# CreateAI Holdings Inc.

Consolidated Financial Statements

As of December 31, 2023 and 2024 and
For the Three-Year Period Ended December 31, 2024

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

**UHY**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
CreateAI Holdings Inc. (formerly TuSimple Holdings Inc.)

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of CreateAI Holdings Inc. (formerly known as TuSimple Holdings Inc.) and its subsidiaries (the "Company") as of December 31, 2024 and 2023, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2024, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2024, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

## Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there were no critical audit matters.

UHY LLP

We have served as the Company's auditor since 2023.

Irvine, California
March 27, 2025

**CreateAI Holdings Inc.**
**(Formerly: TuSimple Holdings Inc.)**
**Consolidated Balance Sheets**
**(in thousands, except share data)**

| | December 31, 2023 | December 31, 2024 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 192,566 | $ 224,787 |
| Restricted cash, current | 555 | 174,000 |
| Short-term investments | 534,806 | 140,393 |
| Prepaid expenses and other current assets | 14,484 | 9,201 |
| Total current assets | 742,411 | 548,381 |
| Produced and licensed content costs | — | 5,766 |
| Property and equipment, net | 10,508 | 3,949 |
| Operating lease right-of-use assets | 34,939 | 16,328 |
| Long-term investments | — | 10,333 |
| Restricted cash, noncurrent | 1,111 | 1,111 |
| Other assets | 5,263 | 7,156 |
| Total assets | $ 794,232 | $ 593,024 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities (including amounts of the consolidated VIE without recourse to the primary beneficiaries of $11,268 as of December 31, 2024) | | |
| Accounts payable | $ 4,648 | $ 5,706 |
| Amounts due to joint development partners | 3,176 | 3,176 |
| Accrued expenses and other current liabilities | 23,887 | 187,657 |
| Operating lease liabilities, current | 6,285 | 6,336 |
| Total current liabilities | 37,996 | 202,875 |
| Operating lease liabilities, noncurrent | 36,240 | 17,954 |
| Other liabilities | 409 | 447 |
| Total liabilities | 74,645 | 221,276 |
| Commitments and contingencies (Note 9) | | |
| Stockholders' equity | | |
| Common Stock, $0.0001 par value, 4,876,000,000 Class A shares authorized as of December 31, 2023 and 2024; 206,500,114 and 208,618,399 Class A shares issued and outstanding as of December 31, 2023 and 2024, respectively; 24,000,000 Class B shares authorized, issued and outstanding as of December 31, 2023 and 2024, respectively | 22 | 22 |
| Additional paid-in capital | 2,610,706 | 2,617,023 |
| Accumulated other comprehensive loss | (901) | (780) |
| Accumulated deficit | (1,890,240) | (2,244,517) |
| Total stockholders' equity | 719,587 | 371,748 |
| Total liabilities and stockholders' equity | $ 794,232 | $ 593,024 |

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

**CreateAI Holdings Inc.**
**(Formerly: TuSimple Holdings Inc.)**
**Consolidated Statements of Operations**
**(in thousands, except share and per share data)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2022** | **2023** | **2024** |
| Revenue | $ 9,369 | $ 307 | $ — |
| Cost of revenue | 19,780 | 754 | — |
| Gross loss | (10,411) | (447) | — |
| Operating expenses: | | | |
| Research and development | 351,599 | 201,166 | 85,693 |
| Selling, general and administrative | 127,053 | 116,329 | 290,990 |
| Total operating expenses | 478,652 | 317,495 | 376,683 |
| Loss from operations | (489,063) | (317,942) | (376,683) |
| Interest income | 16,906 | 37,798 | 25,762 |
| Other income (expense), net | 112 | (391) | (3,256) |
| Loss before provision for income taxes and share of loss from equity method investments | (472,045) | (280,535) | (354,177) |
| Provision for income taxes | — | — | — |
| Share of loss from equity method investments, net of tax | — | — | (100) |
| Net loss | $ (472,045) | $ (280,535) | $ (354,277) |
| Net loss per share attributable to common stockholders, basic and diluted | $ (2.11) | $ (1.23) | $ (1.51) |
| Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted | 224,164,514 | 229,002,377 | 234,266,840 |

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

**CreateAI Holdings Inc.**
**(Formerly: TuSimple Holdings Inc.)**
**Consolidated Statements of Comprehensive Loss**
**(in thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2022** | **2023** | **2024** |
| Net loss | $ (472,045) | $ (280,535) | $ (354,277) |
| Other comprehensive income (loss), net of tax: | | | |
| Unrealized net (loss) gain on available-for-sale securities | (2,298) | 1,712 | 364 |
| Foreign currency translation adjustment | (1,338) | 946 | (243) |
| Comprehensive loss | $ (475,681) | $ (277,877) | $ (354,156) |

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

**CreateAI Holdings Inc.**
**(Formerly: TuSimple Holdings Inc.)**
**Consolidated Statements of Stockholders' Equity**
**(in thousands, except share data)**

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balance as of December 31, 2021 | 221,833,195 | $ 22 | $ 2,464,730 | $ 77 | $ (1,137,851) | $ 1,326,978 |
| Adjustments for prior periods from adopting ASC 842 | — | — | — | — | 191 | 191 |
| Issuance of common stock from exercise of options | 980,696 | — | 1,872 | — | — | 1,872 |
| Issuance of common stock from release of RSUs and SVAs | 2,643,835 | — | — | — | — | — |
| Issuance of common stock under the Employee Stock Purchase Plan | 249,831 | — | 2,286 | — | — | 2,286 |
| Vesting of early exercised stock options | — | — | 168 | — | — | 168 |
| Stock-based compensation | — | — | 98,667 | — | — | 98,667 |
| Unrealized loss on available-for-sale debt securities, net | — | — | — | (2,298) | — | (2,298) |
| Foreign currency translation adjustment | — | — | — | (1,338) | — | (1,338) |
| Net loss | — | — | — | — | (472,045) | (472,045) |
| Balance as of December 31, 2022 | 225,707,557 | $ 22 | $ 2,567,723 | $ (3,559) | $ (1,609,705) | $ 954,481 |
| Issuance of common stock from exercise of options | 56,391 | — | 33 | — | — | 33 |
| Issuance of common stock from release of RSUs and SVAs | 4,585,350 | — | — | — | — | — |
| Compensatory stock issuances | 175,816 | — | — | — | — | — |
| Repurchase of common stock | (25,000) | — | (67) | — | — | (67) |
| Stock-based compensation | — | — | 43,017 | — | — | 43,017 |
| Unrealized gain on available-for-sale debt securities, net | — | — | — | 1,712 | — | 1,712 |
| Foreign currency translation adjustment | — | — | — | 946 | — | 946 |
| Net loss | — | — | — | — | (280,535) | (280,535) |
| Balance as of December 31, 2023 | 230,500,114 | $ 22 | $ 2,610,706 | $ (901) | $ (1,890,240) | $ 719,587 |

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

**CreateAI Holdings Inc.**
**(Formerly: TuSimple Holdings Inc.)**
**Consolidated Statements of Stockholders' Equity**
**(in thousands, except share data)**

| | Common Stock | | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balance as of December 31, 2023 | 230,500,114 | $ 22 | $ 2,610,706 | $ (901) | $ (1,890,240) | $ 719,587 |
| Issuance of common stock from release of RSUs | 2,118,285 | — | — | — | — | — |
| Stock-based compensation | — | — | 6,317 | — | — | 6,317 |
| Unrealized gain on available-for-sale debt securities, net | — | — | — | 364 | — | 364 |
| Foreign currency translation adjustment | — | — | — | (243) | — | (243) |
| Net loss | — | — | — | — | (354,277) | (354,277) |
| Balance as of December 31, 2024 | 232,618,399 | $ 22 | $ 2,617,023 | $ (780) | $ (2,244,517) | $ 371,748 |

