant, selective CDK4 inhibitor.

As of April 3, 2024, the Company concluded that the potential milestone from the Exarafenib Sale payable from Pierre Fabre to the Company of $30.5 million (the Exarafenib milestone asset) did not meet the definition of a derivative under ASC 815. The Exarafenib milestone asset met the definition of a financial asset and the Company elected to apply the fair value option in accordance with ASC 825 and recorded an initial estimated fair value of $2.9 million for the Exarafenib milestone asset (Note 6). Subsequent changes in the estimated fair value of the Exarafenib milestone asset, if any, are expected to be recorded in the condensed consolidated statements of operations.

As of April 3, 2024, the Company concluded that the potential milestone from the Exarafenib Sale of $30.5 million payable by the Company to the Kinnate CVR holders (the Exarafenib milestone contingent consideration) met the definition of a derivative under ASC 815 and the Company recorded an initial estimated fair value of $2.9 million for the Exarafenib milestone contingent consideration (Note 6). Subsequent changes in the estimated fair value of the Exarafenib milestone contingent consideration, if any, are expected to be recorded in the condensed consolidated statements of operations.

Contingent consideration related to the IPR&D asset for KIN-3248 and pre-clinical intangible assets for KIN-8741, KIN-7136, and CDK4 could be payable if the Company licenses or otherwise disposes of any or all rights to any product, product candidate or research program active at Kinnate as of the Kinnate Merger Closing Date within one year of the Kinnate Merger Closing Date. Any contingent consideration related to KIN-3248 is expected to be expensed as incurred. The Company concluded that any contingent consideration related to KIN-8741, KIN-7136, and CDK4 did not meet the definition of a derivative under ASC 815, and as such, the Company expects to recognize any related contingent consideration when probable and estimable.

In August 2021, Kinnate entered into an agreement to lease office space located in San Francisco, California. The lease commenced in January 2022 and expires on June 30, 2026. In February 2024, Kinnate entered into a lease assignment agreement with an assignee to assign the remainder of the lease commitment for the leased office space. Kinnate remained liable for lease payments should the assignee default, however Kinnate was not liable for the property taxes, insurance, and common area maintenance. As part of the Kinnate Merger Agreement, the Company acquired both the lease agreement and the related lease assignment agreement.

As of April 3, 2024, the Company concluded that the leased office space in San Francisco should be accounted for as an acquired lease and, in accordance with ASC 805, the Company retained the historical operating lease classification for the lease. In accordance with ASC 842, the Company accounted for the lease as if it had commenced on the Kinnate Merger Closing Date. The Company recognized operating lease liabilities of $0.8 million as of April 3, 2024.

As of April 3, 2024, the Company concluded that the lease assignment agreement should be accounted for as a sublease in accordance with ASC 842. As the assignee makes lease payments, the Company expects to record sublease income in the other income (expense), net line item in its condensed consolidated statement of operations.

The total purchase consideration for Kinnate, as of April 3, 2024, was as follows (in thousands):

Closing cash payment[(1)]	$ 122,646
Estimated fair value of the Exarafenib milestone contingent consideration[(2)]	2,922
Transaction costs	809
Total purchase consideration	$ 126,377

(1) The closing cash payment was determined based on a total of 47,232,737 shares of Kinnate common stock tendered at closing, at a per share price of $2.5879, and the settlement of Kinnate RSUs and stock options under the Kinnate equity incentive plans (2,510,552 total underlying shares at a per share price of $2.5879), less the exercise price for the stock options.

(2) The fair value of the Exarafenib milestone contingent consideration was estimated using a probability-weighted discounted cash flow model for the amounts payable to Kinnate CVR holders under the Kinnate CVR Agreement upon the achievement of certain specified milestones associated with the Exarafenib Sale.

The Kinnate acquisition was accounted for as an asset acquisition under ASC 805 as the assets did not satisfy the definition of a “business” under ASC 805. As such, the Company recognized the acquired assets and liabilities based on the total purchase consideration, on a relative fair value basis, after allocating the excess of the fair value of net assets acquired to certain qualifying assets (principally, the acquired IPR&D asset, intangible assets, and the right-of-use asset). On a relative fair value basis, the fair value of the IPR&D asset, intangible assets, and the right-of-use asset were reduced to zero. As the fair value of net assets exceeded the total purchase consideration, a bargain purchase gain was recognized on the acquisition of Kinnate in the condensed consolidated statements of operations for the nine months ended September 30, 2024.

The following table shows the allocation of the purchase consideration based on the relative fair value of assets acquired and liabilities assumed by the Company as of April 3, 2024 (in thousands):

Cash and cash equivalents	$ 142,381
Prepaid expenses and other current assets	3,223
Exarafenib milestone asset	2,922
Accrued and other liabilities	(2,009)
Operating lease liabilities	(322)
Long-term operating lease liabilities	(502)
Net assets acquired	$ 145,693
Reconciliation of net assets acquired to total purchase consideration:	
Net assets acquired	$ 145,693
Less: Gain on the acquisition of Kinnate	(19,316)
Total purchase consideration	$ 126,377

Subsequent to the acquisition, the Company incurred $3.6 million in severance charges related to the acquisition which was included in G&A expense in the condensed consolidated statement of operations for the nine months ended September 30, 2024. As of September 30, 2024, the Company had fully paid the $3.6 million related to these severance charges.

Unaudited pro forma net loss was $9.9 million and $25.1 million for the nine months ended September 30, 2024 and year ended December 31, 2023, respectively. There was no adjustment to the unaudited pro forma total income and revenues for the nine months ended September 30, 2024 and year ended December 31, 2023 as Kinnate had no historical sales through December 31, 2023. The unaudited pro forma financial information has been prepared from historical financial statements that have been adjusted to give effect to the acquisition of Kinnate as though it had occurred on January 1, 2023. They include adjustments for severance expense and gain on the acquisition of Kinnate. The unaudited pro forma financial information is not intended to reflect the actual results of operations that would have occurred if the acquisition had occurred on January 1, 2023, nor is it indicative of future operating results.

Takeda

On November 1, 2006, the Company entered into the Takeda Collaboration Agreement with Takeda under which the Company agreed to discover and optimize therapeutic antibodies against multiple targets selected by Takeda.

Under the terms of the Takeda Collaboration Agreement, the Company may receive an aggregate of up to $19.0 million relating to TAK-079 (mezagitamab) and 4% royalties on future sales of all products subject to this license. The Company's right to receive milestone payments expires on the later of the receipt of payment from Takeda of the last amount to be paid under the agreement or the cessation by Takeda of all research and development activities with respect to all program antibodies, collaboration targets or collaboration products. The Company's right to receive royalties expires on the later of 13.5 years from the first commercial sale of each royalty-bearing discovery product or the expiration of the last-to-expire licensed patent (or 12 years from first commercial sale if there is significant generic competition post patent-expiration).

In February 2009, the Company expanded the existing collaboration to provide Takeda with access to multiple antibody technologies, including a suite of research and development technologies and integrated information and data management systems. The Company may receive milestones of up to $3.3 million per discovery product candidate and low single-digit royalties on future sales of all antibody products subject to this license. The Company's right to receive milestone payments expires on the later of the receipt of payment from Takeda of the last amount to be paid under the agreement or the cessation by Takeda of all research and development activities with respect to all program antibodies, collaboration targets or collaboration products. The Company's right to receive royalties expires on the later of 10 years from the first commercial sale of such royalty-bearing discovery product or the expiration of the last-to-expire licensed patent. In August 2021, Molecular Templates, Inc., assumed full rights to TAK-169 from Takeda, including full control of TAK-169 clinical development, per the terms of its terminated collaboration agreement with Takeda.

The Company has received $3.0 million of milestone payments since the inception of the agreement and is eligible to receive additional milestone payments of up to $16.0 million under the Takeda Collaboration Agreement.

As of September 30, 2024 and December 31, 2023, there were no contract assets or contract liabilities related to this arrangement and none of the costs to obtain or fulfill the contract were capitalized. The Company did not recognize any revenue related to this arrangement during the three and nine months ended September 30, 2024 and 2023.

Rezolute

On December 6, 2017, the Company entered into a license agreement with Rezolute pursuant to which the Company granted an exclusive global license to Rezolute to develop and commercialize RZ358 (previously known as "X358") products for all indications. In addition, the Company entered into a common stock purchase agreement with Rezolute pursuant to which Rezolute agreed to issue to the Company, as consideration for receiving the license for RZ358, a certain number of its common stock in connection with any future equity financing activities.

Under the terms of the license agreement, Rezolute is responsible for all development, regulatory, manufacturing, and commercialization activities associated with RZ358 and is required to make certain development, regulatory, and commercial milestone payments to the Company of up to an aggregate of $232.0 million based on the achievement of pre-specified criteria. Under the license agreement, the Company is also eligible to receive royalties ranging from the high single-digits to the mid-teens based upon annual net sales of any commercial product incorporating RZ358.

The Company concluded that the development and regulatory milestone payments are solely dependent on Rezolute's performance and achievement of the specified events. The Company determined that it is not probable that a significant cumulative revenue reversal will not occur in future periods for these future payments. Therefore, the remaining development and regulatory milestones are fully constrained and excluded from the transaction price until the respective milestone is achieved. Any consideration related to commercial milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the licenses granted to Rezolute and therefore, have also been excluded from the transaction price. At the end of each reporting period, the Company will update its assessment of whether an estimate of variable consideration is constrained and update the estimated transaction price accordingly.

Rezolute's obligation to pay royalties with respect to a particular RZ358 product and country will continue for the later of the date of expiration of the last valid patent claim covering the product in each country, or 12 years from the date of the first commercial sale of the product in each country. Rezolute's future royalty obligations in the U.S. will be reduced by 20% if the manufacture, use or sale of a licensed product is not covered by a valid patent claim, until such a claim is confirmed.

Pursuant to the license agreement, XOMA is eligible to receive a low single-digit royalty on sales of Rezolute's other non-RZ358 products from its current programs, including RZ402 which has completed a Phase 2 clinical study. Rezolute's obligation to pay royalties with respect to a particular Rezolute product and country will continue for the longer of 12 years from the date of the first commercial sale of the product in each country or for so long as Rezolute or its licensee is selling such product in any country, provided that any such licensee royalty will terminate upon the termination of the licensee's obligation to make payments to Rezolute based on sales of such product in each country.

The license agreement contains customary termination rights relating to material breach by either party. Rezolute also has a unilateral right to terminate the license agreement in its entirety on ninety days' notice at any time. To the extent permitted by applicable laws, the Company has the right to terminate the license agreement if Rezolute challenges the licensed patents.

No consideration was exchanged upon execution of the arrangement. In consideration for receiving the license for RZ358, Rezolute agreed to issue shares of its common stock and pay cash to the Company upon the occurrence of any future equity financing activities.

The license agreement was subsequently amended in 2018, 2019, and 2020. Pursuant to the terms of the license agreement as amended, the Company received a total of $6.0 million upon Rezolute's equity financing activities and $8.5 million in installment payments through October 2020. The Company also received 161,861 shares of Rezolute's common stock (as adjusted for the 1:50 reverse stock split in October 2020).

In January 2022, Rezolute dosed the last patient in its Phase 2b clinical trial for RZ358, which triggered a $2.0 million milestone payment due to the Company pursuant to the Rezolute License Agreement, as amended.

In April 2024, Rezolute dosed the first patient in its Phase 3 trial of RZ358 and the Company earned a $5.0 million milestone pursuant to the Rezolute License Agreement, as amended.

As of September 30, 2024 and December 31, 2023, there were no contract assets or contract liabilities related to this arrangement. None of the costs to obtain or fulfill the contract were capitalized. The Company recognized zero and $5.0 million in revenue from contracts with customers related to this arrangement during the three and nine months ended September 30, 2024. The Company did not recognize any revenue related to this arrangement during the three and nine months ended September 30, 2023.

Janssen

In August 2019, the Company entered into an agreement with Janssen pursuant to which the Company granted a non-exclusive license to Janssen to develop and commercialize certain product candidates, including XOMA's patents and know-how. Under the agreement, Janssen made a one-time payment of $2.5 million to XOMA. Additionally, for each product candidate, the Company is entitled to receive milestone payments of up to $3.0 million upon Janssen's achievement of certain clinical development and regulatory approval milestones. Additional milestone payments may be due for product candidates which are the subject of multiple clinical trials. Upon commercialization, the Company is eligible to receive a 0.75% royalty on net sales of each product. Janssen's obligation to pay royalties with respect to a particular product and country will continue until the eighth-year-and-sixth-month anniversary of the first commercial sale of the product in such country. The agreement will remain in effect unless terminated by mutual written agreement.

The Company concluded that the agreement should be accounted for separately from any prior arrangements with Janssen and that the license grant is the only performance obligation under the new agreement. The Company recognized the entire one-time payment of $2.5 million as revenue for the year ended December 31, 2019 as it had completed its performance obligation.

The Company concluded that the development and regulatory milestone payments are solely dependent on Janssen's performance and achievement of specified events and thus it is not probable that a significant cumulative revenue reversal will not occur in future periods for these future payments. Therefore, the development and regulatory milestones are fully constrained and excluded from the transaction price until the respective milestone is achieved. Any consideration related to royalties will be recognized when the related sales occur as they were determined to relate predominantly to the license granted to Janssen and therefore, have also been excluded from the transaction price. At the end of each reporting period, the Company will update its assessment of whether an estimate of variable consideration is constrained and update the estimated transaction price accordingly.

As of September 30, 2024 and December 31, 2023, there were no contract assets or contract liabilities related to this arrangement. None of the costs to obtain or fulfill the contract were capitalized. The Company did not recognize any revenue related to this arrangement during the three and nine months ended September 30, 2024. The Company recognized $0.2 million and $1.3 million in revenue from contracts with customers related to this arrangement during the three and nine months ended September 30, 2023.

Novartis – Anti-TGFβ Antibody (NIS793)

On September 30, 2015, the Company and Novartis entered into the Anti-TGFβ Antibody License Agreement under which the Company granted Novartis an exclusive, world-wide, royalty-bearing license to the Company's anti-transforming growth factor beta ("TGFβ") antibody program (now "NIS793"). Under the terms of the Anti-TGFβ

Antibody License Agreement, Novartis has worldwide rights to NIS793 and is responsible for the development and commercialization of antibodies and products containing antibodies arising from NIS793. Unless terminated earlier, the Anti-TGFβ Antibody License Agreement will remain in effect, on a country-by-country and product-by-product basis, until Novartis' royalty obligations end. The Anti-TGFβ Antibody License Agreement contains customary termination rights relating to material breach by either party. Novartis also has a unilateral right to terminate the Anti-TGFβ Antibody License Agreement on an antibody-by-antibody and country-by-country basis or in its entirety upon 180 days' notice.