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

**CreateAI Holdings Inc.**
**(Formerly: TuSimple Holdings Inc.)**
**Consolidated Statements of Cash Flows**
**(in thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2023 | 2024 |
| **Cash flows from operating activities:** | | | |
| Net loss | $ (472,045) | $ (280,535) | $ (354,277) |
| Adjustments to reconcile net loss to net cash used in operating activities | | | |
| Share-based compensation | 98,667 | 43,017 | 6,317 |
| Depreciation and amortization | 27,555 | 6,316 | 3,255 |
| Noncash operating lease expense | 5,353 | 5,321 | 3,950 |
| Accretion of discount on short-term investments, net | (1,819) | (8,765) | (4,287) |
| Impairment of long-lived assets | 1,987 | 6,503 | — |
| Share of loss from equity method investments | — | — | 100 |
| (Gain) loss on lease termination | (172) | (117) | 1,095 |
| (Gain) loss on disposal of property and equipment | (129) | (117) | 714 |
| Other adjustments | 427 | (44) | — |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (213) | 1,296 | — |
| Prepaid expenses and other current assets | 2,140 | (2,391) | 5,329 |
| Produced and licensed content costs | — | — | (5,766) |
| Other assets | 2,618 | (630) | (1,331) |
| Accounts payable | 6,487 | (4,857) | 1,058 |
| Amounts due to joint development partners | (1,641) | (2,577) | — |
| Accrued expenses and other current liabilities | 6,016 | (22,771) | 163,781 |
| Operating lease liabilities | (4,875) | (5,634) | (4,648) |
| Other liabilities | (221) | 101 | 38 |
| Net cash used in operating activities | (329,865) | (265,884) | (184,672) |
| **Cash flows from investing activities:** | | | |
| Purchases of short-term investments | (398,701) | (355,646) | (250,127) |
| Proceeds from maturities of short-term investments | 19,908 | 206,505 | 649,192 |
| Payment of loan to a related party | — | — | (702) |
| Receipt of loan to a related party | — | — | 702 |
| Purchases of property and equipment and other assets | (13,604) | (3,052) | (1,551) |
| Proceeds from disposal of property and equipment and other assets | 520 | 2,507 | 3,310 |
| Purchase of long-term investments | — | — | (10,433) |
| Purchases of intangible assets | (296) | — | — |
| Net cash (used in) provided by investing activities | (392,173) | (149,686) | 390,391 |

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

**CreateAI Holdings Inc.**
**(Formerly: TuSimple Holdings Inc.)**
**Consolidated Statements of Cash Flows**
**(in thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2023 | 2024 |
| **Cash flows from financing activities:** | | | |
| Proceeds from issuance of common stock under the Employee Stock Purchase Plan | 2,286 | — | — |
| Proceeds from exercised stock options | 1,872 | 33 | — |
| Stock repurchase | — | (67) | — |
| Principal payments on capital and finance lease obligations | (1,252) | (3,318) | — |
| Principal payments on loans | (1,512) | (5,278) | — |
| Net cash provided by (used in) financing activities | 1,394 | (8,630) | — |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (983) | 967 | (53) |
| Net (decrease) increase in cash, cash equivalents and restricted cash | (721,627) | (423,233) | 205,666 |
| Cash, cash equivalents and restricted cash at beginning of period | 1,339,092 | 617,465 | 194,232 |
| Cash, cash equivalents and restricted cash at end of period | $ 617,465 | $ 194,232 | $ 399,898 |
| | | | |
| **Reconciliation of cash, cash equivalents, and restricted cash to the consolidated balance sheets:** | | | |
| Cash and cash equivalents | $ 615,386 | $ 192,566 | $ 224,787 |
| Restricted cash, current | 413 | 555 | 174,000 |
| Restricted cash, noncurrent | 1,666 | 1,111 | 1,111 |
| Total cash, cash equivalents and restricted cash | $ 617,465 | $ 194,232 | $ 399,898 |
| | | | |
| **Supplemental disclosure of cash flow information:** | | | |
| Cash paid for interest | $ 876 | $ 490 | $ — |
| **Supplemental schedule of non-cash investing and financing activities:** | | | |
| Acquisitions of property and equipment included in liabilities | $ 3,275 | $ 264 | $ — |
| Vesting of early exercised stock options | $ 168 | $ — | $ — |
| Right-of-use assets obtained in exchange for operating lease obligations | $ — | $ — | $ 750 |

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

**CreateAI Holdings Inc.**
**(Formerly: TuSimple Holdings Inc.)**
**Notes to the Consolidated Financial Statements**

## Note 1. Description of Business and Summary of Significant Accounting Policies

***Description of Business***

CreateAI Holdings Inc. ("CreateAI" or the "Company", formerly: TuSimple Holdings Inc.) is an applied artificial intelligence ("AI") technology company headquartered in San Diego, California, with operations in the United States ("U.S.") and Asia-Pacific region ("APAC").

Since its founding in 2015, the Company has developed AI solutions primarily for autonomous driving. In August 2024, CreateAI announced the expansion into generative AI for video game and anime production. The Company changed its name to CreateAI Holdings Inc. on December 11, 2024.

***Strategic Shift***

On December 4, 2023, the Company announced that it is winding down its U.S. autonomous driving operations, including through sales of U.S. assets, and a strategic shift to APAC.

On August 14, 2024, the Company announced its new business direction focusing on generative AI applications in video game and anime development. In December 2024, the Company announced its official rebranding to CreateAI and major advancements in its new strategic initiatives. Despite the shift, the Company remains committed to enabling autonomous driving, pursuing an asset-light strategy through partnerships and licensing.

***Consolidated Variable Interest Entities***

In order to comply with the People's Republic of China ("PRC") laws and regulations which prohibit or restrict foreign control of companies involved in provision of online game and other restricted businesses, the Company conducts its businesses in the PRC through a variable interest entity (the "VIE") by entering into a series of contractual arrangements (the "VIE Agreements") with the VIE and the equity holders of VIE (the "Nominee Shareholders"). The Company through one of its subsidiaries, Shanghai Xiong Xiong Animation Technology Co., LTD ("Shanghai Xiong Xiong"), controls one VIE, namely Beijing Xiong Xiong Dream Factory Culture Co., Ltd. ("Beijing Xiong Xiong") by entering into the VIE Agreements on September 12, 2024. The Company is the ultimate primary beneficiary of the VIE as the Company has the power to direct matters that most significantly impact the activities of the VIE, and has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. As such, the Company consolidated the financial results of the VIE in the Company's consolidated financial statements. The assets of VIE are only available to settle the obligations and the liabilities of the VIE and are without recourse to the Company.

The following is a summary of key terms of the VIE Agreements:

**Exclusive Right to Purchase Agreement:** Pursuant to the exclusive right to purchase agreement by and among Shanghai Xiong Xiong, Beijing Xiong Xiong and the Nominee Shareholders, each of the Nominee Shareholders irrevocably granted the Company or its designated representatives an exclusive right to purchase, to the extent permitted under law of mainland China, all or part of its equity interests in Beijing Xiong Xiong at the price equal to the loan provided by the Company to the Nominee Shareholders. If the lowest price permitted under law of mainland China is higher than the above price, the lowest price permitted under law of mainland China shall apply. Without the Company's prior written consent, the Nominee Shareholders shall not sell, transfer, mortgage, change or otherwise dispose of any equity interests in Beijing Xiong Xiong. The agreement will remain effective until all equity interests held in Beijing Xiong Xiong by the Nominee Shareholders are legally transferred to the Company or its designated representatives.