The Company concluded that there were multiple promised goods and services under the Anti-TGFβ Antibody License Agreement, including the transfer of license, regulatory services, and transfer of materials, process, and know-how, which were determined to represent one combined performance obligation. The Company recognized the entire upfront payment of $37.0 million as revenue in the consolidated statement of comprehensive loss in 2015 as it had completed its performance obligations as of December 31, 2015.

The Company was eligible to receive up to a total of $480.0 million in development, regulatory, and commercial milestones under the Anti-TGFβ Antibody License Agreement. During the year ended December 31, 2017, Novartis achieved a clinical development milestone pursuant to the Anti-TGFβ Antibody License Agreement, and as a result, the Company earned a $10.0 million milestone payment.

The Company concluded that the development and regulatory milestone payments are solely dependent on Novartis' performance and achievement of the specified events. The Company determined that it is not probable that a significant cumulative revenue reversal will not occur in future periods for these future payments. Therefore, the remaining development and regulatory milestones are fully constrained and excluded from the transaction price. Any consideration related to commercial milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the licenses granted to Novartis and therefore, have also been excluded from the transaction price. At the end of each reporting period, the Company will update its assessment of whether an estimate of variable consideration is constrained and update the estimated transaction price accordingly.

The Company is also eligible to receive royalties on sales of licensed products, which are tiered based on sales levels and range from a mid-single-digit percentage rate to up to a low double-digit percentage rate. Novartis' obligation to pay royalties with respect to a particular product and country will continue for the longer of the date of expiration of the last valid patent claim covering the product in that country, or ten years from the date of the first commercial sale of the product in that country.

In August 2023, Novartis communicated to the Company its intent to discontinue development activities related to NIS793.

As of September 30, 2024 and December 31, 2023, there were no contract assets or contract liabilities related to this arrangement. None of the costs to obtain or fulfill the contract were capitalized. The Company did not recognize any revenue related to this arrangement during the three and nine months ended September 30, 2024 and 2023.

Novartis – Anti-IL-1β Antibody (VPM087)

On August 24, 2017, the Company and Novartis entered into the Gevokizumab License Agreement under which the Company granted to Novartis an exclusive, worldwide, royalty-bearing license to gevokizumab ("VPM087"), a novel anti-Interleukin-1 ("IL-1") beta allosteric monoclonal antibody and related know-how and patents. Under the terms of the Gevokizumab License Agreement, Novartis is solely responsible for the development and commercialization of VPM087 and products containing VPM087.

On August 24, 2017, pursuant to a separate agreement (the "IL-1 Target License Agreement"), the Company granted to Novartis non-exclusive licenses to its intellectual property covering the use of IL-1 beta targeting antibodies in the treatment and prevention of cardiovascular disease and other diseases and conditions, and an option to obtain an exclusive license (the "Exclusivity Option") to such intellectual property for the treatment and prevention of cardiovascular disease.

Under the Gevokizumab License Agreement, the Company received total consideration of $30.0 million for the license and rights granted to Novartis. Of the total consideration, $15.7 million was paid in cash and $14.3 million (equal to €12.0 million) was paid by Novartis, on behalf of the Company, to settle the Company's outstanding debt with Les Laboratories Servier (the "Servier Loan"). In addition, Novartis extended the maturity date on the Company's debt to Novartis. The Company also received $5.0 million cash related to the sale of 539,131 shares of the Company's common stock, at a purchase price of $9.2742 per share. The fair market value of the common stock issued to Novartis was $4.8 million, based on the closing stock price of $8.93 per share on August 24, 2017, resulting in a $0.2 million premium paid to the Company.

Based on the achievement of pre-specified criteria, the Company is eligible to receive up to $438.0 million in development, regulatory, and commercial milestones under the Gevokizumab License Agreement. The Company is also eligible to receive royalties on sales of licensed products, which are tiered based on sales levels and range from the high single-digits to mid-teens. Under the IL-1 Target License Agreement, the Company received an upfront cash payment of $10.0 million and is eligible to receive low single-digit royalties on canakinumab sales in cardiovascular indications covered by the Company's patents. Should Novartis exercise the Exclusivity Option, the royalties on canakinumab sales will increase to the mid-single-digits.

Unless terminated earlier, the Gevokizumab License Agreement and IL-1 Target License Agreement will remain in effect, on a country-by-country and product-by-product basis, until Novartis' royalty obligations end. The two agreements contain customary termination rights relating to material breach by either party. Novartis also has a unilateral right to terminate the Gevokizumab License Agreement on a product-by-product and country-by-country basis or in its entirety on six months' prior written notice to the Company. Under the IL-1 Target License Agreement, Novartis has a unilateral right to terminate the agreement on a product-by-product and country-by-country basis or in its entirety upon a prior written notice.

The Gevokizumab License Agreement and IL-1 Target License Agreement were accounted for as one arrangement because they were entered into at the same time in contemplation of each other. The Company concluded that there are multiple promised goods and services under the combined arrangement, including the transfer of license to IL-1 beta targeting antibodies, and the transfer of license, know-how, process, materials, and inventory related to the VPM087 antibody, which were determined to represent two distinct performance obligations. The Company determined that the Exclusivity Option is not an option with material right because the upfront payments to the Company were not negotiated to provide an incremental discount for the future additional royalties upon exercise of the Exclusivity Option. Therefore, the Company concluded that the Exclusivity Option is not a performance obligation. The additional royalties will be recognized as revenue when, and if, Novartis exercises its option because the Company has no further performance obligations at that point.

At the inception of the arrangement, the Company determined that the transaction price under the arrangement was $40.2 million, which consisted of the $25.7 million upfront cash payments, the $14.3 million Servier Loan payoff and the $0.2 million premium on the sale of the common stock. The transaction price was allocated to the two performance obligations based on their standalone selling prices. The Company determined that the nature of the two performance obligations is the right to use the licenses as they exist at the point of transfer, which occurred when the transfer of materials, process and know-how, and filings to regulatory authority were completed. During the year ended December 31, 2017, the Company recognized the entire transaction price of $40.2 million as revenue upon completion of the delivery of the licenses and related materials, process and know-how, and filings to regulatory authority.

The Company concluded that the development and regulatory milestone payments are solely dependent on Novartis' performance and achievement of specified events. The Company determined that it is not probable that a significant cumulative revenue reversal will not occur in future periods for these future payments. Therefore, the development and regulatory milestones are fully constrained and excluded from the transaction price until the respective milestone is achieved. Any consideration related to commercial milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the licenses granted to Novartis and therefore, have also been excluded from the transaction price. At the end of each reporting period, the Company will update its assessment of whether an estimate of variable consideration is constrained and update the estimated transaction price accordingly.

As of September 30, 2024 and December 31, 2023, there were no contract assets or contract liabilities related to this arrangement. None of the costs to obtain or fulfill the contract were capitalized. The Company did not recognize any revenue related to this arrangement during the three and nine months ended September 30, 2024 and 2023.

Sale of Future Revenue Streams

On December 21, 2016, the Company entered into two royalty interest sale agreements (together, the "Royalty Sale Agreements") with HCRP. Under the first Royalty Sale Agreement, the Company sold its right to receive milestone payments and royalties on future sales of products subject to a License Agreement, dated August 18, 2005, between XOMA and Wyeth Pharmaceuticals (subsequently acquired by Pfizer) for an upfront cash payment of $6.5 million, plus potential additional payments totaling $4.0 million in the event three specified net sales milestones were met in 2017, 2018, and 2019. Based on actual sales, 2017, 2018, and 2019 sales milestones were not achieved. Under the second Royalty Sale Agreement entered into in December 2016, the Company sold its right to receive certain royalties under an Amended and Restated License Agreement dated October 27, 2006 between XOMA and Dyax Corp. for a cash payment of $11.5 million.

The Company classified the proceeds received from HCRP as unearned revenue, to be recognized as revenue under the units-of-revenue method over the life of the license agreements because of the Company's limited continuing involvement in the Royalty Sale Agreements. Such limited continuing involvement is related to the Company's undertaking to cooperate with HCRP in the event of litigation or a dispute related to the license agreements. Because the transaction was structured as a non-cancellable sale, the Company does not have significant continuing involvement in the generation of the cash flows due to HCRP and there are no guaranteed rates of return to HCRP, the Company recorded the total proceeds of $18.0 million as unearned revenue recognized under the units-of-revenue method. The Company allocated the total proceeds between the two Royalty Sale Agreements based on the relative fair value of expected payments to be made to HCRP under the license agreements. The unearned revenue is being recognized as revenue over the life of the underlying license agreements under "units-of-revenue" method. Under this method, amortization for a reporting period is calculated by computing a ratio of the allocated proceeds received from HCRP to the payments expected to be made by the licensees to HCRP over the term of the Royalty Sale Agreements, and then applying that ratio to the period's cash payment. During the third quarter of 2018, the Shire product underlying the Dyax Corp. license agreement was approved, and the Company began recognizing revenue under the units-of-revenue method due to sales of the approved product.

The Company recognized $0.7 million and $1.8 million in revenue under the units-of-revenue method under these arrangements during the three and nine months ended September 30, 2024, respectively. The Company recognized $0.6 million and $1.6 million in revenue under the units-of-revenue method under these arrangements during the three and nine months ended September 30, 2023, respectively. As of September 30, 2024, the current and non-current portions of the remaining unearned revenue recognized under the units-of-revenue method was $1.9 million and $5.6 million, respectively. As of December 31, 2023, the Company classified $2.1 million and $7.2 million as current and non-current unearned revenue recognized under the units-of-revenue method, respectively.

5. Royalty and Commercial Payment Purchase Agreements

Short-term royalty and commercial payment receivables were $12.7 million and $14.2 million as of September 30, 2024 and December 31, 2023, respectively. Long-term royalty and commercial payment receivables were $54.2 million and $58.0 million as of September 30, 2024 and December 31, 2023, respectively.

Daré Royalty Purchase Agreements

On April 29, 2024, the Company entered into the Daré RPAs. Pursuant to the terms of the Daré RPAs, the Company paid $22.0 million in cash to Daré in consideration for the sale of (a) 100% of all remaining royalties related to XACIATO not already subject to the royalty-backed financing agreement Daré entered into in December 2023 and net of payments owed by Daré to upstream licensors, which equates to royalties ranging from low to high single digits, and of all potential commercial milestones related to XACIATO that are payable to Daré under the Daré Organon License Agreement; (b) a 4% synthetic royalty on net sales of OVAPRENE and a 2% synthetic royalty on net sales of Sildenafil

Cream, which will decrease to 2.5% and 1.25%, respectively, upon the Company achieving a pre-specified return threshold; and (c) a portion of Daré's right to a certain milestone payment that may become payable to Daré under the Bayer License Agreement. The Daré RPAs also provide for milestone payments to Daré of $11.0 million for each successive $22.0 million received by the Company under the Daré RPAs after achievement of a return threshold of $88.0 million.

Upon closing of the transaction, the Company paid Daré an upfront payment of $22.0 million, which was recorded as long-term royalty and commercial payment receivables in its condensed consolidated balance sheet. The Company concluded that the milestone payments to Daré did not meet the definition of a derivative under ASC 815 and expects to recognize the milestone payments as liabilities when probable and estimable.

Given the limited available information, the Company was unable to reliably estimate future net sales and the commercial payments to be received over the twelve-month period following the quarter ended September 30, 2024 and, as such, no amounts were reflected as short-term royalty and commercial payment receivables as of September 30, 2024.

During the nine months ended September 30, 2024, the Company received de minimis commercial payments pursuant to the Daré RPAs. In accordance with the cost recovery method, the cash received was recorded as a direct reduction of the long-term royalty and commercial payment receivables balance.

Under the cost recovery method, the Company does not expect to recognize any income related to milestones and commercial payments received until the purchase price has been fully collected. The Company performed its impairment assessment and no allowance for credit losses was recorded as of September 30, 2024.

Talphera Commercial Payment Purchase Agreement

DSUVIA was approved by the FDA in 2018 for use in adults in certified medically supervised healthcare settings. In April 2023, Talphera divested DSUVIA to Alora for an upfront payment, a 15% royalty on commercial net sales of DSUVIA and up to $116.5 million in sales-based milestone payments under the Talphera APA. In addition, Talphera is entitled to 75% of net sales of DSUVIA to the DoD for its services performed to support sales of DSUVIA to the DoD under the Talphera Marketing Agreement.

On January 12, 2024, the Company entered into the Talphera CPPA, pursuant to which XOMA will receive (i) 100% of the 15% royalty on commercial net sales and the sales-based milestones related to net sales of DSUVIA for sales made on and after January 1, 2024, and (ii) 100% of Talphera's future service revenue in the amount of 75% of net sales of DSUVIA to the DoD, until the Company receives $20.0 million. Thereafter, the Company will fully retain the 15% royalty on commercial net sales of DSUVIA and will share equally with Talphera the 75% of net sales of DSUVIA to the DoD and the remaining sales-based milestone payments due from Alora.

Upon closing of the transaction, the Company paid Talphera an upfront payment of $8.0 million, which was recorded as long-term royalty and commercial payment receivables in its consolidated balance sheet.

During the nine months ended September 30, 2024, the Company received commercial payments pursuant to the Talphera CPPA of $80,000. In accordance with the cost recovery method, the cash received was recorded as a direct reduction of the long-term royalty and commercial payment receivables balance.

Given the limited available information, the Company was unable to reliably estimate future net sales and the commercial payments to be received over the twelve-month period following the quarter ended September 30, 2024 and, as such, no amounts were reflected as short-term royalty and commercial payment receivables as of September 30, 2024.

Under the cost recovery method, the Company does not expect to recognize any income related to milestones and commercial payments received until the purchase price has been fully collected. The Company performed its impairment assessment and no allowance for credit losses was recorded as of September 30, 2024.

LadRx Agreements

On June 21, 2023, the Company entered into the LadRx AAA pursuant to which the Company acquired from LadRx all of its rights, title, and interest related to arimoclomol under the Zevra APA between Zevra and LadRx. The Company also entered into the LadRx RPA, pursuant to which the Company acquired the right to receive all of the future royalties, regulatory, and commercial milestone payments as well as other related payments due to LadRx from ImmunityBio related to aldoxorubicin under the ImmunityBio License Agreement between ImmunityBio and LadRx.

On June 3, 2024, the ImmunityBio License Agreement was terminated, and the Company entered into an amendment to the LadRx RPA. Under the LadRx RPA, as amended, the Company is eligible to receive potential low single-digit percentage royalty payments on aggregate net sales of aldoxorubicin. Additionally, the amendment removed the remaining $4.0 million regulatory milestone payment under the original agreement that had been contingent upon the achievement of a specified regulatory milestone for the product candidate related to aldoxorubicin, which initially and as of the amendment date had a fair value of zero. If LadRx licenses aldoxorubicin to an applicable third party, the Company is eligible to receive potential high single-digit percentage royalty payments on aggregate net sales of aldoxorubicin and a portion of any potential future milestone payments.

Upon the initial closing of the LadRx Agreements, the Company paid LadRx an upfront payment of $5.0 million and could have been required to pay up to an additional $6.0 million in regulatory and commercial sales milestone payments which included $5.0 million related to regulatory milestone payments and $1.0 million related to commercial sales milestone payments. The Company concluded that the regulatory milestone payments of $5.0 million met the definition of a derivative under ASC 815 and should be accounted for at fair value and recorded as a current liability at the inception of the transaction. The fair value of the regulatory milestone payments was estimated to be $1.0 million. The Company concluded the commercial milestone payment of $1.0 million did not meet the definition of a derivative under ASC 815 and a liability will be recognized when probable and estimable.

At the inception of the LadRx Agreements, the Company recorded $6.0 million as long-term royalty receivables related to the aggregate of the arimoclomol and aldoxorubicin payment rights acquired, which included the $5.0 million upfront payment and $1.0 million for the estimated fair value of the regulatory milestone payments.

On January 11, 2024, Zevra announced that the FDA accepted its NDA resubmission for arimoclomol and pursuant to the LadRx Agreements, the Company made a $1.0 million milestone payment to LadRx in January 2024.

On September 20, 2024, Zevra announced that the FDA granted approval to Zevra's NDA for MIPLYFFA. The achievement of the commercial milestone payment under the LadRx AAA was considered probable as of September 30, 2024, and the Company recognized a $1.0 million contingent liability.

As of September 30, 2024, the Company recorded $2.2 million as short-term royalty and commercial payment receivables related to the net proceeds receivable for the milestone payment associated with the FDA approval of MIPLYFFA. Given the limited available information, the Company was unable to reliably estimate its royalty payment stream from future net sales, and therefore no amounts were reflected as short-term royalty and commercial payment receivables as of September 30, 2024.

Under the cost recovery method, the Company does not expect to recognize any income related to royalties, milestone payments and other payments until the purchase price has been fully collected. The Company performed its impairment assessment and no allowance for credit losses was recorded as of September 30, 2024 and December 31, 2023.

Aptevo Commercial Payment Purchase Agreement

On March 29, 2023, the Company entered into the Aptevo CPPA, pursuant to which the Company acquired from Aptevo a portion of its milestone and commercial payment rights under a sale agreement dated February 28, 2020 between Aptevo and Medexus, related to IXINITY, which is marketed by Medexus for the control and prevention of bleeding episodes and postoperative management in people with Hemophilia B.

The Company is eligible to receive a mid-single digit percentage of all IXINITY quarterly net sales from January 1, 2023 until the first quarter of 2035, and will be entitled to milestone payments of up to $5.3 million.

At the inception of the Aptevo CPPA, the Company recorded $9.7 million as long-term royalty receivables in its consolidated balance sheet which included a $9.6 million upfront payment and a $50,000 one-time payment, which would be due if XOMA received more than $0.5 million in receipts for first quarter 2023 sales of IXINITY. At inception of the agreement, the Company concluded the one-time payment of $50,000 was probable and reasonably estimable. Therefore, the payment was recorded as a contingent liability under ASC 450 in the consolidated balance sheet at inception. The Company paid the one-time payment of $50,000 in June 2023 when related receipts exceeded $0.5 million.

During the year ended December 31, 2023, the Company received total commercial payments pursuant to the Aptevo CPPA of $1.7 million.

During the nine months ended September 30, 2024, the Company received commercial payments pursuant to the Aptevo CPPA of $0.8 million. In accordance with the cost recovery method, the cash received was recorded as a direct reduction of the long-term royalty and commercial payment receivables balance.

Though the Company is unable to reliably estimate its commercial payment stream from sales of future net sales and the commercial payments to be received under the agreement, it estimates the short-term portion of the receivables balance based on the past 12 months' receipts. As such, as of September 30, 2024 and December 31, 2023, the Company recorded $2.2 million and $2.0 million, respectively, as short-term royalty and commercial payment receivables.

Under the cost recovery method, the Company does not expect to recognize any income related to milestones and commercial payments received until the purchase price has been fully collected. The Company performed its impairment assessment and no allowance for credit losses was recorded as of September 30, 2024 and December 31, 2023.

Palobiofarma Royalty Purchase Agreement

On September 26, 2019, the Company entered into the Palo RPA, pursuant to which the Company acquired the rights to potential royalty payments in low single-digit percentages of aggregate net sales associated with six product candidates in various clinical development stages, targeting the adenosine pathway with potential applications in solid tumors, non-Hodgkin's lymphoma, asthma/chronic obstructive pulmonary disease, ulcerative colitis, idiopathic pulmonary fibrosis, lung cancer, psoriasis, and nonalcoholic steatohepatitis and other indications that are being developed by Palo.

Under the terms of the Palo RPA, the Company paid Palo an upfront payment of $10.0 million payment at the close of the transaction, which occurred simultaneously upon parties' entry into the Palo RPA on September 26, 2019. At the inception of the agreement, the Company recorded $10.0 million as long-term royalty receivables in its consolidated balance sheet.

As of September 30, 2024, no payments were probable to be received under the Palo RPA in the near term. Under the cost recovery method, the Company does not expect to recognize any income related to royalties received until the purchase price has been fully collected. The Company performed its impairment assessment and no allowance for credit losses was recorded as of September 30, 2024 and December 31, 2023.

Viracta Royalty Purchase Agreement

On March 22, 2021, the Company entered into the Viracta RPA, as amended March 4, 2024, pursuant to which the Company acquired the right to receive future royalties, milestone payments, and other payments related to two clinical-stage drug candidates for an upfront payment of $13.5 million. The first candidate, DAY101 (a pan-RAF kinase inhibitor), is being developed by Day One, and the second candidate, vosaroxin (a topoisomerase II inhibitor), is being developed by Denovo Biopharma LLC. The Company acquired the right to receive (i) up to $54.0 million in potential milestone payments, potential royalties on sales, if approved, and a portion of potential other payments related to DAY101, excluding up to $5.0 million retained by Viracta, and (ii) up to $57.0 million in potential regulatory and commercial milestones, and high single-digit royalties on sales related to vosaroxin, if approved.

At the inception of the Viracta RPA, the Company recorded $13.5 million as long-term royalty receivables in its consolidated balance sheet.

On October 30, 2023, the Company earned a $5.0 million milestone payment pursuant to the Viracta RPA related to the FDA's acceptance of Day One's NDA for OJEMDA. In accordance with the cost recovery method, the $5.0 million milestone payment received was recorded as a direct reduction of the recorded long-term royalty receivables balance.

On April 23, 2024, Day One announced that the FDA granted approval to Day One's NDA for OJEMDA. Pursuant to the Viracta RPA, the Company earned a $9.0 million milestone payment upon FDA approval and is also eligible to receive mid-single-digit royalties on sales of OJEMDA. In accordance with the cost recovery method, $8.5 million of the milestone payment was recorded as a direct reduction of the remaining recorded long-term royalty receivables balance and the excess balance of $0.5 million was recorded as income from purchased receivables in the condensed consolidated statement of operations for the nine months ended September 30, 2024.

On May 30, 2024, Day One announced that it sold its priority review voucher to an undisclosed buyer for $108.0 million. Pursuant to the Viracta RPA, the Company received a payment of $8.1 million related to the sale. The rights to proceeds upon the sale of the priority review voucher was determined to be an embedded derivative which had no value prior to FDA approval of OJEMDA. The Company recorded a change in the fair value of the embedded derivative of $8.1 million in other income in the condensed consolidated statement of operations for the nine months ended September 30, 2024.

As of June 30, 2024, the Company had fully collected the purchase price recorded in long-term royalty and commercial payment receivables related to the Viracta RPA in its consolidated balance sheet and, as such, subsequent royalties received are recorded as income from purchased receivables.

The Company performed its impairment assessment and no allowance for credit losses was recorded as of December 31, 2023. As there was no remaining balance in long-term royalty and commercial payment receivables related to the Viracta RPA in its consolidated balance sheet as of September 30, 2024, the Company did not need to perform its periodic impairment assessment for the three months ended September 30, 2024.

As of September 30, 2024, there was $1.0 million in trade and other receivables, net related to this arrangement. As of December 31, 2023, there was no trade and other receivables, net related to this arrangement. The Company recognized $1.0 million and $1.9 million in income from purchased receivables related to this arrangement during the three and nine months ended September 30, 2024. The Company did not recognize any income related to this arrangement during the three and nine months ended September 30, 2023.

Kuros Royalty Purchase Agreement

On July 14, 2021, the Company entered into the Kuros RPA, pursuant to which the Company acquired the rights to 100% of the potential future royalties from commercial sales, which are tiered from high single-digit to low double-digits, and up to $25.5 million in pre-commercial milestone payments associated with an existing license agreement related to Checkmate Pharmaceuticals' vidutolimod (CMP-001), a Toll-like receptor 9 agonist, packaged in a virus-like particle, for an upfront payment of $7.0 million. The Company may pay up to an additional $142.5 million to Kuros in sales-based milestone payments.

At the inception of the Kuros RPA, the Company recorded $7.0 million as long-term royalty receivables in its consolidated balance sheet.

In May 2022, Regeneron completed its acquisition of Checkmate Pharmaceuticals, Inc. resulting in a $5.0 million milestone payment to Kuros. Pursuant to the Kuros RPA, the Company is entitled to 50% of the milestone payment, which was received by XOMA in July 2022. In accordance with the cost recovery method, the $2.5 million milestone received was recorded as a direct reduction of the recorded long-term royalty receivables balance.

As of September 30, 2024, no payments were probable to be received under the Kuros RPA in the near term. Under the cost recovery method, the Company does not expect to recognize any income related to royalties, milestone payments, and other payments until the purchase price has been fully collected. The Company performed its impairment assessment and no allowance for credit losses was recorded as of September 30, 2024 and December 31, 2023.

Affitech Commercial Payment Purchase Agreement

On October 6, 2021, the Company entered into the Affitech CPPA, pursuant to which, the Company purchased a future stream of commercial payment rights to Roche's faricimab from Affitech for an upfront payment of $6.0 million. The Company is eligible to receive 0.5% of future net sales of faricimab for a ten-year period following the first commercial sales in each applicable jurisdiction. Under the terms of the Affitech CPPA, the Company may pay up to an additional $20.0 million based on the achievement of certain regulatory and sales milestones. At the inception of the Affitech CPPA, the Company recorded $14.0 million as long-term royalty receivables which included the $6.0 million upfront payment and $8.0 million in regulatory milestone payments in its consolidated balance sheet. The Company concluded the regulatory milestone payments of $8.0 million met the definition of a derivative under ASC 815 and should be accounted at fair value and recorded as a current liability at the inception of the transaction. Therefore, the regulatory milestone payments were recorded as contingent liabilities in its consolidated balance sheet. The Company concluded the sales-based milestone payments of up to $12.0 million do not meet the definition of a derivative under ASC 815 and a liability will be recognized when probable and estimable.

In January 2022, Roche received approval from the FDA to commercialize VABYSMO (faricimab-svoa) for the treatment of wet, or neovascular, age-related macular degeneration and diabetic macular edema. In September 2022, Roche received approval from the European Commission to commercialize VABYSMO for the treatment of wet, or neovascular, age-related macular degeneration and visual impairment due to diabetic macular edema. Commercial payments are due from Roche to the Company within 60 days of December 31 and June 30 of each year.

Pursuant to the Affitech CPPA, the Company paid Affitech a $5.0 million milestone payment tied to the U.S. marketing approvals and a $3.0 million milestone payment tied to the EC approvals. The achievement of the first and second sales-based milestone payments under the Affitech CPPA was considered probable as of December 31, 2023, and as such the Company recognized a $6.0 million contingent liability in contingent consideration under RPAs, AAAs, and CPPAs in its consolidated balance sheet. The sales milestones were achieved in 2023 and in the first quarter of 2024, the Company paid Affitech $6.0 million and the related contingent liability balance was reduced to zero.

Based on reported first quarter of 2024 sales of VABYSMO, the achievement of the third sales-based milestone payment under the Affitech CPPA was considered probable as of March 31, 2024, and the Company recognized a $3.0 million contingent liability which remained on the condensed consolidated balance sheet as of September 30, 2024.

Historically, the Company had been unable to reliably estimate its commercial payment stream from future net sales and the related commercial payments to be received under the Affitech CPPA. However, Roche's periodically reported VABYSMO sales data, available third-party sales projections, and the Company's history of receipts of commercial payments related to VABYSMO have provided the Company with a greater ability to estimate future net sales and the commercial payments to be received under the Affitech CPPA. Therefore, as of April 1, 2024, the Company began accounting for the receivable which had a carrying amount of $7.8 million using the EIR method on a prospective basis. As a result, the Company recognized $5.4 million and $10.0 million in income from purchased receivables during the three and nine months ended September 30, 2024.

During the nine months ended September 30, 2024, the Company received commercial payments pursuant to the Affitech CPPA of $16.9 million.

The Company performed its impairment assessment and no allowance for credit losses was recorded as of September 30, 2024 and December 31, 2023.

Agenus Royalty Purchase Agreement

On September 20, 2018, the Company entered into the Agenus RPA, pursuant to which the Company acquired the right to receive 33% of the future royalties on six Incyte Europe S.a.r.l. ("Incyte") immuno-oncology assets, currently in development, due to Agenus from Incyte (net of certain royalties payable by Agenus to a third party) and 10% of all future developmental, regulatory, and commercial milestone payments related to these assets. However, the Company did not have a right to the expected near-term milestone associated with the entry of INCAGN2390 (anti-TIM-3) into its Phase 1 clinical trial. The future royalties due to Agenus from Incyte are based on low single to mid-teen digit percentages of applicable net sales.

In addition, the Company acquired the right to receive 33% of the future royalties on MK-4830, an immuno-oncology product, due to Agenus from Merck and 10% of all future developmental, regulatory, and commercial milestones related to this asset. The future royalties due to Agenus from Merck are based on a low single-digit percentage of applicable net sales. Pursuant to the Agenus RPA, the Company's share in future potential development, regulatory, and commercial milestones is up to $59.5 million. There is no limit on the amount of future royalties on sales that the Company may receive under the agreements.

Under the terms of the Agenus RPA, the Company paid Agenus an upfront payment of $15.0 million. At the inception of the agreement, the Company recorded $15.0 million as long-term royalty receivables in the consolidated balance sheets.

In November 2020, MK-4830 advanced into Phase 2 development, and Agenus earned a $10.0 million clinical development milestone payment under its license agreement with Merck, of which the Company earned $1.0 million. In accordance with the cost recovery method, the $1.0 million milestone payment received was recorded as a direct reduction of the recorded long-term royalty receivables balance.