**Exclusive Business Cooperation Agreement:** Pursuant to the exclusive business cooperation agreement by and between Shanghai Xiong Xiong and Beijing Xiong Xiong, the Company has the exclusive right to provide, among other things, technical support, consulting and other services to Beijing Xiong Xiong and Beijing Xiong Xiong agrees to accept all the consultation and services provided by the Company. Without the Company's prior written consent, Beijing Xiong Xiong is prohibited from engaging any third party to provide any of the services under this agreement. In addition, the Company exclusively owns all intellectual property rights arising out of or created during the performance of this agreement. Beijing Xiong Xiong agrees to pay a monthly service fee to the Company at an amount determined solely by the Company after taking into account factors including the complexity and difficulty of the services, the position of the Company's employees and the time consumed, the specific content and commercial value of services, the market price of comparable services and the operating conditions of Beijing Xiong Xiong. Furthermore, to the extent permitted under the law of mainland China, the Company agrees to provide financial support to Beijing Xiong Xiong. The agreement shall remain in force in perpetuity unless the Company terminates the agreement in writing or a competent governmental authority rejects the renewal applications by either Beijing Xiong Xiong or Shanghai Xiong Xiong to renew its respective business license upon expiration.

**Equity Pledge Agreement:** Pursuant to the equity pledge agreement by and among Shanghai Xiong Xiong, Beijing Xiong Xiong and the Nominee Shareholders, each of the Nominee Shareholders pledged all of his equity interests in Beijing Xiong Xiong to the Company to guarantee his performance of the obligations under the VIE Agreements. If Beijing Xiong Xiong or any of Nominee Shareholders breaches its contractual obligations under the VIE Agreements, the Company, as the pledgee, will be entitled to certain rights and entitlements, including receiving proceeds from the auction or sale of whole or part of the pledged equity interests of Beijing Xiong Xiong in accordance with legal procedures. The Company has the right to receive dividends generated by the pledged equity interests during the term of the pledge. If any event of default as provided in the contractual arrangements occurs, the Company, as the pledgee, will be entitled to dispose of the pledged equity interests in accordance with laws and regulations of mainland China. The equity interest pledge agreements became effective on the date when the agreements were duly executed. The pledge was registered with the relevant local branch of State Administration for Market Regulation of PRC and will remain binding until Beijing Xiong Xiong and the Nominee Shareholders discharge all his obligations under the VIE Agreements. The registration of the equity pledge enables the Company to enforce the equity pledge against third parties who acquire the equity interests of Beijing Xiong Xiong in good faith.

**Loan Agreement:** Pursuant to the loan agreement by and between Shanghai Xiong Xiong and the Nominee Shareholders, the Company provided RMB5.0 million loans in aggregate to Nominee Shareholders for the sole purpose of their contribution of Beijing Xiong Xiong's registered capital. The Nominee Shareholders can only repay the loans by transferring all of their legal equity interest in Beijing Xiong Xiong to the Company or its designated representatives pursuant to the exclusive right to purchase agreement. The loans shall be interest-free, unless the transfer price exceeds the principal of the loans when each Nominee Shareholder transfers its equity interests in Beijing Xiong Xiong to the Company or its designated representatives. Such excess over the principal of the loan shall be deemed as the interest of the loans to the extent permitted under the law of mainland China. The term is expired when the Company or its designated representatives exercise its exclusive right to purchase under the exclusive right to purchase agreement.

**Authorization Letter:** Pursuant to the authorization agreement by and between Shanghai Xiong Xiong and the Nominee Shareholders, each Nominee Shareholder appointed the Company as the attorney-in-fact to act on all matters pertaining to Beijing Xiong Xiong and to exercise all of his rights as an equity holder of Beijing Xiong Xiong, including but not limited to attend shareholders' meetings, vote on his behalf on all matters of Beijing Xiong Xiong requiring shareholders' approval under laws and regulations of mainland China and the articles of association of Beijing Xiong Xiong, designate and appoint directors and senior management members. The Company may authorize or assign its rights under this appointment to any other person or entity at its sole discretion without prior notice to the Nominee Shareholders. Each power of attorney will remain effective until the Nominee Shareholders cease to hold any equity interest in Beijing Xiong Xiong.

The following tables represent the financial information of VIE as of December 31, 2024 and for the year ended December 31, 2024 before eliminating the intercompany balances and transactions between VIE and other entities within the Company (in thousands):

| | As of December 31, |
|---|---|
| | 2024 |
| **Assets** | |
| Current assets | |
| Cash and cash equivalents | $ 827 |
| Prepaid expenses and other current assets | 39 |
| Total current assets | 866 |
| Long-term investments | 10,333 |
| Other assets | 656 |
| Total assets | $ 11,855 |
| **Liabilities** | |
| Current liabilities | |
| Amounts due to the other entities within CreateAI | $ 11,268 |
| Total current liabilities | 11,268 |
| Total liabilities | $ 11,268 |

| | From September 12 to December 31, |
|---|---|
| | 2024 |
| Total expense | $ 8 |
| Net loss | 8 |
| | |
| Net cash used in operating activities | (712) |
| Net cash used in investing activities | (10,538) |
| Net cash provided by financing activities | 12,083 |

***Basis of Presentation and Consolidation***

The accompanying consolidated financial statements ("Financial Statements") have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP"). The Financial Statements include the accounts of the Company, its consolidated subsidiaries and its consolidated VIE. All significant intercompany balances and transactions have been eliminated in consolidation.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include, but are not limited to, revenue recognition, the useful lives of long-lived assets, the valuation of stock-based compensation, the measurement of deferred tax assets, the recoverability of long-lived assets, the incremental borrowing rate ("IBR") used in the measurement of right-of-use lease assets and lease liabilities, fair values of investments and other financial instruments (including measurement of credit or impairment losses). On an ongoing basis, management evaluates these estimates and assumptions; however, actual results could materially differ from these estimates.

***Cash, Cash Equivalents, and Restricted Cash***

Cash and cash equivalents consist of cash in banks and money market funds, purchased with an original maturity of three months or less.

Restricted cash is pledged as security for letters of credit or other collateral amounts established by the Company for certain lease obligations, customer deposits, corporate credit cards, and litigation settlement.

***Fair Value Measurements***

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures financial assets and liabilities at fair value at each reporting period using a fair value hierarchy, which requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The levels of inputs used to measure fair value are:

- Level 1 — Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active or inputs other than the quoted prices that are observable either directly or indirectly for the full term of the assets or liabilities.
- Level 3 — Unobservable inputs in which there is little or no market data that are significant to the fair value of the assets or liabilities.

The Company's primary financial instruments include cash equivalents, short-term investments, accounts payable, amounts due to joint development partners and accrued expenses. The estimated fair value of cash equivalents, accounts payable, amounts due to joint development partners and accrued expenses approximates their carrying value due to their short-term nature. Refer to Note 3. Investments and Fair Value Measurements for further information.

***Investments***

*1) Debt Securities*

Accounting for the Company's debt securities is based on the legal form of the security, the Company's intended holding period for the security, and the nature of the transaction. Investments in debt securities are classified as available-for-sale and are initially recorded at fair value. Investments in debt securities include commercial paper, U.S. treasury securities, U.S. government agency securities, and corporate debt securities. Subsequent changes in fair value of available-for-sale debt securities are recorded in other comprehensive income (loss), net of tax. Interest on these debt securities and amortization of premiums and accretion of discounts are included in interest income in the consolidated statements of operations. The Company considers its debt securities as available for use in current operations, including those with maturity dates beyond one year, and, therefore, classifies these securities as short-term investments on the consolidated balance sheets.

The Company accounts for credit losses on available-for-sale debt securities in accordance with ASC 326. At each reporting period, the Company evaluates its available-for-sale debt securities at the individual security level to determine whether there is a decline in the fair value below its amortized cost basis (an impairment). In circumstances where the Company intends to sell, or is more likely than not required to sell, the security before it recovers its amortized cost basis, the difference between fair value and amortized cost is recognized as a loss in the consolidated statements of operations, with a corresponding write-down of the security's amortized cost. In circumstances where neither condition exists, the Company then evaluates whether a decline is due to credit-related factors. The factors considered in determining whether a credit loss exists can include the extent to which fair value is less than the amortized cost basis, changes in the credit quality of the underlying loan obligors, credit ratings actions, as well as other factors. If the Company's assessment indicates that a credit loss exists, the credit loss is measured based on the Company's best estimate of the expected cash flows of the security discounted at the security's effective interest rate compared to the amortized cost basis of the security. A credit-related impairment is limited to the difference between fair value and amortized cost, and recognized as an allowance for credit losses on the consolidated balance sheet with a corresponding adjustment to net income (loss). Any remaining decline in fair value that is non-credit related is recognized in other comprehensive income (loss), net of tax. Improvements in expected cash flows due to improvements in credit are recognized through a reversal of the credit loss and corresponding reduction in the allowance for credit losses. Write-offs of available-for-sale debt securities, which may be full or partial write-offs, are deducted from the allowance for credit losses and recorded in the period in which the securities are deemed uncollectible.

The Company does not measure an allowance for credit losses on accrued interest receivable balances on available-for-sale debt securities as these balances are written-off in a timely manner. Write-offs of accrued interest receivable balances are recorded as a reduction to interest income. There were no write-offs of accrued interest during the year ended December 31, 2024. Accrued interest excluded from the amortized cost of debt securities totaled $1.0 million as of December 31, 2024, and is reported in prepaid expenses and other current assets on the consolidated balance sheet.

*2) Long-term investments*

The Company's long-term investments consist of equity method investments.

Investments in entities over which the Company has significant influence but does not own a majority equity interest or control are accounted for using the equity method of accounting in accordance with ASC 323, Investments-Equity Method and Joint Ventures. Under the equity method, the investment is initially recorded at cost and the difference between the cost of the equity investee and the amount of the underlying equity in the net assets of the equity investee substantially relates to equity method goodwill, which is not amortized as a basis difference. Carrying amount of investment is subsequently adjusted based on proportionate share of each equity investee's net income or loss into earnings after the date of investment and its share of each equity investee's movement in accumulated other comprehensive income or loss is recognized in other comprehensive income (loss), net of tax.

The Company evaluates the equity method investments for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying amount of the investment might not be recoverable. Factors considered when determining whether an investment has been other-than-temporarily-impaired, includes, but are not limited to, the length of the time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the investee, and the Company's intent and ability to retain the investment until the recovery of its cost. The impairment charge in the consolidated statements of operations and comprehensive income (loss) for a decline in value that is determined to be other-than-temporary. An impairment loss on the equity method investments is recognized in earnings when the decline in value is determined to be other-than-temporary and is allocated to the individual net assets underlying equity method investments in the following order: 1) reduce any equity method goodwill to zero; 2) reduce the individual basis differences related to the investee's long-lived assets pro rata based on their amounts relative to the overall basis difference at the impairment date; and 3) reduce the individual basis difference of the investee's remaining assets in a systematic and rational manner.

***Produced and Licensed Content Costs***

The Company classifies its capitalized produced and licensed content costs as Produced and licensed content costs in the consolidated balance sheets. For produced content, the Company capitalizes all direct costs incurred in the physical production of a content, as well as allocations of production overhead and capitalized interest. For licensed content, the Company capitalizes the license fee or acquisition cost, respectively. For purposes of amortization and impairment, the capitalized content costs are classified based on their predominant monetization strategy: content that is predominantly monetized individually and content that is predominantly monetized as a group.

The determination of the predominant monetization strategy is made at commencement of production on a consolidated basis and is based on the means by which the Company derives third-party revenues from use of the content.

Contents intended for theatrical release are generally classified as predominantly monetized individually. They are amortized based upon the ratio of the current period's revenues to the estimated remaining ultimate revenues, i.e., the total revenue to be received throughout a content's remaining life cycle. The process of estimating ultimate revenues requires the Company to make a series of judgments related to future revenue-generating activities associated with a particular content. Prior to the theatrical release of a content, estimates are based on factors such as the historical performance of similar contents, the influence of the leading creators (i.e., the authorship and directors), the rating and genre of the content, pre-release market research (including test market screenings), international distribution plans and the expected number of theaters in which the content will be released. Subsequent to release, ultimate revenues are updated to reflect initial performance, which is often predictive of future performance.

Contents that are part of a group are amortized based on projected usage, typically resulting in an accelerated or straight-line amortization pattern. Adjustments for projected usage are applied prospectively in the period of the change. Historical viewing patterns are the most significant input into determining the projected usage, and significant judgment is required in using historical viewing patterns to derive projected usage.

Amortization of capitalized costs for produced content begins in the month the content is first released, while amortization of capitalized costs for licensed content commences when the license period begins and the content is first released. Amortization of content assets is primarily included in cost of revenue in the consolidated statements of operations.

Contents classified as predominantly monetized individually are tested for impairment at the individual content level by comparing that content's unamortized costs to the present value of discounted cash flows directly attributable to the content. To the extent the content's unamortized costs exceed the present value of discounted cash flows, an impairment charge is recorded for the excess. Contents that are predominantly monetized as a group are tested for impairment by comparing the present value of the discounted cash flows of the group to the aggregate unamortized costs of the group. The group is established by identifying the lowest level for which cash flows are independent of the cash flows of other produced and licensed content. If the unamortized costs exceed the present value of discounted cash flows, an impairment charge is recorded for the excess and allocated to individual contents based on the relative carrying value of each content in the group. If there are no plans to continue to use an individual content that is part of a group, the unamortized cost of the individual content is written down to its estimated fair value. Licensed content is included as part of the group within which it is monetized for purposes of impairment testing.

***Property and Equipment, Net***

Property and equipment, net, are stated at cost less accumulated depreciation or amortization and any recorded impairment. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, as follows:

| **Property and Equipment** | **Estimated Useful Life** |
|---|---|
| Electronic equipment | 1-4 years |
| Vehicles | 4-6 years |
| Office and other equipment | 3-7 years |
| Leasehold improvements | Shorter of lease term or estimated useful life of the asset |

When assets are retired or otherwise disposed of, the cost, accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in the consolidated statements of operations in the period realized. Maintenance and repairs that do not enhance or extend the asset's useful life are charged to operating expenses as incurred.

Property and equipment that are purchased or constructed which require a period of time before the assets are ready for their intended use are accounted for as construction-in-progress. Construction-in-progress is recorded at acquisition cost, including installation costs. Construction-in-progress is transferred to specific property and equipment accounts and commences depreciation when these assets are ready for their intended use.

Assets acquired under a finance lease are amortized in a manner consistent with the Company's depreciation policy for owned assets if the lease transfers ownership to the Company at the end of the lease term or contains a bargain purchase option. Otherwise, assets acquired under a finance lease are amortized over the lease term.

***Intangible Assets, Net***

Intangible assets represent patents, which are carried at cost and amortized on a straight-line basis over their estimated useful lives of 10 years and presented in other assets in the Company's consolidated balance sheets. The Company reviews intangible assets for impairment under the long-lived asset model described in the Impairment of Long-Lived Assets section. There have been no impairment charges recorded in any of the periods presented in the accompanying consolidated financial statements. As of December 31, 2023 and 2024, intangible assets are immaterial.

***Impairment of Long-Lived Assets***

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by comparison of the carrying amount of an asset or asset group to estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds estimated undiscounted future cash flows, then an impairment charge is recognized based on the excess of the carrying amount of the asset or asset group over its fair value. Fair value is determined through various valuation techniques including discounted cash flow models and quoted market values, as necessary. Impairment of long-lived assets is primarily included in selling, general and administrative in the consolidated statements of operations. For the years ended December 31, 2023 and 2024, the Company recorded an impairment charge of $6.5 million and nil to long-lived assets in connection with restructuring activities during the year, respectively.