Based on updates received in July 2024, the Company evaluated the status of the program for potential impairment in the third quarter of 2024 and determined no payments were probable to be received under the Agenus RPA as of September 30, 2024. Accordingly, the Company recorded an impairment of $14.0 million under royalty purchase agreement asset impairment in its condensed consolidated statement of operations and an allowance for credit losses of $14.0 million, which consisted of a $14.0 million reduction in the net carrying value of long-term royalty receivables related to the Agenus RPA. As the impaired amount was not expected to be collected, the long-term royalty receivables were written off. There was no allowance for credit losses recorded as of December 31, 2023.

Aronora Royalty Purchase Agreement

On April 7, 2019, the Company entered into the Aronora RPA which closed on June 26, 2019. Under the Aronora RPA, the Company acquired the right to receive future royalties and a portion of upfront, milestone, and option payments (the "Non-Royalties") related to five anti-thrombotic hematology product candidates. Three candidates were subject to Aronora's collaboration with Bayer (the "Bayer Products"), including one which was subject to an exclusive license option by Bayer. In July 2020, Bayer elected to not exercise its option on the third Bayer Product and that product is now subject to the same economic terms as the non-Bayer Products. The Company was eligible to receive 100% of future royalties and 10% of future Non-Royalties economics from these Bayer Products. The other two candidates are unpartnered (the "non-Bayer Products") for which the Company will receive a low single-digit percentage of net sales and 10% of Non-Royalties. The future payment percentage for Non-Royalties will be reduced from 10% to 5% upon the Company's receipt of two times the total cumulative amount of consideration paid by the Company to Aronora. On April 8, 2024, Bayer terminated its license agreement with Aronora.

Under the terms of the Aronora RPA, the Company paid Aronora a $6.0 million upfront payment at the close of the transaction. The Company financed $3.0 million of the upfront payment with a term loan under its Loan and Security Agreement with SVB. The Company was required to make a contingent future cash payment of $1.0 million for each of the three Bayer Products that were active on September 1, 2019 (up to a total of $3.0 million, the "Aronora Contingent Consideration"). Pursuant to the Aronora RPA, if the Company receives at least $25.0 million in cumulative royalties on net sales per product, the Company will be required to pay associated tiered milestone payments to Aronora in an aggregate

amount of up to $85.0 million per product (the "Royalty Milestones"). The Royalty Milestones are paid based upon various royalty tiers prior to reaching $250.0 million in cumulative royalties on net sales per product. Royalties per product in excess of $250.0 million are retained by the Company.

At the inception of the agreement, the Company recorded $9.0 million as long-term royalty receivables in its consolidated balance sheet, including the estimated fair value of the Aronora Contingent Consideration of $3.0 million. In September 2019, the Company paid the $3.0 million contingent consideration to Aronora. As the Company receives royalties from Aronora for a product, the Company will recognize the liability for future Royalty Milestones for such product when probable and estimable.

As of September 30, 2024, no payments were probable to be received under the Aronora RPA. Based on communications in April 2024, the Company evaluated the status of the partnered programs for potential impairment in the second quarter of 2024 and recorded an impairment of $9.0 million under royalty purchase agreement asset impairment in its condensed consolidated statement of operations and an allowance for credit losses of $9.0 million, which consisted of a $9.0 million reduction in the net carrying value of long-term royalty receivables related to the Aronora RPA. As the impaired amount was not expected to be collected, the long-term royalty receivables were written off. There was no allowance for credit losses recorded as of December 31, 2023.

The following table summarizes the royalty and commercial payment receivable activities under the cost recovery method during the nine months ended September 30, 2024 (in thousands):

	Balance as of January 1, 2024	Acquisition of Royalty and Commercial Payment Receivables	Receipt of Royalty and Commercial Payments	Recognition of Contingent Consideration	Impairment of Royalty and Commercial Payment Receivables	Reclassification of Royalty and Commercial Payment Receivables from Cost Recovery to EIR Method	Balance as of September 30, 2024
Daré	$ —	$ 22,000	$ —	$ —	$ —	$ —	$ 22,000
Talphera	—	8,000	(80)	—	—	—	7,920
LadRx	6,000	—	—	1,000	—	—	7,000
Aptevo	7,976	—	(794)	—	—	—	7,182
Agenus	14,000	—	—	—	(14,000)	—	—
Aronora	9,000	—	—	—	(9,000)	—	—
Palobiofarma	10,000	—	—	—	—	—	10,000
Viracta	8,500	—	(8,500)	—	—	—	—
Kuros	4,500	—	—	—	—	—	4,500
Affitech	12,191	—	(7,396)	3,000	—	(7,795)	—
Total	$ 72,167	$ 30,000	$ (16,770)	$ 4,000	$ (23,000)	$ (7,795)	$ 58,602

The following table summarizes the royalty and commercial payment receivable activities under the EIR method during the nine months ended September 30, 2024 (in thousands):

	Balance as of January 1, 2024	Reclassification of Royalty and Commercial Payment Receivables from Cost Recovery to EIR Method	Income from Purchased Receivables Under EIR Method	Receipt of Royalty and Commercial Payments	Balance as of September 30, 2024
Affitech	$ —	$ 7,795	$ 9,985	$ (9,493)	$ 8,287
Total	$ —	$ 7,795	$ 9,985	$ (9,493)	$ 8,287

6. Fair Value Measurements

The Company records its financial assets and liabilities at fair value. The carrying amounts of certain of the Company's financial instruments, including cash, trade and other receivables, net, and accounts payable, approximate their fair value due to their short maturities. Fair value is defined as the exchange price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting guidance for fair value establishes a framework for measuring fair value and a fair value hierarchy that prioritizes the inputs used in valuation techniques. The accounting standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 – Observable inputs, such as unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs, either directly or indirectly, other than quoted prices in active markets for identical assets or liabilities, such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities; therefore, requiring an entity to develop its own valuation techniques and assumptions.

An entity may choose to measure many financial instruments and certain other items at fair value at specified election dates. The Company's Exarafenib milestone asset (Note 4) was carried at fair value, determined according to Level 3 inputs in the fair value hierarchy described above. Any subsequent changes in the estimated fair value of the Exarafenib milestone asset are recorded in the condensed consolidated statements of operations.

The following tables set forth the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as follows (in thousands):

	Fair Value Measurements as of September 30, 2024 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash equivalents:				
Money market funds	$ 112,895	$ —	$ —	$ 112,895
U.S. treasury bills	25,137	—	—	25,137
Total cash equivalents	138,032	—	—	138,032
Exarafenib milestone asset (Note 4)	—	—	3,125	3,125
Equity securities	785	—	—	785
Total financial assets	$ 138,817	$ —	$ 3,125	$ 141,942
Liabilities:				
Exarafenib milestone contingent consideration (Note 4)	$ —	$ —	$ 3,125	$ 3,125
Contingent consideration under RPAs, AAAs, and CPPAs, measured at fair value	—	—	—	—
Total financial liabilities	$ —	$ —	$ 3,125	$ 3,125

	Fair Value Measurements as of December 31, 2023 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Cash equivalents:				
Money market funds	$ 28,352	$ —	$ —	$ 28,352
Total cash equivalents	28,352	—	—	28,352
Equity securities	161	—	—	161
Total financial assets	$ 28,513	$ —	$ —	$ 28,513
Liabilities:				
Contingent consideration under RPAs, AAAs, and CPPAs, measured at fair value	$ —	$ —	$ 1,000	$ 1,000

Exarafenib Milestone Asset and Exarafenib Milestone Contingent Consideration

The Exarafenib milestone asset and Exarafenib milestone contingent consideration represent the Company's potential receipt of a future milestone payment and a future consideration payable to Kinnate CVR holders that are contingent upon the achievement of a certain specified milestone related to the Exarafenib Sale. As of September 30, 2024, the estimated fair value of each of the Exarafenib milestone asset and Exarafenib milestone contingent consideration was $3.1 million. The fair value measurement was based on a probability-weighted discounted cash flow model using significant Level 3 inputs, such as anticipated timelines and the probability of achieving the development milestone. Both the Exarafenib milestone asset and Exarafenib milestone contingent consideration are remeasured at fair value at each reporting period with changes in fair value recorded in the other income (expense), net line item of the condensed consolidated statement of operations until settlement.

Subsequent to the Kinnate acquisition, during the three and nine months ended September 30, 2024, the estimated fair value of both the Exarafenib milestone asset and Exarafenib milestone contingent consideration increased by $0.2 million. The increase in estimated fair value did not have an impact on the condensed consolidated statements of operations for the three and nine months ended September 30, 2024.

Equity Securities

The equity securities consisted of an investment in Rezolute's common stock and are classified on the condensed consolidated balance sheets as current assets as of September 30, 2024 and December 31, 2023. The equity securities are revalued each reporting period with changes in fair value recorded in the other income (expense), net line item of the condensed consolidated statements of operations. As of September 30, 2024 and December 31, 2023 the Company valued the equity securities using the closing price per share for Rezolute's common stock traded on the Nasdaq Stock Market of $4.85 and $0.99, respectively. The inputs that were used to calculate the fair value of the equity securities were observable prices in active markets and therefore were classified as a Level 1 fair value measurement.

Contingent Consideration under RPAs, AAAs, and CPPAs, Measured at Fair Value

During the first quarter of 2024, the contingent liability recorded pursuant to the LadRx Agreements was reduced to zero after the Company paid LadRx $1.0 million upon achievement of a regulatory milestone in January 2024 (Note 5).

During the second quarter of 2024, the Company amended the LadRx RPA and the remaining contingent consideration that had been contingent upon the achievement of a specified regulatory milestone for the product candidate related to aldoxorubicin was removed (Note 5). As of September 30, 2024, there were no remaining regulatory milestone contingent payments under the LadRx Agreements.

7. Lease Agreements

Office Lease

The Company leases a facility in Emeryville, California under an operating lease. In January 2023, the Company amended the original lease to extend the lease term five months from its original expiration of February 28, 2023 to July 31, 2023 (the "amended lease agreement" or the "amended lease").

The Company retained no option to further extend, renew or terminate the amended lease under the amended terms and all other material terms and conditions, including the monthly base rent, remained consistent with the original lease.

In accordance with ASC 842, the Company accounted for the amendment to extend the lease term as a modification of the original lease and, as such, remeasured the lease liability and recognized a corresponding adjustment to the right-of-use asset of $0.1 million to reflect the changes in the lease payments due to the extended lease term.

On June 27, 2023, the Company executed the second lease amendment for its corporate headquarters lease in Emeryville, California with the same counterparty, in a different location in the same building to replace its existing amended lease which expired in July 2023 (the "new lease agreement" or the "new lease"). The new lease agreement commenced on November 10, 2023 and has a term of 65 months.

Under the new lease agreement, the Company retained access to its original premises under the amended lease which expired in July 2023, until the current premises became available on November 10, 2023. Payments made between when the lease expired in July 2023 and the commencement date of the premises of November 10, 2023 were recorded as variable lease costs in the consolidated statement of operations for the year ended December 31, 2023.

In accordance with ASC 842, the Company accounted for the new lease as a separate contract and the Company recognized an operating lease right-of-use assets of $0.4 million and operating lease liabilities of $0.4 million on November 10, 2023, the commencement date of the new lease.

Kinnate Lease

As part of the Kinnate Merger Agreement (Note 4), the Company acquired a lease agreement that was assigned to an assignee that expires on June 30, 2026. In accordance with ASC 842, the Company accounted for the lease as if it had commenced on the Kinnate Merger Closing Date. The Company recognized operating lease liabilities of $0.8 million as of April 3, 2024. No operating lease right-of-use assets were recorded due to the allocation of the excess of fair value of net assets acquired to certain qualifying assets under ASC 805.

The following table summarizes maturity of the Company's operating lease liabilities as of September 30, 2024 (in thousands):

Year	Rent Payments
2024 (excluding the nine months ended September 30, 2024)	$ 117
2025	502
2026	300
2027	91
2028	102
Thereafter	36
Total undiscounted lease payments	$ 1,148
Present value adjustment	(120)
Total net lease liability for operating leases	$ 1,028

As of September 30, 2024 and December 31, 2023, the total net lease liability was $1.0 million and $0.4 million, respectively. As of September 30, 2024, the Company's current and non-current operating lease liabilities were $0.4 million and $0.6 million, respectively. As of December 31, 2023, the Company's current and non-current operating lease liabilities were $0.1 million and $0.3 million, respectively.

The following table summarizes the cost components of the Company's operating leases included in G&A in the condensed consolidated statements of operations for the three and nine months ended September 30, 2024 and 2023 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Lease costs:				
Operating lease cost	$ 36	$ 17	$ 97	$ 116
Variable lease cost [1]	—	20	18	32
Total lease costs	$ 36	$ 37	$ 115	$ 148

(1) Under the terms of the original, amended, and new lease agreements, the Company is also responsible for certain variable lease payments that are not included in the measurement of the lease liability. Variable lease payments include non-lease components such as common area maintenance fees.

The following information represents supplemental disclosure for the condensed consolidated statements of cash flows related to operating leases (in thousands):

	Nine Months Ended September 30,	
	2024	2023
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows under operating leases	$ 68	$ 121

The assumptions used in calculating the present value of the lease payments for the Company's operating leases as of September 30, 2024 and December 31, 2023 were as follows:

	September 30, 2024	December 31, 2023
Weighted-average remaining lease term	2.7 years	5.33 years
Weighted-average discount rate	8.18 %	8.50 %

Kinnate Sublease

As part of the Kinnate Merger Agreement (Note 4), the Company acquired a lease assignment agreement with an assignee that expires on June 30, 2026. In accordance with ASC 842, the Company will account for the lease assignment as a sublease over its term. Under the terms of the lease assignment agreement, the assignee will make direct payments to the head lessor over the lease term. During the three and nine months ended September 30, 2024, the Company recognized sublease income of $0.1 million and $0.2 million in the other income (expense), net line item in the condensed consolidated statement of operations.

8. Long-Term Debt

On December 15, 2023, XOMA transferred to XRL, a newly formed wholly-owned subsidiary, all its rights, title, and interest in the commercial payments from Roche's VABYSMO under the Affitech CPPA and related assets (the "Commercial Payments"). The VABYSMO-related assets and rights transferred to XRL are referred to herein as the "Transferred Assets."

Simultaneously, XRL entered into the Blue Owl Loan Agreement with Blue Owl and lenders, pursuant to which XRL was extended certain senior secured credit facilities in an aggregate principal amount of up to $140.0 million. The principal and interest of the loan are to be paid from the Commercial Payments. XRL is obligated to make semi-annual interest payments, starting in March 2024, at a fixed rate of 9.875% per annum until the commercial payment-backed loan is repaid, at which time the Commercial Payments will revert back to XOMA. On each interest payment date, any shortfall in interest payment will be paid from the interest reserve, any uncured shortfall in interest payment that exceeds the interest reserve will increase the outstanding principal amount of the loan, and any Commercial Payment in excess of accrued interest on the loan will be used to repay the principal of the loan until the balance is fully repaid.