***Leases***

The Company accounts for leases in accordance with ASC 842, Leases ("ASC 842"), which requires lessees to recognize the rights and obligations created by leases on the balance sheet and disclose key information about leasing arrangements. The Company adopted ASC 842 along with all applicable ASU clarifications and improvements on January 1, 2022, using the modified retrospective transition method and used the effective date as the date of initial application. Consequently, financial information is not updated and disclosures required under ASC 842 are not provided for periods before January 1, 2022. ASC 842 provides a number of optional practical expedients that companies can elect to apply during the standard's transition. The Company elected the "package of practical expedients", which permits the Company not to reassess under ASC 842 its prior conclusions about lease identification, lease classification, and initial direct costs.

The Company determines if a contract contains a lease based on whether it has the right to obtain substantially all of the economic benefits from the use of an identified asset and whether it has the right to direct the use of an identified asset in exchange for consideration, which relates to an asset which the Company does not own. Right-of-use ("ROU") assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. ROU assets are recognized as lease liability, adjusted for lease incentives received. Lease liabilities are recognized at the present value of the future lease payments at the lease commencement date, net of lease incentive receivable. The interest rate used to determine the present value of the future lease payments is the Company's IBR unless the interest rate implicit in the lease agreement is readily determinable. Lease payments may be fixed or variable, however, only fixed payments or in-substance fixed payments are included in the Company's lease liability calculation. Variable lease payments are recognized in operating expenses in the period in which the obligations for those payments are incurred.

The Company has lease agreements with lease and non-lease components and has elected to utilize the practical expedient to account for lease and non-lease components together as a single combined lease component. Additionally, for certain leases previously identified as build-to-suit leasing arrangements under legacy accounting, the Company has derecognized those leases pursuant to the transition guidance provided for build-to-suit leases in ASC 842. Such leases have been reassessed as operating leases as of the adoption date under ASC 842, and are included on the consolidated balance sheets.

The Company has leases that include one or more options to extend the lease term for up to five years and some of its leases include options to terminate the lease prior to the end of the agreed upon lease term. For purposes of calculating lease liabilities, lease terms include options to extend or terminate the lease when it is reasonably certain that the Company will exercise such options.

Operating leases are included in operating lease ROU assets, operating lease liabilities, current, and operating lease liabilities, noncurrent on the Company's consolidated balance sheets.

The Company has elected not to present short-term leases on the consolidated balance sheet as these leases have a lease term of 12 months or less at lease inception and do not contain purchase options or renewal terms that the Company is reasonably certain to exercise.

***Revenue Recognition***

There was no revenue generated in the year of 2024. The Company earned revenue from the delivery of freight capacity services for the years ended December 31, 2022 and 2023. Revenue is recognized when the customer obtains control of promised services in an amount that reflects the consideration the Company expects to receive in exchange for those services.

To determine revenue recognition within the scope of ASC 606, Revenue from Contracts with Customers ("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, including variable consideration, if any; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration to which it is entitled in exchange for the goods or services it transfers to the customer.

Once a contract is determined to be within the scope of ASC 606 at contract inception, the Company reviews the contract to determine which performance obligations it must deliver and which of these performance obligations are distinct. The Company recognizes revenue based on the amount of the transaction price that is allocated to each performance obligation when that performance obligation is satisfied or as it is satisfied.

The Company is a principal and records revenue on a gross basis when the Company is primarily responsible for fulfilling the promise to provide the specified good or service, has discretion in establishing pricing and controls the promised goods or service before transferring that to customers. Otherwise, the Company records revenue at the net amounts as commissions.

Incremental costs of obtaining contracts are expensed as incurred if the amortization period of the assets is one year or less. These costs are included in cost of revenue in the consolidated statements of operations.

The recognition of revenues involves certain management judgments. The amount and timing of the Company's revenues could be different if management made different judgments or utilized different estimates.

*Revenue from Freight Capacity Services*

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the basis of revenue recognition in accordance with GAAP. To determine the proper revenue recognition method for its contracts with customers, the Company evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as more than one performance obligation. In the Company's case, its contracts with customers are for the delivery of distinct services within a single contract, such as freight capacity services, and include only one performance obligation.

Revenue from freight capacity services is recognized over time as the Company performs the services in the contract because of the continuous transfer of control to the customer. The Company's customers receive the benefit of the Company's services as the goods are transported from one location to another. If the Company were unable to complete delivery to the final location, another entity would not need to re-perform the freight capacity service already performed. As control transfers over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the products or services to be provided. Management estimates the progress based on mileage completed to total mileage to be transported. Revenues are recorded net of value-added taxes and surcharges.

Customer contracts may be modified to account for changes in the rates the Company charges its customers or to add additional distinct services. The Company considers contract modifications to exist when the modification either creates new enforceable rights and obligations or alters the existing arrangement. Contract modifications that add distinct goods or services are treated as separate performance obligations. Contract modifications that do not add distinct goods or services typically change the price of existing services. These contract modifications are accounted for prospectively as the remaining performance obligations are executed.

Under typical payment terms of the Company's freight capacity services customer contracts, the customer pays at periodic intervals (i.e., every 14 days, 30 days, etc.) for shipments included on invoices received. It is not customary business practice to extend payment terms past 90 days, and as such, the Company does not have a practice of including a significant financing component within its contracts with customers. For the years ended December 31, 2022 and 2023, the Company earned all of its revenue within the U.S. and there was no revenue related to any other geographies. Additionally, due to the short-term nature of the Company's customer contracts, there were no remaining unsatisfied performance obligations as of December 31, 2023.

***Cost of Revenue***

*Cost of Revenue from Freight Capacity Services*

In the year of 2022 and 2023, cost of revenue consists primarily of fuel costs, insurance costs, depreciation of property and equipment (including semi-trucks acquired under capital leases), labor costs, and other costs directly attributable to providing freight capacity services.

***Software Development Costs***

The Company evaluates capitalization of certain software development costs incurred in development of software to be sold, leased, or otherwise marketed, subsequent to the establishment of technological feasibility. Based on the Company's product development process and substantial development risks, technological feasibility for the Company's L4 autonomous driving technology and AI-generated content technology has not been established. Accordingly, the Company charges all such costs to research and development expense in the period incurred.

Software development costs for internal use software are subject to capitalization during the application development stage, beginning when a project that will result in additional functionality is approved and ending when the software is put into productive use. Due to the Company's iterative development process and short development cycles, the costs incurred between these stages are not material and are charged to research and development expense as incurred.

***Research and Development ("R&D")***

R&D expenses consist primarily of personnel-related expenses, including stock-based compensation costs, associated with software developers, cloud computing and server expenses, game development expenses and allocated overhead costs in the year of 2024. In the year of 2022 and 2023, there was also engineering personnel responsible for the design, development, and testing of L4 autonomous driving technology, in addition to the software developers' costs. Research and development costs are expensed as incurred.

***Selling, General and Administrative ("SG&A")***

SG&A expenses consist primarily of personnel-related expenses, including stock-based compensation costs, associated with the Company's marketing, management, and administration activities, professional service fees, penalties and settlement fees due to litigations and investigations and other general corporate expenses. Selling, general and administrative costs are expensed as incurred.

***Stock-Based Compensation***

The Company accounts for stock-based compensation expense in accordance with the fair value recognition and measurement provisions of GAAP, which requires compensation cost for the grant-date fair value of stock-based awards to be recognized over the requisite service period. The Company determines the fair value of stock-based awards granted or modified on the grant date (or modification date, if applicable) at fair value, using appropriate valuation techniques.

*Time-Based Service Awards*

For stock-based awards with time-based vesting conditions only, generally being restricted stock units ("RSUs"), restricted stock awards ("RSAs") and stock options, stock-based compensation is recognized straight-line over the requisite service period, which is generally three to four years. The fair value of RSUs and RSAs is measured on the grant date based on the fair value of the underlying common stock. The fair value of stock option awards is estimated on the grant date using the Black-Scholes option-pricing model which incorporates various assumptions, including the fair value of the underlying common stock, the expected stock price volatility over the term of the award, the risk-free interest rate for the expected term of the award and the expected dividends. The Company accounts for forfeitures as they occur.

*Performance-Based Awards*

The Company has granted RSUs, share value awards ("SVAs"), and stock options that vest only upon the satisfaction of both time-based service and performance-based conditions. The time-based service condition for these awards generally is satisfied over three or four years. The performance-based conditions, other than with respect to the 2021 CEO Performance Award discussed in Note 10. Stock-Based Compensation, are satisfied upon the occurrence of a qualifying event, defined as the earlier of (i) the closing of certain specific liquidation or change in control transactions, or (ii) an Initial Public Offering ("IPO"); or the closing of (i) change in control transactions or (ii) qualified public transaction. The Company records stock-based compensation expense for performance-based equity awards such as RSUs, SVAs, and stock options using the accelerated attribution method over the requisite service period, which is generally three to four years, and only if performance-based conditions are considered probable to be satisfied. Upon completion of the IPO in April 2021, the Company recorded a cumulative one-time stock-based compensation expense determined using the grant-date fair values. Stock-based compensation related to remaining time-based service after the qualifying event is recorded over the remaining requisite service period.

For performance-based RSUs and SVAs, the Company determines the grant-date fair value as the fair value of the Company's common stock on the grant date. For performance-based stock options, the Company determines the grant-date fair value using the Black-Scholes option-pricing model described above.

For the 2021 CEO Performance Award with a vesting schedule based on the attainment of both performance and market-based conditions, stock-based compensation expense associated with each tranche is recognized over the longer of (i) the expected achievement period for the operational milestones for such tranche and (ii) the expected achievement period for the related market capitalization milestone determined on the grant date, beginning at the point in time when the relevant operational milestones are considered probable of being met. If such operational milestones become probable any time after the grant date, the Company will recognize a cumulative catch-up expense from the grant date to that point in time. If the related market capitalization milestone is achieved earlier than its expected achievement period, then the stock-based compensation expense will be recognized over the expected achievement period for the operational milestones, which may accelerate the rate at which such expense is recognized. The fair value of such awards is estimated on the grant date using Monte Carlo simulations. Refer to Note 10. Stock-Based Compensation for further information.

*Market-Based Awards*

For the 2022 CEO Awards with a vesting schedule based on the satisfaction of both time-based service and market-based conditions, the Company determines the grant-date fair value utilizing Monte Carlo simulations and recognizes stock-based compensation expense associated with each tranche over the longer of (i) the expected achievement period for the market milestones and (ii) the explicit time-based service period. Refer to Note 10. Stock-Based Compensation for further information.

*Modification*

A cancellation of the terms or conditions of an equity award under original award in exchange for a new award should be treated as modification. The compensation costs associated with the modified awards are recognized if either the original vesting conditions or the new vesting conditions have been achieved. Total recognized compensation cost for the awards is at least equal to the fair value of the original awards at the grant date unless at the date of the modification the performance or service conditions of the original awards are not expected to be satisfied. The incremental compensation cost is measured as the excess of the fair value of the replacement awards over the fair value of original awards at the modification date. Therefore, in relation to the modified awards, the Company recognizes both the unrecognized compensation cost of the original awards and the incremental compensation cost resulting from the modification over the vesting periods of the new awards.

*Employee Stock Purchase Plan ("ESPP")*

The Company recognizes stock-based expense related to shares issued pursuant to the ESPP on a straight-line basis over the offering period. The ESPP provides for six-month offering periods. The ESPP allows eligible employees to purchase shares of Class A common stock at a 15% discount on the lower of our stock price on either (i) the offering period beginning date or (ii) the purchase date. No employee may purchase shares under the ESPP at a rate in excess of $25,000 worth of Class A common stock based on the fair market value per share of Class A common stock at the beginning of an offering for each calendar year such purchase right is outstanding or 1,500 shares. The Company estimates the fair value of shares to be issued under the ESPP based on a combination of options valued using the Black-Scholes option-pricing model. Volatility is determined over an expected term of six months based on the Company's historical volatility. The expected term is estimated based on the contractual term.

***Restructuring and Related Charges***

Costs associated with management-approved restructuring activities consist primarily of employee severance and termination benefits, stock-based compensation, contract termination settlements and long-lived assets costs, which includes impairment of long-lived assets (including ROU assets), write-off of long-lived assets no longer used and termination of finance lease and operating lease, net of gains from disposal of assets. The Company recognizes restructuring and related charges when they are incurred. One-time employee termination costs are recognized at the time of communication to employees, unless future service is required, in which case the costs are recognized ratably over the future service period. Ongoing employee termination benefits and contract termination settlements are recognized as a liability when it is probable that a liability exists and the amount is reasonably estimable. Costs associated with the impairment of long-lived assets and ROU assets are accounted for under the long-lived assets accounting guidance or lease accounting guidance. Additionally, the Company wrote-off all existing long-lived assets used in the Company's research and development as of December 31, 2022, as they no longer meet the criteria for capitalization subsequent to the restructuring.

Restructuring and related charges are recognized as an operating expense in the consolidated statements of operations and related liabilities are recorded in accrued expenses and other liabilities on the consolidated balance sheets.

***Income Taxes***

Current income taxes are provided for in accordance with the relevant statutory tax laws and regulations.

Income taxes are accounted for under the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided when it is more likely than not that a deferred tax asset will not be fully realized. Due to our lack of earnings history, the net deferred tax assets have been fully offset by a valuation allowance.

The Company operates in various tax jurisdictions and is subject to audit by tax authorities. The Company recognizes the tax benefit of an uncertain tax position only if it is more likely than not that the position is sustainable upon examination by the taxing authority, based on the technical merits. The tax benefit recognized is measured as the largest amount of benefit which is more likely than not to be realized upon settlement with the taxing authority. The Company recognizes interest accrued and penalties related to unrecognized tax benefits in the provision for income taxes.

### *Foreign Currency*

The functional currency of the Company's foreign subsidiaries is the local currency or U.S. dollar depending on the nature of the subsidiaries' activities. Foreign currency transactions recognized in the consolidated statements of operations are converted to the functional currency by applying the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are remeasured monthly using the month-end exchange rate. Gains and losses resulting from foreign currency transactions and the effects of remeasuring monetary assets and liabilities are recorded in other income (expense), net in the consolidated statements of operations. Subsidiary assets and liabilities with non-U.S. dollar functional currencies are translated at the month-end rate, retained earnings and other equity items are translated at historical rates, and revenues and expenses are translated at average exchange rates during the year. Cumulative translation adjustments are recorded in accumulated other comprehensive loss, a separate component of stockholders' equity.

### *Comprehensive Loss*

Comprehensive loss consists of two components: net loss and other comprehensive income (loss). Other comprehensive income (loss) refers to income or losses that are recorded as an element of stockholders' equity and are excluded from net loss. The Company's other comprehensive income (loss) is composed of foreign currency translation adjustment and unrealized gain or loss on available-for-sale securities.

### *Net Loss Per Share Attributable to Common Stockholders*

The Company computes net loss per share using the two-class method required for participating securities. The two-class method requires income available to common stockholders for the period to be allocated between common stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed.

The Company's basic net loss per share attributable to common stockholders is calculated by dividing net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding for the period, without consideration of potentially dilutive securities. The diluted net loss per share is calculated by giving effect to all potentially dilutive securities outstanding for the period using the treasury stock method or the if-converted method based on the nature of such securities. Diluted net loss per share is the same as basic net loss per share in periods when the effects of potentially dilutive common stock are anti-dilutive.

### *Segment Information*

In accordance with ASC 280, Segment Reporting, operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker ("CODM"), or decision-making group, in deciding how to allocate resources and in assessing performance.

In connection with the changes in the Company's strategic shift to generative AI for video game and anime production in August 2024, the Company determined that its CODM is the Chief Executive Officer ("CEO"), and identified one reportable segment. CEO manages and allocates resources to the operations of the Company on a total company basis by assessing the overall level of resources available in line with strategic goals. In making these decisions, CEO uses consolidated financial information for purposes of evaluating performance, forecasting future period financial results, and allocating resources.