The loan matures on December 15, 2038, provided that XRL may repay it in full at any time prior to December 15, 2038, subject to the terms of the Blue Owl Loan Agreement. The Blue Owl Loan includes (i) an initial term loan in an aggregate principal amount equal to $130.0 million and (ii) a delayed draw term loan in an aggregate principal amount of $10.0 million to be funded at the option of the XRL upon receipt by the lenders of payments of principal and interest from the proceeds of Commercial Payments in excess of an agreed upon amount on or prior to March 15, 2026.

The payment obligations under the Blue Owl Loan Agreement are limited to XRL, and Blue Owl has no recourse under the Blue Owl Loan Agreement against XOMA or any assets other than the Transferred Assets and XOMA's equity interest in XRL. In connection with the Blue Owl Loan Agreement, (i) XRL granted Blue Owl a first-priority perfected lien on, and security interest in, (a) the Commercial Payments and the proceeds thereof, in each case under the Affitech CPPA and (b) all other assets of XRL and (ii) XOMA granted Blue Owl a first-priority perfected lien on, and security interest in, 100% of the equity of XRL. The Blue Owl Loan Agreement contains other customary terms and conditions, including representations and warranties, as well as indemnification obligations in favor of Blue Owl.

On December 15, 2023, the Company borrowed the initial term loan of $130.0 million and received $119.6 million, net of $4.1 million in fees and lender expenses and $6.3 million that was deposited into reserve accounts to pay interest, administrative fees and XRL's operating expenses (see Note 2). The Company also incurred $0.6 million of direct issuance costs related to the Blue Owl Loan Agreement.

In connection with the Blue Owl Loan Agreement, XOMA issued to Blue Owl and certain funds affiliated with Blue Owl warrants to purchase: (i) up to 40,000 shares of XOMA's common stock at an exercise price of $35.00 per share; (ii) up to 40,000 shares of XOMA's common stock at an exercise price of $42.50 per share; and (iii) up to 40,000 shares of XOMA's common stock at an exercise price of $50.00 per share (collectively, the "Blue Owl Warrants"). The fair value of the Blue Owl Warrants was determined using the Black-Scholes Model (see Note 2) and was estimated to be $1.5 million. As of September 30, 2024, all Blue Owl Warrants were outstanding.

The initial term loan of $130.0 million is carried at amortized cost. Amortization of the initial term loan is applied under the expected-effective-yield approach using the retrospective interest method. As of December 31, 2023, the EIR was determined to be 11.01%. The Company recorded a debt discount of $5.3 million, which included $3.8 million in allocated fees and lender expenses and $1.5 million for the fair value of the Blue Owl Warrants. The Company also recorded $0.6 million in direct debt issuance costs allocated to the initial term loan. The Company will accrete both the debt discount of $5.3 million and $0.6 million of direct debt issuance costs over the expected term of the initial term loan.

As of the closing date of December 15, 2023, the Company recorded the $0.3 million allocated costs for the delayed draw term loan commitment as a non-current asset in other assets - long term in the consolidated balance sheet and will reclassify the amount as a debt discount when the delayed draw term loan is drawn. As of September 30, 2024, no amount had been drawn from the delayed draw term loan.

The carrying value of the short and long-term portion of the initial term loan was $5.5 million and $118.5 million, respectively, as of December 31, 2023. The Company recorded $0.6 million in interest expense during the year ended December 31, 2023.

In March 2024, XRL made a semi-annual payment of $7.4 million which included an interest payment of $3.8 million and principal repayment of $3.6 million. In September 2024, XRL made a semi-annual payment of $9.5 million which included an interest payment of $6.2 million and principal repayment of $3.3 million. The carrying value of the

short and long-term portion of the initial term loan was $9.8 million and $108.1 million, respectively, as of September 30, 2024. As of September 30, 2024, the EIR was determined to be 11.16%. The Company recorded $3.5 million and $10.4 million in interest expense during the three and nine months ended September 30, 2024, respectively. As of September 30, 2024, the Company had an unaccreted debt discount of $4.5 million and unaccreted direct issuance costs of $0.7 million to be accreted over the expected remaining term of the initial term loan.

The following table summarizes the impact of the initial term loan on the Company's condensed consolidated balance sheet as of September 30, 2024 (in thousands):

	September 30, 2024
Gross principal	$ 130,000
Principal repayments	(6,902)
Unaccreted debt discount and debt issuance costs	(5,183)
Total carrying value net of principal repayments, unaccreted debt discount, and debt issuance costs	117,915
Less: current portion of long-term debt	(9,826)
Long-term debt	$ 108,089

Long-term debt on the Company's condensed consolidated balance sheet as of September 30, 2024 and consolidated balance sheet as of December 31, 2023 includes only the carrying value of the Blue Owl Loan. The carrying value of the Blue Owl Loan as of December 31, 2023 was $124.0 million.

Aggregate projected future principal payments of the initial term loan as of September 30, 2024, are as follows (in thousands):

Year Ending December 31,	Payments
2024 (excluding the nine months ended September 30, 2024)	$ —
2025	11,274
2026	17,825
2027	23,885
2028	29,761
Thereafter	40,353
Total payments	$ 123,098

Accretion of debt discounts and issuance costs are included in interest expense. Interest expense in the condensed consolidated statements of operations for the three and nine months ended September 30, 2024 relates to the initial term loan (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Accrued interest expense	$ 3,085	$ —	$ 9,450	$ —
Accretion of debt discount and debt issuance costs	408	—	996	—
Total interest expense	$ 3,493	$ —	$ 10,446	$ —

9. Common Stock Warrants

As of September 30, 2024 and December 31, 2023, the following common stock warrants were outstanding:

Issuance Date	Expiration Date	Balance Sheet Classification	Exercise Price per Share	September 30, 2024	December 31, 2023
May 2018	May 2028	Stockholders' equity	$ 23.69	6,332	6,332
March 2019	March 2029	Stockholders' equity	$ 14.71	4,845	4,845
December 2023	December 2033	Stockholders' equity	$ 35.00	40,000	40,000
December 2023	December 2033	Stockholders' equity	$ 42.50	40,000	40,000
December 2023	December 2033	Stockholders' equity	$ 50.00	40,000	40,000
				131,177	131,177

10. Commitments and Contingencies

Collaborative Agreements, Royalties, and Milestone Payments

The Company has committed to make potential future milestone payments and legal fees to third parties as part of licensing and development programs. Payments under these agreements become due and payable only upon the achievement of certain developmental, regulatory, and commercial milestones by the Company's licensees. Because it is uncertain if and when these milestones will be achieved, such contingencies, aggregating up to $6.3 million (assuming one product per contract meets all milestone events) have not been recorded on the accompanying condensed consolidated balance sheets. The Company is unable to determine precisely when and if payment obligations under the agreements will become due as these obligations are based on milestone events, the achievement of which is subject to a significant number of risks and uncertainties. None of these milestones were assessed to be probable as of September 30, 2024.

Contingent Consideration

Pursuant to the Company's agreements with Aronora, Kuros, Affitech, LadRx, and Daré, and under the Kinnate CVR Agreement, the Company has committed to pay the Aronora Royalty Milestones, the Kuros Sales Milestones, the remaining Affitech Sales Milestones, LadRx commercial sales milestone, Daré Milestones, and the Exarafenib milestone contingent consideration.

During the year ended December 31, 2023, the Company recorded $1.0 million for the LadRx contingent consideration that represented the estimated fair value of the potential future payments upon the achievement of regulatory milestones related to arimoclomol and aldoxorubicin at the inception of the LadRx Agreements. During the nine months ended September 30, 2024, the contingent liability was reduced to zero after the Company paid LadRx $1.0 million upon the FDA's acceptance of the arimoclomol NDA resubmission. Additionally, the amendment to the LadRx RPA removed the milestone payment that had been contingent upon the achievement of a regulatory milestone related to aldoxorubicin (Note 5).

During the third quarter of 2024, the LadRx commercial sales milestone related to MIPLYFFA pursuant to the LadRx AAA was assessed to be probable under ASC 450. As such, a $1.0 million liability was recorded in contingent consideration under RPAs, AAAs, and CPPAs and a corresponding $1.0 million asset was recorded under long-term royalty and commercial payment receivables on the condensed consolidated balance sheet as of September 30, 2024.

During the year ended December 31, 2023, certain sales milestones related to VABYSMO pursuant to the Affitech CPPA were assessed to be probable under ASC 450. As such, a $6.0 million liability was recorded in contingent consideration under RPAs, AAAs, and CPPAs and a corresponding $6.0 million asset was recorded under long-term royalty and commercial payment receivables on the consolidated balance sheet. During the first quarter of 2024, this contingent liability was reduced to zero after the Company paid Affitech $6.0 million upon the achievement of the related commercial sales milestones (Note 5).

During the first quarter of 2024, a sales milestone related to VABYSMO pursuant to the Affitech CPPA was assessed to be probable under ASC 450. As such, a $3.0 million liability was recorded in contingent consideration under RPAs, AAAs, and CPPAs and a corresponding $3.0 million asset was recorded under short-term royalty and commercial payment receivables on the condensed consolidated balance sheet.

As of September 30, 2024, the Company recorded $3.1 million for the Exarafenib milestone contingent consideration, which represented the estimated fair value of potential future payments upon the achievement of a certain specified milestone related to exarafenib payable to Kinnate CVR holders upon the closing of the Kinnate acquisition under the Kinnate CVR Agreement. The Exarafenib milestone contingent consideration is measured at fair value at each reporting period, with changes in fair value recorded in other income (expense), net.

The liability for future Aronora Royalty Milestones, Kuros Sales Milestones, and the Daré Milestones will be recorded when the amounts, by product, are estimable and probable.

As of September 30, 2024, none of the Aronora Royalty Milestones, Kuros Sales Milestones, and Daré Milestones were assessed to be probable and as such, no liability was recorded on the condensed consolidated balance sheet.

11. Stock-Based Compensation

The Company may grant qualified and non-qualified stock options, common stock, PSUs, RSUs, and other stock-based awards under various plans to directors, officers, employees, and other individuals. Stock options are granted at exercise prices of not less than the fair market value of the Company's common stock on the date of grant. Additionally, the Company has an ESPP that allows employees to purchase Company shares at a purchase price equal to 85% of the lower of the fair market value of the Company's common stock on the first trading day of the offering period or on the last day of the purchase period. The ESPP includes a rollover mechanism for the purchase price if the fair market value of the Company's common stock on the purchase date is less than the fair market value of the Company's common stock on the first trading day of the offering period.

Stock Options and Other Benefit Plans

Stock Option Plans

2010 Plan Stock Options

Stock options issued under the 2010 Plan generally vest monthly over three years for employees and one year for directors. Stock options held by employees who qualify for retirement age (defined as employees that are a minimum of 55 years of age and the sum of their age plus years of full-time employment with the Company exceeds 70 years) vest on the earlier of scheduled vest date or the date of retirement.

Fair Value Assumptions of 2010 Plan Stock Options

There were no stock options granted during the three months ended September 30, 2024 and 2023. The fair value of stock options granted during the nine months ended September 30, 2024 and 2023 was estimated based on the following weighted-average assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Dividend yield	— %	— %	0 %	0 %
Expected volatility	— %	— %	65 %	70 %
Risk-free interest rate	— %	— %	4.35 %	3.60 %
Expected term	—	—	5.79 years	5.79 years

The weighted-average grant-date fair value per share of the stock options granted during the nine months ended September 30, 2024 and 2023, was $24.71 and $13.46, respectively.

Stock Option Inducement Awards

On December 30, 2022, the Board appointed Owen Hughes as Executive Chairman of the Board and Interim Chief Executive Officer and Bradley Sitko as the Company's Chief Investment Officer, effective as of January 1, 2023. Pursuant to the terms of their respective employment agreements, Mr. Hughes and Mr. Sitko were each granted two separate awards of non-qualified stock options on January 3, 2023 (collectively, the "Stock Option Inducement Awards") when the Company's stock price was $18.66 per share.

The Stock Option Inducement Awards were granted to Mr. Hughes and Mr. Sitko outside the 2010 Plan as an inducement material to entering into their respective employment with the Company in accordance with Nasdaq Listing Rule 5635(c)(4) but are subject to the terms and conditions of the 2010 Plan. More information on the Stock Option Inducement Awards granted during the three months ended March 31, 2023 can be found in Note 10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on March 8, 2024.

The weighted-average grant-date fair value per share of options granted to Mr. Hughes and Mr. Sitko at an exercise price of $18.66 per share during the first quarter of 2023 was $11.91. The weighted-average grant-date fair value per share of options granted to Mr. Hughes and Mr. Sitko at an exercise price of $30.00 per share during the first quarter of 2023 was $14.68. No Stock Option Inducement Awards were granted during the nine months ended September 30, 2024.

The activity for all stock options for the nine months ended September 30, 2024 was as follows:

	Number of shares	Weighted Average Exercise Price Per Share	Weighted Average Contractual Remaining Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of January 1, 2024	2,730,068	$ 20.88	6.29	$ 10,638
Granted	34,170	24.71		
Exercised	(246,599)	6.51		
Forfeited, expired or cancelled	(34,840)	155.16		
Outstanding as of September 30, 2024	2,482,799	$ 20.48	5.94	$ 20,224
Exercisable as of September 30, 2024	2,037,185	$ 19.73	5.44	$ 18,416

The aggregate intrinsic value of stock options exercised during the nine months ended September 30, 2024 and 2023 was $4.7 million and $18,000, respectively. The intrinsic value is the difference between the fair value of the Company's common stock at the time of exercise and the exercise price of the stock option.

The Company recorded $1.0 million and $3.0 million in stock-based compensation expense related to stock options during the three and nine months ended September 30, 2024, respectively. As of September 30, 2024, $5.6 million of total unrecognized compensation expense related to stock options was expected to be recognized over a weighted-average period of 1.95 years.

Performance Stock Unit Awards

In May 2023, the Company granted employees 430,400 PSUs under the 2010 Plan.

The PSUs are subject to market-based vesting conditions and the number of PSUs vested will be based on the stock price of the Company's common stock as compared to four stock price hurdles over a three-year period from the May 2023 grant date (the "performance period"). A stock price hurdle is considered attained when, at any time during the performance period, the Company's volume-weighted-average stock price equals or exceeds the hurdle stock price value for 30 consecutive calendar days. Upon attainment of a stock price hurdle, one-third of the earned PSUs will vest

immediately upon achievement, one-third will vest upon the two-year anniversary of the grant date and one-third will vest on the three-year anniversary of the grant date. If no stock price hurdle is attained during the performance period, then no PSUs will vest. In October 2023, the Company granted an additional 18,200 PSUs under the 2010 Plan with generally the same terms as the May 2023 PSU grants.

In connection with Mr. Hughes' appointment to full-time Chief Executive Officer in January 2024, the Company granted Mr. Hughes 275,000 PSUs under the 2010 Plan with generally the same terms as the May 2023 PSU grants. In April 2024, the Company granted certain employees an aggregate of 10,000 PSUs under the 2010 Plan with generally the same terms as the May 2023 PSU grants.

Fair Value Assumptions of Performance Stock Unit Awards

The fair value of the PSUs granted was estimated based on Monte Carlo valuation model which incorporates into the valuation the possibility that the stock price hurdles may not be satisfied.

The range of grant date fair values of the PSUs granted in 2023 was estimated as follows:

Hurdle Price Per PSU	Number of PSUs	Fair Value Per Share	Derived Service Period (in years)
$ 30.00	243,550	$ 11.42-17.45	0.69-2.59
$ 35.00	91,239	$ 10.16-16.07	0.93-2.59
$ 40.00	60,024	$ 9.07-14.84	1.12-2.59
$ 45.00	53,787	$ 8.12-13.72	1.27-2.59
	448,600		

The grant date fair values of the PSUs granted in January 2024 and April 2024 was estimated as follows:

Hurdle Price Per Share	Number of PSUs	Fair Value Per Share	Derived Service Period (in years)
$ 30.00	165,900	$ 18.42-19.71	0.46-0.74
$ 35.00	55,290	$ 17.24-17.67	0.66-0.96
$ 40.00	34,029	$ 15.85-16.14	0.82-1.15
$ 45.00	29,781	$ 14.20-15.13	0.95-1.31
	285,000		

The Company estimates that it will recognize total stock-based compensation expense of approximately $11.9 million in aggregate for the PSUs granted in May 2023, October 2023, January 2024, and April 2024 using the graded expense attribution method over the requisite service period of each tranche. If the stock price hurdles are met sooner than the requisite service period, the stock-based compensation expense for the respective stock price hurdle will be accelerated. Stock-based compensation expense will be recognized over the requisite service period if the grantees continue to provide service to the Company, regardless of whether the PSU stock price hurdles are achieved.

The activity for all PSUs for the nine months ended September 30, 2024 was as follows:

	Number of Unvested PSUs	Weighted Average Grant Date Fair Value Per Share
Unvested balance as of January 1, 2024	448,600	$ 15.40
Granted	285,000	17.60
Vested	—	—
Forfeited	—	—
Unvested balance as of September 30, 2024	733,600	$ 16.26

The Company recorded $1.5 million and $5.0 million in stock-based compensation expense related to the PSUs during the three and nine months ended September 30, 2024, respectively. As of September 30, 2024, there was $4.2 million unrecognized stock-based compensation expense related to outstanding PSUs granted to employees, with a weighted-average remaining recognition period of 1.13 years.

Restricted Stock Unit Awards

In May 2024, the Company granted the non-employee directors of the Board an aggregate of 15,175 RSUs under the 2010 Plan. RSUs are equity awards that entitle the holder to receive freely tradeable shares of the Company's common stock upon vesting. The RSUs vest in full on the one-year anniversary of the grant date. The fair value of the RSUs is equal to the closing price of the Company's common stock on the grant date. The weighted-average grant-date fair value of the RSUs granted was $24.71 per RSU. As of September 30, 2024, no RSUs had vested and the unvested balance as of September 30, 2024 was 15,175 RSUs at a weighted-average grant-date fair value of $24.71 per RSU.

The Company recorded $0.1 million in stock-based compensation expense related to the RSUs during the three and nine months ended September 30, 2024. As of September 30, 2024, there was $0.2 million unrecognized stock-based compensation expense related to the outstanding RSUs granted to non-employee directors, with a weighted-average remaining recognition period of 0.62 years.

Stock-based Compensation Expense

All stock-based compensation expense is recorded in G&A expense. The following table shows total stock-based compensation expense for stock options, PSUs, RSUs, and ESPP in the condensed consolidated statements of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Total stock-based compensation expense	$ 2,590	$ 2,717	$ 8,136	$ 6,450

12. Capital Stock

Dividends

During the nine months ended September 30, 2024, the Board declared and paid cash dividends on the Company's Series A Preferred Stock and Series B Depositary shares as follows:

Dividend Declaration Date	Series A Preferred Stock Cash Dividend Declared ($ per share)	Series B Depositary Share Cash Dividend Declared ($ per share)	Dividend Payment Date
October 18, 2023	$ 0.53906	$ 0.52344	January 15, 2024
February 21, 2024	$ 0.53906	$ 0.52344	April 15, 2024
May 15, 2024	$ 0.53906	$ 0.52344	July 15, 2024
July 24, 2024	$ 0.53906	$ 0.52344	October 15, 2024

BVF Ownership

As of September 30, 2024, BVF owned approximately 30.9% of the Company's total outstanding shares of common stock, and if all the Series X Convertible Preferred Stock were converted (without taking into account beneficial ownership limitations), BVF would own 51.5% of the Company's total outstanding shares of common stock. The Company's Series A Preferred Stock becomes convertible upon the occurrence of specific events and as of September 30, 2024, the contingency was not met, therefore the Series A Preferred Stock owned by BVF is not included in the as-converted ownership calculation. Due to its significant equity ownership, BVF is considered a related party of the Company.

2018 Common Stock ATM Agreement

On December 18, 2018, the Company entered into the 2018 Common Stock ATM Agreement with HCW, under which the Company may offer and sell from time to time at its sole discretion shares of its common stock through HCW as its sales agent, in an aggregate amount not to exceed $30.0 million. HCW may sell the shares by any method permitted by law deemed to be an "at the market" offering as defined in Rule 415 of the Securities Act and will use its commercially reasonable efforts consistent with its normal trading and sales practices to sell the shares up to the amount specified. The Company will pay HCW a commission of up to 3% of the gross proceeds of any shares of common stock sold under the 2018 Common Stock ATM Agreement. On March 10, 2021, the Company amended the 2018 Common Stock ATM Agreement with HCW to increase the aggregate amount of shares of its common stock that it could sell through HCW as its sales agent to $50.0 million. No shares have been sold under the 2018 Common Stock ATM Agreement since the agreement was executed.

2021 Series B Preferred Stock ATM Agreement

On August 5, 2021, the Company entered into the 2021 Series B Preferred Stock ATM Agreement with B. Riley, under which the Company may offer and sell from time to time, at its sole discretion, through or to B. Riley, as agent or principal an aggregate amount not to exceed $50.0 million of its Series B Depositary Shares. B. Riley may sell the shares by any method permitted by law deemed to be an "at the market" offering as defined in Rule 415 of the Securities Act and will use its commercially reasonable efforts consistent with its normal trading and sales practices to sell the shares up to the amount specified. The Company will pay B. Riley a commission of up to 3% of the gross proceeds of any Series B Depositary Shares sold under the 2021 Series B Preferred Stock ATM Agreement. No shares have been sold under the 2021 Series B Preferred Stock ATM Agreement since the agreement was executed.

Stock Repurchase Program

On January 2, 2024, the Board authorized the Company's first stock repurchase program, which permits the Company to purchase up to $50.0 million of its common stock through January 2027. Under the program, the Company

has discretion in determining the conditions under which shares may be purchased from time to time, including through transactions in the open market, in privately negotiated transactions, under plans compliant with Rule 10b5-1 under the Exchange Act, or by other means in accordance with applicable laws. The manner, number, price, structure, and timing of the repurchases, if any, will be determined at the Company's sole discretion and repurchases, if any, depend on a variety of factors, including legal requirements, price and economic and market conditions, royalty and milestone acquisition opportunities, and other factors. The repurchase authorization does not obligate the Company to acquire any particular amount of its common stock. The Board may suspend, modify, or terminate the stock repurchase program at any time without prior notice. The Company did not make any purchases under the program in the three months ended September 30, 2024. As of September 30, 2024, the Company had purchased a total of 660 shares of its common stock pursuant to the stock repurchase plan for $13,000.

13. Income Taxes

The Company recorded no income taxes during the three and nine months ended September 30, 2024. The Company continues to maintain a full valuation allowance against its remaining net deferred tax assets.

The Company had a total of $5.9 million of gross unrecognized tax benefits as of September 30, 2024, none of which would affect the effective tax rate upon realization as it currently has a full valuation allowance against its net deferred tax assets. The reversal of related deferred tax assets will be offset by a valuation allowance, should any of these uncertain tax positions be favorably settled in the future.

The Company does not expect its unrecognized tax benefits to change significantly over the next twelve months. The Company will recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. Through September 30, 2024, the Company had not accrued interest or penalties related to uncertain tax positions.

14. Subsequent Events

Twist Bioscience Royalty Purchase Agreement

On October 21, 2024, the Company entered into a royalty purchase agreement with Twist Bioscience Corporation ("Twist Bioscience"). Under the terms of the agreement, the Company acquired 50% of certain contingent payments (including royalties, milestone payments, sublicense income, and option exercise payments) related to Twist Bioscience's 60-plus early-stage programs across 30 partners for a $15.0 million upfront payment. The Company is eligible to receive up to $0.5 billion in milestone payments and a 50% share of up to low single-digit royalties on future commercial sales.

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

Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995, which are subject to the "safe harbor" created by those sections. Forward-looking statements are based on current expectations, estimates and forecasts, as well as our management's beliefs and assumptions and on information currently available to them, and are subject to risks and uncertainties that are difficult to predict. In some cases you can identify forward-looking statements by words such as "may," "will," "should," "might," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," "intend" "goal," "strategy," "continue," "design," and similar words, expressions or the negative of such terms intended to identify forward-looking statements. Examples of these statements include, but are not limited to, statements regarding: trend analyses and statements regarding future events, future financial performance, anticipated growth, and industry prospects, our future operating expenses, our future losses, the success of our strategy as a royalty aggregator, the assumptions underlying our business model, the extent to which issued and pending patents may protect the products and processes in which we have an ownership or royalty interest and prevent the use of the covered subject matter by third parties, the potential of our existing product candidates to lead to the development of commercial products, our ability to receive potential milestone or royalty payments under license and collaboration agreements and the amount and timing of receipt of those payments, our ability to locate suitable assets to acquire, our ability to complete (on a timely basis or at all) and realize the benefits from acquisitions, uncertainties related to the acquisition of interest in development-stage and clinical-stage product candidates, fluctuations in, our ability to predict our operating results and cash flows, and the sufficiency of our capital resources. Forward-looking statements are based on assumptions that may not prove accurate. Actual results could differ materially from those anticipated due to certain risks inherent in the biotechnology industry and for our licensees engaged in the development of new products in a regulated market. Among other things: there can be no assurance that our revenues or expenses will meet any expectations or follow any trend(s); we may be unable to retain our key employees; litigation, arbitration or other disputes with third parties may have a material adverse effect on us; our product candidates subject to our out-license agreements are still being developed, and our licensees' may require substantial funds to continue development which may not be available; we may not be successful in entering into out-license agreements for our product candidates; if our therapeutic product candidates do not receive regulatory approval, our third-party licensees will not be able to manufacture and market them; products or technologies of other companies may render some or all of our product candidates noncompetitive or obsolete; we do not know whether there will be, or will continue to be, a viable market for the products in which we have an ownership or royalty interest; even once approved, a product may be subject to additional testing or significant marketing restrictions, its approval may be withdrawn or it may be voluntarily taken off the market; and we and our licensees are subject to various state and federal healthcare related laws and regulations that may impact the commercialization of our product candidates and could subject us to significant fines and penalties. These and other risks and uncertainties that may cause our actual results or outcomes to differ materially and adversely from those expressed in our forward-looking statements, including those related to current economic and financial market conditions, are contained principally in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023 and in Part II, Item 1A of our Quarterly Reports on Form 10-Q and in our other filings with the SEC.

Forward-looking statements are inherently uncertain and you should not place undue reliance on these statements, which speak only as of the date that they were made. These cautionary statements should be considered in connection with any written or oral forward-looking statements that we may issue in the future. Except as required by law, we do not undertake any obligation to revise or update publicly any forward-looking statements after completion of the filing of this Quarterly Report on Form 10-Q to reflect later events or circumstances or to reflect the occurrence of unanticipated events, or otherwise.

In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q. While we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review

of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

All references to "portfolio" in this Quarterly Report on Form 10-Q are to milestone and/or royalty rights associated with a basket of product candidates in development.

We use our trademarks, trade names, and services marks in this report as well as trademarks, trade names, and service marks that are the property of other organizations. Solely for convenience, trademarks and trade names referred to in this report appear without the ® and ™ symbols, but those references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or that the applicable owner will not assert its rights, to these trademarks and trade names.

The following discussion and analysis should be read in conjunction with the unaudited financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with the audited consolidated financial statements and related notes thereto included as part of our Annual Report on Form 10-K for the year ended December 31, 2023.

Overview

XOMA is a biotech royalty aggregator. On July 10, 2024, we changed our name from XOMA Corporation to XOMA Royalty Corporation. We have a sizable portfolio of economic rights to future potential milestone and royalty payments associated with partnered commercial and pre-commercial therapeutic candidates. Our portfolio was built through the acquisition of rights to future milestones, royalties, and commercial payments, since our royalty aggregator business model was implemented in 2017, combined with out-licensing our proprietary products and platforms from our legacy discovery and development business. Our royalty aggregator business is primarily focused on early to mid-stage clinical assets, primarily in Phase 1 and 2, with significant commercial sales potential that are licensed to large-cap partners. We also acquire milestone and royalty revenue streams on late-stage clinical assets and commercial assets that are designed to address unmet markets or have a therapeutic advantage, have long duration of market exclusivity, and are expected to deliver a financial return to us in a short timeframe. We expect most of our future income and revenue to be based on payments we may receive for milestones and royalties associated with these acquired programs.

The generation of future income and revenues related to licenses, milestone payments, and royalties is dependent on the achievement of milestones or product sales by our existing partners and licensees. We generated net loss of $17.2 million and $9.9 million for the three and nine months ended September 30, 2024, respectively, net cash used in operating activities was $10.8 million for the nine months ended September 30, 2024, and we had an accumulated deficit of $1.2 billion as of September 30, 2024. We generated a net loss of $40.8 million, net cash used in operating activities was $18.2 million, and we had an accumulated deficit of $1.2 billion for the year ended December 31, 2023.

Portfolio Updates – Royalty and Commercial Payment Purchase Agreements

Twist Bioscience Royalty Purchase Agreement

On October 21, 2024, we entered into a royalty purchase agreement with Twist Bioscience Corporation ("Twist Bioscience"). Under the terms of the agreement, we acquired 50% of certain contingent payments (including royalties, milestone payments, sublicense income, and option exercise payments) related to Twist Bioscience's 60-plus early-stage programs across 30 partners for a $15.0 million upfront payment. We are eligible to receive up to $0.5 billion in milestone payments and a 50% share of up to low single-digit royalties on future commercial sales.

LadRx Agreements

In January 2024, Zevra announced that the FDA accepted its NDA resubmission for arimoclomol and pursuant to the LadRx Agreement**s**, we made a $1.0 million milestone payment to LadRx in January 2024.