Prior to the change in segments, the Company operated with two reportable segment, U.S. and APAC. These segments represent the components of the Company for which separate financial information is available that is utilized on a regular basis by the CODM in assessing segment performance and in allocating the Company's resources. Prior year comparable period segment disclosures have been restated to conform to the current year presentation. Refer to Note 13. Segment Information for further information.

***Commitments and Contingencies***

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings arising out of its business, that cover a wide range of matters. An accrual for a loss contingency is recognized when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. If a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. Refer to Note 9. Commitments and Contingencies for further information.

***Reclassifications***

Certain prior period balances have been reclassified to conform to the current period presentation in the consolidated financial statements and the accompanying notes.

***Recent Accounting Pronouncements***

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. The amendments in ASU 2023-07 improve reportable segment disclosure requirements through enhanced disclosures about significant segment expenses. The amendments introduce a new requirement to disclose significant segment expenses regularly provided to the CODM, extends certain annual disclosures to interim periods, clarifies single reportable segment entities must apply ASC 280 in its entirety, permits more than one measure of segment profit or loss to be reported under certain conditions, and requires disclosure of the title and position of the CODM. ASU 2023-07 is effective 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 ASU 2023-07 on January 1, 2024 with no material impact on its consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. The ASU requires the annual financial statements to include consistent categories and greater disaggregation of information in the rate reconciliation, and income taxes paid disaggregated by jurisdiction. ASU 2023-09 is effective for the Company’s annual reporting periods beginning after December 15, 2024. Adoption is either with a prospective method or a fully retrospective method of transition. Early adoption is permitted. The Company is currently evaluating the effect that adoption of ASU 2023-09 will have on its consolidated financial statements.

In November 2024, the FASB issued ASU 2024-03, Income Statement (Topic 220): Disaggregation of Income Statement Expenses. The amendments in ASU 2024-03 improve income statement disclosure requirements through enhanced disclosures about disaggregating information about certain income statement expense caption. ASU 2024-03 is effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027. Early adoption is permitted. The Company is currently evaluating the effect that adoption of ASU 2024-03 will have on its consolidated financial statements.

## Note 2. Concentrations and Risks

***Concentration of Credit Risk***

Cash and cash equivalents and short-term investments are potentially subject to concentrations of credit risk. The Company’s investment policy limits the amount of credit exposure with any one financial institution or commercial issuer and sets requirements regarding credit rating and investment maturities to safeguard liquidity and minimize risk. The majority of the Company’s cash deposits exceed Federal Deposit Insurance Corporation (“FDIC”) insurance limit and are placed with financial institutions around the world that the Company believes are of high credit quality. The Company has not experienced any material losses related to these concentrations during the years ended December 31, 2022, 2023, and 2024.

*Currency Convertibility Risk*

The revenues and expenses of the Company's subsidiaries in China are generally denominated in Renminbi ("RMB") and their assets and liabilities are primarily denominated in RMB, which is not freely convertible into foreign currencies. The Company's cash denominated in RMB that is subject to such government controls amounted to RMB90.2 million (equivalent to $12.7 million) and RMB165.5 million (equivalent to $23.0 million) as of December 31, 2023 and 2024, respectively. The value of the RMB is subject to changes in the central government policies and international economic and political developments affecting the supply and demand of RMB in the PRC foreign exchange trading system market. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China (the "PBOC"). Remittances from China in currencies other than RMB by the Company must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to process the remittance.

**Note 3. Investments and Fair Value Measurements**

*Investments*

Investments on the consolidated balance sheets consisted of the following (in thousands):

| | As of December 31, 2024 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Allowance for Credit Losses | Fair Value | Cash and Cash Equivalents | Short-term Investments |
| **Available-for-sale debt securities:** | | | | | | | |
| U.S. treasury securities | $ 12,482 | $ 4 | $ — | $ — | $ 12,486 | $ — | $ 12,486 |
| Commercial paper | 20,696 | — | (30) | — | 20,666 | — | 20,666 |
| Corporate debt securities | 107,437 | 8 | (204) | — | 107,241 | — | 107,241 |
| Total | $ 140,615 | $ 12 | $ (234) | $ — | $ 140,393 | $ — | $ 140,393 |

| | As of December 31, 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Allowance for Credit Losses | Fair Value | Cash and Cash Equivalents | Short-term Investments |
| **Available-for-sale debt securities:** | | | | | | | |
| U.S. treasury securities | $ 75,205 | $ 49 | $ (266) | $ — | $ 74,988 | $ — | $ 74,988 |
| U.S. government agency securities | 243,201 | 250 | (479) | — | 242,972 | — | 242,972 |
| Commercial paper | 7,654 | — | (3) | — | 7,651 | — | 7,651 |
| Corporate debt securities | 209,333 | 469 | (607) | — | 209,195 | — | 209,195 |
| Total | $ 535,393 | $ 768 | $ (1,355) | $ — | $ 534,806 | $ — | $ 534,806 |

The fair value and amortized cost of the Company's debt securities with a stated contractual maturity or redemption date were as follows (in thousands):

| | As of December 31, 2024 | |
|---|---|---|
| | Amortized | Fair Value |
| Due in one year or less | $ 90,010 | $ 89,902 |
| Due in one year through five years | 50,605 | 50,491 |
| Total | $ 140,615 | $ 140,393 |

The Company purchases investment grade marketable debt securities rated by nationally recognized statistical credit rating organizations in accordance with its investment policy, which is designed to minimize the Company's exposure to credit losses. The Company regularly reviews its investment portfolios to determine if any investment is impaired due to changes in credit risk or other potential valuation concerns.

As of December 31, 2023 and 2024, investments in an unrealized loss position for which an allowance for credit losses have not been recognized had an aggregate fair value of $390.9 million and $111.6 million, respectively. The Company does not intend to sell these investments until the recovery of their amortized cost basis or maturity and further believes that it is not more-likely-than-not that it will be required to sell these investments. The unrealized losses were primarily related to changes in interest rates, market spreads, and market conditions subsequent to purchase. The Company believes none of these debt securities were impaired due to credit risk or other valuation concerns, and, therefore, did not record a credit loss or an allowance for credit losses.

As of December 31, 2024, investments in a continuous unrealized loss position for more than twelve months for which an allowance for credit losses has not been recognized had an aggregate fair value of $5.0 million. The following table summarizes the available-for-sale debt securities in a continuous unrealized loss position for which an allowance for credit losses was not recorded at December 31, 2024 (in thousands):

| | Less than 12 Months | | More than 12 Months | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| **Available-for-sale debt securities:** | | | | | | |
| Commercial paper | $ 20,666 | $ (30) | $ — | $ — | $ 20,666 | $ (30) |
| Corporate debt securities | 85,920 | (202) | 4,981 | (1) | 90,901 | (203) |
| Total | $ 106,586 | $ (232) | $ 4,981 | $ (1) | $ 111,567 | $ (233) |

Interest income from cash and cash equivalents and short-term investments was $16.9 million, $37.8 million, and $25.8 million for the years ended December 31, 2022, 2023, and 2024, respectively.