In June 2024, the ImmunityBio License Agreement was terminated, and we entered into an amendment to the LadRx RPA. Under the LadRx RPA, as amended, we are eligible to receive potential low single-digit percentage royalty payments on aggregate net sales of aldoxorubicin. Additionally, the amendment removed the remaining $4.0 million regulatory milestone payment under the original agreement that had been contingent upon the achievement of a specified regulatory milestone for the product candidate related to aldoxorubicin. If LadRx licenses aldoxorubicin to an applicable third party, we are eligible to receive potential high single-digit percentage royalty payments on aggregate net sales of aldoxorubicin and a portion of any potential future milestone payments.

In September 2024, Zevra announced that the FDA granted approval to Zevra's NDA for MIPLYFFA. The achievement of the commercial milestone payment under the LadRx AAA was considered probable as of September 30, 2024, and we recognized a $1.0 million contingent liability. Pursuant to the LadRx AAA, we earned a $2.2 million milestone payment upon FDA approval (net of certain outbound payments to third parties), and we are also eligible to receive mid-single-digit royalties on net sales of MIPLYFFA.

Affitech Commercial Payment Purchase Agreement

Pursuant to our Affitech CPPA, we are eligible to receive commercial payments from Roche consisting of 0.5% of net sales of VABYSMO for a ten-year period following the first commercial sale in each applicable jurisdiction. VABYSMO is approved by the FDA and the EMA for the treatment of wet, or neovascular, age-related macular degeneration, diabetic macular edema, and macular edema following retinal vein occlusion. Payments are due from Roche within 60 days of December 31 and June 30 of each year.

In February 2024, we received $7.4 million representing our commercial payment received from sales of VABYSMO during the last six months of 2023 under the Affitech CPPA. In August 2024, we received $9.5 million representing our commercial payment received from sales of VABYSMO during the first six months of 2024 under the Affitech CPPA. We used these cash receipts to fund contractual interest payments and partially repay the principal balance on our Blue Owl Loan (see Note 8 to the condensed consolidated financial statements).

For the three and nine months ended September 30, 2024, we recognized a total of $5.4 million and $10.0 million in income from purchased receivables related to the Affitech CPPA under the EIR method for sales of VABYSMO during the three and nine months ended September 30, 2024.

Agenus Royalty Purchase Agreement

Based on updates received in July 2024, we evaluated the status of this program for potential impairment, and we recorded an impairment charge of $14.0 million in the third quarter of 2024 (see Note 5 to the condensed consolidated financial statements).

Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires us to make estimates, assumptions, and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. We routinely evaluate our estimates. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and expenses that are not readily apparent from other sources. Actual results may differ from those estimates under different assumptions and conditions.

Critical accounting estimates are those estimates that involve a significant level of judgment and/or estimation uncertainty and could have or are reasonably likely to have a material impact on our financial condition or results of operations.

Except as discussed in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2024, there have been no significant changes in our critical accounting estimates during the nine months ended September 30, 2024,

as compared with those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on March 8, 2024.

Our significant accounting policies are included in "Note 2 – Basis of Presentation and Significant Accounting Policies" in our condensed consolidated financial statements.

Results of Operations

Revenues

Total income and revenues for the three and nine months ended September 30, 2024 and 2023, were as follows (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2024	2023	Change	2024	2023	Change
Income from purchased receivables	$ 6,463	$ —	$ 6,463	$ 11,895	$ —	$ 11,895
Revenue from contracts with customers	25	225	(200)	6,050	1,350	4,700
Revenue recognized under units-of-revenue method	709	605	104	1,828	1,575	253
Total income and revenues	$ 7,197	$ 830	$ 6,367	$ 19,773	$ 2,925	$ 16,848

Income from Purchased Receivables

Income from purchased receivables for the three months ended September 30, 2024 included $5.4 million in estimated income under the EIR method related to sales of VABYSMO and $1.0 million in estimated income from royalties on sales of OJEMDA.

Income from purchased receivables for the nine months ended September 30, 2024 included $10.0 million in estimated income under the EIR method related to sales of VABYSMO, $1.4 million in estimated income from royalties on sales of OJEMDA and $0.5 million of the $9.0 million milestone payment from the FDA approval of OJEMDA.

We expect the income related to VABYSMO to increase in future periods as we expect the related sales to increase in future periods. We expect the income from royalties on OJEMDA, which was launched in the second quarter of 2024, to increase in future periods as we expect the related sales to increase in future periods. There was no income from purchased receivables for the three and nine months ended September 30, 2023.

Revenue from Contracts with Customers

Revenue from contracts with customers includes upfront fees, annual license fees, and milestone payments related to the out-licensing of our legacy product candidates and technologies. Revenue from contracts with customers for the nine months ended September 30, 2024 included a milestone payment of $5.0 million pursuant to our license agreement with Rezolute and milestone payments of $1.0 million pursuant to our license agreement with AVEO. Revenue from contracts with customers for the three and nine months ended September 30, 2023 included $0.2 million and $1.3 million of milestones earned pursuant to the license agreement with Janssen.

Revenue Recognized under Units-of-Revenue Method

Revenue recognized under the units-of-revenue method includes the amortization of unearned revenue from the sale of royalty interests to HCRP in 2016. Revenues for the three and nine months ended September 30, 2024 remained generally consistent with the same periods in 2023 due to comparable sales of products underlying the agreements with HCRP.

R&D Expenses

For the three months ended September 30, 2024, R&D expenses were $0.8 million compared with $25,000 for the three months ended September 30, 2023. The increase of approximately $0.8 million was primarily due to clinical trial costs related to KIN-3248. For the nine months ended September 30, 2024, R&D expenses were $2.0 million compared to $0.1 million for the nine months ended September 30, 2023. The increase of $1.9 million was primarily due to clinical trial costs related to KIN-3248. We are in the process of winding down the study, and we expect to incur continued R&D costs related to KIN-3248 until the study is completed. We may also incur additional R&D costs related to stability studies and the storage of the remaining programs obtained in the Kinnate acquisition.

G&A Expenses

G&A expenses include salaries and related personnel costs, professional fees, and facilities costs. For the three months ended September 30, 2024, G&A expenses were $8.0 million compared with $6.4 million for the three months ended September 30, 2023. The increase of $1.6 million included $1.4 million in total costs incurred after our acquisition of Kinnate, which included $1.1 million in legal and consulting costs, $0.1 million in information technology costs, and $0.1 million in insurance costs. We also had an increase of $0.2 million in salaries and related costs associated with Mr. Hughes' role as CEO in a full-time capacity.

For the nine months ended September 30, 2024, G&A expenses were $27.5 million compared with $18.3 million for the nine months ended September 30, 2023. The increase of $9.2 million was primarily due to $6.9 million in costs associated with our acquisition of Kinnate, which primarily included $3.6 million in severance costs for exit packages provided to Kinnate senior leadership, $2.6 million in legal and consulting costs, $0.2 million in information technology costs, and $0.1 million in insurance costs. In addition, we had an increase of $1.6 million in stock-based compensation expenses primarily due to the PSU grant to Mr. Hughes in connection with his appointment as full-time CEO in January 2024.

We expect G&A costs associated with our acquisition of Kinnate to decrease in future periods as we continue to wind down Kinnate operations.

Royalty Purchase Agreement Asset Impairment

Royalty purchase agreement asset impairment was $14.0 million and $23.0 million for the three and nine months ended September 30, 2024, respectively, and consisted of the impairment charge of $9.0 million related to our Aronora RPA in the second quarter of 2024 and the impairment charge of $14.0 million related to our Agenus RPA in the third quarter of 2024. Royalty purchase agreement asset impairment was zero and $1.6 million for the three and nine months ended September 30, 2023, respectively, and consisted of the impairment recorded related to our Bioasis RPAs.

Arbitration Settlement Costs

Arbitration settlement costs of zero and $4.1 million for the three and nine months ended September 30, 2023, respectively, consisted of the costs incurred related to the settlement of an arbitration proceeding with one of our licensees in the first quarter of 2023. There were no arbitration settlement costs for the three and nine months ended September 30, 2024.

Other Income (Expense)

Gain on the Acquisition of Kinnate

During the nine months ended September 30, 2024, we recognized a $19.3 million gain on the acquisition of Kinnate due to the fair value of net assets acquired in the acquisition of Kinnate exceeding the total purchase consideration (see Note 4 to the condensed consolidated financial statements).

Change in Fair Value of Embedded Derivative Related to RPA

During the nine months ended September 30, 2024, we recognized an $8.1 million change in fair value of an embedded derivative related to RPA associated with a payment of $8.1 million for the sale of a priority review voucher by Day One, which we earned pursuant to the Viracta RPA (see Note 5 to the condensed consolidated financial statements).

Interest Expense

Interest expense includes the accretion of debt discount and debt issuance costs. Interest expense for the three and nine months ended September 30, 2024 and 2023 was as follows (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2024	2023	Change	2024	2023	Change
Accrued interest expense	$ 3,085	$ —	$ 3,085	$ 9,450	$ —	$ 9,450
Accretion of debt discount and debt issuance costs	408	—	408	996	—	996
Total interest expense	$ 3,493	$ —	$ 3,493	$ 10,446	$ —	$ 10,446

We had no debt outstanding or interest expense incurred until we executed the Blue Owl Loan Agreement on December 15, 2023. The $3.1 million and $9.5 million interest expense for the three and nine months ended September 30, 2024, respectively, represent interest incurred on the Blue Owl Loan since December 31, 2023. Interest expense is expected to continue in future quarters so long as the Blue Owl Loan remains outstanding.

Other Income (Expense), Net

Other income (expense), net for the three and nine months ended September 30, 2024 and 2023 was as follows (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2024	2023	Change	2024	2023	Change
Other income (expense), net						
Investment income	$ 1,698	$ 385	$ 1,313	$ 5,088	$ 1,238	$ 3,850
Change in fair value of equity securities	89	(107)	196	624	(121)	745
Change in fair value of contingent consideration	—	—	—	—	75	(75)
Sublease income	103	—	103	170	—	170
Other	—	—	—	18	—	18
Total other income (expense), net	$ 1,890	$ 278	$ 1,612	$ 5,900	$ 1,192	$ 4,708

Investment income increased by $1.3 million and $3.9 million for the three and nine months ended September 30, 2024, respectively, compared with the same periods in 2023 due to higher investment balances in 2024.

For the three and nine months ended September 30, 2024 and 2023, the change in fair value of equity securities was due to the change in market price for our shares of Rezolute's common stock.

The change in fair value of contingent consideration for the nine months ended September 30, 2023 was due to the reduction in the fair value of the $75,000 contingent consideration related to the Bioasis RPA to zero. There were no changes in fair value of contingent consideration for the three and nine months ended September 30, 2024.

Sublease income increased by $0.1 million and $0.2 million for the three and nine months ended September 30, 2024, respectively, compared with the same periods in 2023 due to the lease assignment agreement acquired under the Kinnate acquisition.

Provision for Income Taxes

We recorded no provision for federal income tax during the three and nine months ended September 30, 2024 and 2023. We continue to maintain a full valuation allowance against our remaining net deferred tax assets. We had a total of $5.9 million of gross unrecognized tax benefits, none of which would impact our effective tax rate to the extent that we continue to maintain a full valuation allowance against our deferred tax assets. We do not expect our unrecognized tax benefits to change significantly over the next twelve months.

Liquidity and Capital Resources

Our cash and cash equivalents, working capital, and cash flow activities as of and for each of the periods presented were as follows (in thousands):

	September 30, 2024	December 31, 2023	Change
Cash and cash equivalents[(1)]	$ 142,050	$ 153,290	$ (11,240)
Working capital	$ 137,887	$ 149,814	$ (11,927)

(1) Unrestricted.

	Nine Months Ended September 30,		
	2024	2023	Change
Net cash used in operating activities	$ (10,845)	$ (14,231)	$ 3,386
Net cash provided by (used in) investing activities	8,172	(6,222)	14,394
Net cash used in financing activities	(10,061)	(3,901)	(6,160)
Net decrease in cash, cash equivalents, and restricted cash	$ (12,734)	$ (24,354)	$ 11,620

Net cash used in operating activities decreased by $3.4 million for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023. The change was primarily driven by an increase in operating cash inflows from our partners and licensees (including $8.6 million related to the Viracta RPA and $5.0 million from Rezolute), partially offset by $7.7 million in net payments related to Kinnate operations after our acquisition.

Net cash provided by investing activities was $8.2 million for the nine months ended September 30, 2024 compared with net cash used in investing activities of $6.2 million for the nine months ended September 30, 2023. The difference was largely due to the $18.9 million net cash obtained in our Kinnate acquisition plus an increase of $9.6 million in receipts of commercial payments from sales of VABYSMO, and $8.5 million received pursuant to our Viracta RPA, partially offset by new RPAs and CPPAs in 2024 (including $22.0 million for the Daré RPAs and $8.0 million for Talphera CPPA).

Net cash used in financing activities for the nine months ended September 30, 2024 was $10.1 million compared with $3.9 million for the nine months ended September 30, 2023. The difference was primarily driven by principal payments under our Blue Owl Loan and a higher volume of stock option exercises in 2024.

Capital Resources

We have incurred significant operating losses since our inception and as of September 30, 2024, we had an accumulated deficit of $1.2 billion. As of September 30, 2024, we had $142.0 million in cash and cash equivalents and $4.8 million in restricted cash. Based on our current cash balance and our planned discretionary spending, such as royalty or other acquisitions, we believe that our current financial resources are sufficient to fund our planned operations, commitments, and contractual obligations for a period of at least one year following the filing date of this report.

We have primarily financed our operations and acquisitions through debt facilities, the issuance of our common stock, Series A and Series B Preferred Stock, and amounts received as milestone payments under our license agreements.

In December 2023, XRL entered into the Blue Owl Loan Agreement (see Note 8 to the condensed consolidated financial statements and further details below in "Long-Term Debt"). We intend to use the net cash received from the Blue Owl Loan and Kinnate acquisition, together with our existing capital resources, to fund our ongoing operations, to repurchase common stock, and for working capital and other general corporate purposes.

The generation of future income and revenue related to licenses, milestone payments, and royalties is dependent on the achievement of milestones or product sales by our existing partners. Milestone payments earned in prior periods are not indicative of anticipated milestone payments in future periods. We may seek additional capital through our 2018 Common Stock ATM Agreement or our 2021 Series B Preferred Stock ATM Agreement (see Note 12 to the condensed consolidated financial statements), or through other public or private debt or equity transactions. Our ability to raise additional capital in the equity and debt markets, should we choose to do so, is dependent on a number of factors, including, but not limited to, the market demand for our common and preferred stock, which are subject to a number of development and business risks and uncertainties, our creditworthiness and whether were are able to raise such additional capital at a price or on terms that are favorable to us, if at all. If we are unable to raise additional funds when we need them, our business and operations may be adversely affected.

Material Cash Requirements

Our material cash requirements in the short and long term consist of the following:

Operating Expenditures: Our primary uses of cash and our operating expenses include employee and related costs, consultant fees to support our administrative and business development efforts, legal and accounting fees, insurance costs, and costs associated with our investor relations and IT services.

To support our royalty aggregator business model, we engage third parties to assist in the evaluation of potential acquisitions of milestone payments and royalty streams. Additional operating expenses, including consulting and legal costs, is expected to continue to increase in the fourth quarter of 2024 in response to an anticipated increase in the volume of royalty or acquisition targets evaluated or completed.

In June 2023 we entered into a lease for our headquarters in Emeryville, California. The lease commenced in November 2023 and has a term of 65 months. As of September 30, 2024, we expect to incur incremental undiscounted costs of $0.4 million associated with our building lease.

We will be required to make future R&D and G&A expenditures related to the obligations and liabilities we assumed in the Kinnate acquisition. We expect these costs to be funded in full by the cash we received upon close of the merger.

Share Repurchase Program: On January 2, 2024, our Board authorized our first stock repurchase program, which permits us to purchase up to $50.0 million of our common stock through January 2027. We did not make any purchases under the program in the three months ended September 30, 2024. As of September 30, 2024, we had purchased a total of 660 shares of common stock pursuant to the stock repurchase program for $13,000.

Long-Term Debt: Under the Blue Owl Loan Agreement, the outstanding principal balance will bear interest at an annual rate of 9.875%. XRL began making payments of interest under the Blue Owl Loan Agreement semi-annually, in March 2024 using the royalties received on worldwide net sales of VABYSMO, pursuant to the Affitech CPPA. On each interest payment date, any shortfall in interest payment will be paid from the interest reserve, any uncured shortfall in interest payment that exceeds the interest reserve will increase the outstanding principal amount of the loan, and any royalty payments in excess of accrued interest on the loan will be used to repay the principal of the loan until the balance is fully repaid. As of September 30, 2024, XRL held restricted cash of $4.8 million in reserve accounts that may only be used to pay interest and administrative fees and XRL's operating expenses pursuant to the Blue Owl Loan Agreement. As of September 30, 2024, the current and non-current portion of the initial term loan was $9.8 million and $108.1 million, respectively, and $4.7 million of the restricted cash was classified as non-current.

Exarafenib Milestone Contingent Consideration: Under the Kinnate CVR Agreement, Kinnate CVR holders are entitled to 100% of net proceeds of the $30.5 million milestone related to the sale of exarafenib to Pierre Fabre in February 2024. We expect these payments to be fully funded by the receipt of the Exarafenib milestone asset.

RPAs, AAAs, and CPPAs: A significant component of our business model is to acquire rights to potential future milestone payments and royalty payment streams. We expect to continue deploying capital toward these acquisitions in the near and long term.

We have paid $1.0 million for a milestone payment due under our agreement with LadRx in January 2024 and $6.0 million for sales milestones due under our agreement with Affitech in March 2024. We have up to an additional $6.0 million and $1.0 million in milestone payments that may become due under the Affitech CPPA and LadRx Agreements, respectively. We will be obligated to pay an additional $11.0 million for each successive $22.0 million received by us under the Daré RPAs after achievement of a return threshold of $88.0 million. We recorded $4.0 million of contingent consideration related to our RPAs, AAAs, and CPPAs on our condensed consolidated balance sheets as of September 30, 2024.

In addition, we have potential sales-based milestone payments that may become due under our agreements with Aronora and Kuros. All of these milestones and royalty payments represent a portion of the funds we may receive in the future pursuant to these agreements, and therefore we expect these payments to be fully funded by the related royalty or commercial payment receipts.

Collaborative Agreements, Royalties, and Milestone Payments: We may need to make potential future milestone payments and pay legal fees to third parties as part of our licensing and development programs. Payments under these agreements become due and payable only upon the achievement of certain developmental, regulatory, and commercial milestones by our licensees. Because it is uncertain if and when these milestones will be achieved, such contingencies, aggregating up to $6.3 million (assuming one product per contract meets all milestone events) have not been recorded on our condensed consolidated balance sheet as of September 30, 2024. We are unable to determine precisely when and if our payment obligations under the agreements will become due as these obligations are based on milestone events, the achievement of which is subject to a significant number of risks and uncertainties. We expect all payments due to be funded by a portion of the related milestone or royalty revenue we receive or we expect these payments to be reimbursed by our licensees.

Dividends: Holders of our Series A Preferred Stock are entitled to receive, when and as declared by our Board, cumulative cash dividends at the rate of 8.625% of the $25.00 liquidation preference per year (equivalent to $2.15625 per share of Series A Preferred Stock per year). Holders of Series B Depositary Shares are entitled to receive, when and as declared by our Board, cumulative cash dividends at the rate of 8.375% of the $25,000 liquidation preference per share of Series B Preferred Stock ($25.00 per depositary share) per year, which is equivalent to $2,093.75 per year per share of Series B Preferred Stock ($2.09375 per year per depositary share). Dividends on the Series A and Series B Preferred Stock are payable in arrears on or about the 15th day of January, April, July, and October of each year. Since original issuance, all dividends have been paid as scheduled. We expect to continue making these dividend payments as scheduled using our existing capital resources.

Changes in Commitments and Contingencies

Our commitments and contingencies were reported in our Annual Report on Form 10-K for the year ended December 31, 2023, as filed with the SEC. Except as described below, there have been no material changes during the nine months ended September 30, 2024 from the commitments and contingencies previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023.

On April 3, 2024, we entered into the Kinnate CVR Agreement in connection with the Kinnate acquisition. Pursuant to the agreement, we are obligated to pay up to $30.5 million to Kinnate CVR holders upon the achievement of a certain specified milestone related to the February 2024 sale of exarafenib and related IP to Pierre Fabre. We may be obligated to make additional contingent payments from any license or other disposition of any or all rights to any product, product candidate or research programs active at Kinnate that occurs within one year from April 3, 2024.

On April 29, 2024, we entered into the Daré RPAs pursuant to which we acquired rights to royalty and milestone payments related to XACIATO, OVAPRENE, and Sildenafil Cream. We are obligated to pay an additional $11.0 million for each successive $22.0 million received by us under the Daré RPAs after achievement of a return threshold of $88.0 million.

On June 3, 2024, we entered into an amendment to the LadRx RPA that removed the $4.0 million regulatory milestone payment that had been contingent upon the achievement of a specified regulatory milestone for the product candidate related to aldoxorubicin.

On September 20, 2024, Zevra announced that the FDA granted approval to Zevra's NDA for MIPLYFFA and we recognized a $1.0 million liability for a commercial milestone payment.

Based on the reported 2024 sales of VABYSMO through September 30, 2024, we recognized $3.0 million in liabilities for sales-based milestone payments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer (our Principal Executive Officer) and our Senior Vice President, Finance and Chief Financial Officer (our Principal Financial and Accounting Officer), we conducted an evaluation of our disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), as of the end of the period covered by this report. Our disclosure controls and procedures are intended to help ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Senior Vice President, Finance and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. Based on this evaluation, our Chief Executive Officer and our Senior Vice President, Finance and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not currently engaged in any legal proceedings that, in the opinion of our management, if determined adversely to us, would individually or taken together, have a material adverse effect on our business, results of operations, financial position or cash flows. However, from time to time, we may become involved in litigation, arbitration or other proceedings relating to claims arising from the ordinary course of business.

We may become involved in material legal proceedings in the future, and the potential impact on us of any on-going proceeding which we do not currently believe to be material could become material. Such matters are subject to significant uncertainties, and there can be no assurance that any legal proceedings in which we are or may become involved will not have a material adverse effect on our business, results of operations, financial position or cash flows.

ITEM 1A. RISK FACTORS

Except as discussed in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2024 and our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2024, there have been no material changes in our risk factors as previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023. For a detailed description of our risk factors, refer to Part I, Item IA, “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 and Part II, Item 1A, “Risk Factors” of our Quarterly Reports on Form 10-Q.

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

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

On January 2, 2024, the Board authorized our first stock repurchase program, which permits us to purchase up to $50.0 million of our common stock through January 2027. Under the program, we have discretion in determining the conditions under which shares may be purchased from time to time, including through transactions in the open market, in privately negotiated transactions, under plans compliant with Rule 10b5-1 under the Exchange Act, or by other means in accordance with applicable laws. The manner, number, price, structure, and timing of the repurchases, if any, will be determined at our sole discretion and repurchases, if any, depend on a variety of factors, including legal requirements, price and economic and market conditions, royalty and milestone acquisition opportunities, and other factors. The repurchase authorization does not obligate us to acquire any particular amount of our common stock. The Board may suspend, modify, or terminate the stock repurchase program at any time without prior notice.

No common stock was repurchased by us during the three months ended September 30, 2024.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(c) Trading Plans

During the fiscal quarter ended September 30, 2024, no director or Section 16 officer adopted or terminated any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (in each case, as defined in Item 408(a) of Regulation S-K).

ITEM 6. EXHIBITS

HIDDEN_ROW Exhibit Number	Exhibit Description	Incorporation By Reference			
		Form	SEC File No.	Exhibit	Filing Date
2.1	Agreement and Plan of Merger between the Company, Kinnate and Merger Sub, dated February 16, 2024	8-K	001-39801	2.1	02/16/2024
2.2	Contingent Value Rights Agreement, dated April 3, 2024, by and between the Company, XRA 1 Corp., Broadridge Corporate Issuer Solutions, LLC and Fortis Advisors LLC.	8-K	001-39801	2.2	04/03/2024
3.1	Certificate of Incorporation of the Company	8-K12G3	000-14710	3.1	01/03/2012
3.2	Certificate of Amendment to the Certificate of Incorporation of the Company	8-K	000-14710	3.1	05/31/2012
3.3	Certificate of Amendment to the Certificate of Incorporation of the Company	8-K	000-14710	3.1	05/28/2014
3.4	Certificate of Amendment to the Certificate of Incorporation of the Company	8-K	000-14710	3.1	10/18/2016
3.5	Certificate of Amendment to the Certificate of Incorporation of the Company	8-K	001-39801	3.1	07/09/2024
3.6	Certificate of Designation of Preferences, Rights and Limitations of Series X Convertible Preferred Stock	8-K	000-14710	3.1	02/16/2017
3.7	Certificate of Designation of 8.625% Series A Cumulative Perpetual Preferred Stock	8-K	000-14710	3.1	12/11/2020
3.8	Certificate of Designation of 8.375% Series B Cumulative Perpetual Preferred Stock	8-K	001-39801	3.1	04/08/2021
3.9	Certificate of Correction of the Certificate of Designation of 8.375% Series B Cumulative Perpetual Preferred Stock	10-Q	001-39801	3.8	08/05/2021
3.10	Certificate of Amendment to the Certificate of Designation of 8.375% Series B Cumulative Perpetual Preferred Stock of the Company	8-K	001-39801	3.1	08/05/2021
3.11	By-laws of the Company	8-K12G3	000-14710	3.2	01/03/2012
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.8, 3.9, 3.10, and 3.11				
4.2	Specimen of Common Stock Certificate	8-K	000-14710	4.1	01/03/2012
4.3	Deposit Agreement, dated effective April 9, 2021, by and among the Company, American Stock Transfer & Trust Company, LLC, as depositary, and the holders of the depositary receipts issued thereunder	8-K	001-39801	4.1	04/08/2021
4.4	Form of Warrants (May 2018 Warrants)	10-Q	000-14710	4.6	08/07/2018
4.5	Form of Warrants (March 2019 Warrants)	10-Q	000-14710	4.7	05/06/2019

HIDDEN_ROW Exhibit Number	Exhibit Description	Incorporation By Reference			
		Form	SEC File No.	Exhibit	Filing Date
4.6	Form of Warrant (December 2023) ($35.00 Exercise Price)	8-K	001-39801	4.1	12/19/2023
4.7	Form of Warrant (December 2023) ($42.50 Exercise Price)	8-K	001-39801	4.2	12/19/2023
4.8	Form of Warrant (December 2023) ($50.00 Exercise Price)	8-K	001-39801	4.3	12/19/2023
4.9	Form of Indenture	S-3	333-277794	4.6	03/08/2024
10.1#+	Net Office Lease dated August 5, 2021 between Presidio Trust and Kinnate Biopharma Inc.	10-Q	001-39801	10.1	8/13/2024
10.2#+	Letter Agreement dated August 26, 2021 between Presidio Trust and Kinnate Biopharma Inc.	10-Q	001-39801	10.2	8/13/2024
31.1+	Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934				
31.2+	Certification of Chief Financial Officer, as required by Rule 13a 14(a) or Rule 15d 14(a) of the Securities Exchange Act of 1934				
32.1+(1)	Certifications of Chief Executive Officer and Chief Financial Officer, as required by Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. §1350				
101.INS+	Inline XBRL Instance Document				
101.SCH+	Inline XBRL Schema Document				
101.CAL+	Inline XBRL Calculation Linkbase Document				
101.DEF+	Inline XBRL Definition Linkbase Document				
101.LAB+	Inline XBRL Labels Linkbase Document				
101.PRE+	Inline XBRL Presentation Linkbase Document				
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				

\+ Filed herewith.

\# Portions of this exhibit have been omitted as the Registrant has determined that (i) the omitted information is not material and (ii) the omitted material is of the type that the Registrant treats as private or confidential.

(1) Furnished herewith. These certifications are not deemed filed with the SEC and are not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of this Form 10-Q), irrespective of any general incorporation language contained in such filing.

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.

XOMA Royalty Corporation

Date: November 7, 2024 By: /s/ OWEN HUGHES
Chief Executive Officer (Principal Executive Officer)

Date: November 7, 2024 By: /s/ THOMAS BURNS
Thomas Burns
Senior Vice President, Finance and Chief Financial Officer
(Principal Financial and Principal Accounting Officer)

Exhibit 31.1

Certification

I, Owen Hughes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of XOMA Royalty Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f))) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2024

/s/ OWEN HUGHES

Owen Hughes

Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

Certification

I, Thomas Burns, certify that:

1. I have reviewed this quarterly report on Form 10-Q of XOMA Royalty Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f))) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2024

/s/ THOMAS BURNS

Thomas Burns

Senior Vice President, Finance and Chief Financial Officer

Exhibit 32.1

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Owen Hughes, Chief Executive Officer of XOMA Royalty Corporation (the "Company"), and Thomas Burns, Senior Vice President, Finance and Chief Financial Officer of the Company, each hereby certifies that, to the best of his or her knowledge:

1. The Company's Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2024, to which this Certification is attached as Exhibit 32.1, fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in Exhibit 32.1 fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 7th day of November, 2024

/s/ OWEN HUGHES

Owen Hughes
Chief Executive Officer (Principal Executive Officer)

/s/ THOMAS BURNS

Thomas Burns
Senior Vice President, Finance and Chief Financial Officer

3. This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of XOMA Royalty Corporation under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.