***Fair Value Measurements***

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation (in thousands):

| | As of December 31, 2024 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| **Assets:** | | | | |
| Cash equivalents: | | | | |
| Money market funds | $ 137,251 | $ 137,251 | $ — | $ — |
| Total cash equivalents | $ 137,251 | $ 137,251 | $ — | $ — |
| Short-term investments: | | | | |
| U.S. treasury securities | $ 12,486 | $ 12,486 | $ — | $ — |
| Commercial paper | 20,666 | — | 20,666 | — |
| Corporate debt securities | 107,241 | — | 107,241 | — |
| Total short-term investments | $ 140,393 | $ 12,486 | $ 127,907 | $ — |
| Total | $ 277,644 | $ 149,737 | $ 127,907 | $ — |

| | As of December 31, 2023 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| **Assets:** | | | | |
| Cash equivalents: | | | | |
| Money market funds | $ 151,226 | $ 151,226 | $ — | $ — |
| Total cash equivalents | $ 151,226 | $ 151,226 | $ — | $ — |
| Short-term investments: | | | | |
| U.S. treasury securities | $ 74,988 | $ 74,988 | $ — | $ — |
| U.S. government agency securities | 242,972 | — | 242,972 | — |
| Commercial paper | 7,651 | — | 7,651 | — |
| Corporate debt securities | 209,195 | — | 209,195 | — |
| Total short-term investments | $ 534,806 | $ 74,988 | $ 459,818 | $ — |
| Total | $ 686,032 | $ 226,214 | $ 459,818 | $ — |

**Note 4. Produced and licensed content costs**

The Company starts its film business in 2024, produced content costs as of December 31, 2024 were as follows (in thousands):

| | As of December 31, 2024 | | |
|---|---|---|---|
| | Predominantly Monetized Individually | Predominantly Monetized as a Group | Total |
| **Produced content:** | | | |
| In development or pre-production | $ 5,766 | $ — | $ 5,766 |
| Total produced content costs | $ 5,766 | $ — | $ 5,766 |
| | | | |
| Current portion | | | $ — |
| Noncurrent portion | | | $ 5,766 |

As of December 31, 2024, the Company does not have licensed content. The amortization and impairment of produced content costs was nil for the year ended December 31, 2024.

**Note 5. Property and Equipment, Net**

Property and equipment as of December 31, 2023 and 2024 were as follows (in thousands):

| | As of December 31, | |
|---|---|---|
| | 2023 | 2024 |
| Electronic equipment | $ 4,631 | $ 811 |
| Office and other equipment | 8,031 | 951 |
| Vehicles | 1,250 | 10 |
| Leasehold improvements | 13,157 | 9,637 |
| Construction in progress | 21 | 21 |
| Property and equipment, gross | 27,090 | 11,430 |
| Accumulated depreciation and amortization | (16,582) | (7,481) |
| Property and equipment, net | $ 10,508 | $ 3,949 |

Depreciation and amortization expense was $27.6 million, $6.3 million and $3.3 million for the years ended December 31, 2022, 2023 and 2024, respectively. Depreciation and amortization expense for the year ended December 31, 2022 included write-offs of $16.3 million as a result of restructuring activities during the fourth quarter of 2022. Refer to Note 15. Restructuring and Related Charges for further information.

As of December 31, 2023 and 2024, there is no property and equipment under finance leases.

**Note 6. Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities as of December 31, 2023 and 2024 were as follows (in thousands):

| | As of December 31, | |
|---|---|---|
| | 2023 | 2024 |
| Shareholder securities litigation settlement | $ — | $ 174,000 |
| Accrued payroll | 20,127 | 5,353 |
| Accrued professional fees | 2,115 | 3,155 |
| Accrued CEO Bonus (1) | — | 3,667 |
| Other | 1,645 | 1,482 |
| Accrued expenses and other current liabilities | $ 23,887 | $ 187,657 |

(1) In June 2024, the Compensation Committee approved a retention bonus to CEO with a total amount of $15.0 million for his continuous services provided with respect to the Company and his efforts related to the Committee on Foreign Investments in the United States ("CFIUS") investigation settlement and ongoing litigations, and signing of amended severance and change of control agreement with removal of certain terms (the "CEO Bonus"). The CEO Bonus is paid in installments for a period no longer than eight months. For the year ended December 31, 2024, CEO Bonus amounting to $15.0 million was included in selling, general and administrative in the consolidated statements of operations.

**Note 7. Leases**

The balances for the operating and finance leases where the Company is the lessee are presented in the consolidated balance sheets as follows (in thousands):

| | As of December 31, | |
|---|---|---|
| | 2023 | 2024 |
| **Operating leases:** | | |
| Operating lease right-of-use assets | $ 34,939 | $ 16,328 |
| | | |
| Operating lease liabilities, current | $ 6,285 | $ 6,336 |
| Operating lease liabilities, noncurrent | 36,240 | 17,954 |
| Total operating lease liabilities | $ 42,525 | $ 24,290 |

The components of lease expense were as follows (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2023 | 2024 |
| **Operating lease expense:** | | | |
| Operating lease expense (1) | $ 9,149 | $ 9,671 | $ 7,330 |
| | | | |
| **Finance lease expense:** | | | |
| Amortization of leased assets | $ 1,454 | $ 323 | $ — |
| Interest on lease liabilities | 592 | 105 | — |
| Total finance lease expense | $ 2,046 | $ 428 | $ — |
| | | | |
| Total lease expense | $ 11,195 | $ 10,099 | $ 7,330 |
| | | | |
| **Sublease income (2):** | $ 37 | $ 700 | $ 1,204 |

(1) Includes short-term leases and variable lease costs, which are immaterial.

(2) Includes sublease income of $0.05 million from a related party in 2024, refer to Note 14. Related Party Transactions for further information.

Other information related to leases where the Company is the lessee is as follows:

| | As of December 31, | |
|---|---|---|
| | 2023 | 2024 |
| **Weighted-average remaining lease term:** | | |
| Operating leases | 7.8 years | 6.5 years |
| | | |
| **Weighted-average discount rate:** | | |
| Operating leases | 4.5% | 7.6% |

Supplemental cash flow information related to leases where the Company is the lessee is as follows (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2023 | 2024 |
| **Cash paid for amounts included in the measurement of lease liabilities:** | | | |
| Operating cash flows from operating leases | $ 6,768 | $ 7,625 | $ 6,341 |
| Operating cash flows from finance leases (interest payments) | $ 420 | $ 71 | $ — |
| Financing cash flows from finance leases | $ 1,252 | $ 3,318 | $ — |
| **Right-of-use assets obtained in exchange for lease obligations:** | | | |
| Operating lease liabilities | $ 48,523 | $ 35 | $ 750 |
| Finance lease liabilities | $ 11,056 | $ — | $ — |

As of December 31, 2024, the maturities of the Company's operating lease liabilities (excluding short-term leases) are as follows (in thousands):

| | Operating Leases |
|---|---|
| 2025 | $ 7,873 |
| 2026 | 7,077 |
| 2027 | 6,109 |
| 2028 | 2,299 |
| 2029 | 2,138 |
| Thereafter | 8,576 |
| Total minimum lease payments | 34,072 |
| Less: lease incentives receivable[(1)] | (558) |
| Less: imputed interest | (9,224) |
| Present value of minimum lease payments | 24,290 |
| Less: current portion | 6,336 |
| Lease obligations, noncurrent | $ 17,954 |

(1) Lease incentives receivable represents amounts relating to the Company's leasehold improvements that will be paid by the landlord pursuant to lease provisions with relevant landlord.

**Note 8. Long-term Investments**

Long-term investments as of December 31, 2023 and 2024 were as follows (in thousands):

| | As of December 31, | |
|---|---|---|
| | 2023 | 2024 |
| Equity method investments | $ — | $ 10,333 |
| Total | $ — | $ 10,333 |

The carrying amount of the Company's equity method investments were nil and $10.3 million as of December 31, 2023 and 2024, respectively. As of December 31, 2024, the carrying amount of the Company's equity method investments exceeded the Company's proportionate share of the carrying amount of the investees' underlying net assets by approximately $7.5 million, which substantially relates to equity method goodwill and is not amortized as a basis difference. The investments had been approved by the Company.

*Equity Investment in Guangzhou Sansanerchuan Culture Communication Co., Ltd.*

In August 2024, the Company through its VIE, Beijing Xiong Xiong, acquired 20.0% equity interest of a private company, Guangzhou Sansanerchuan Culture Communication Co., Ltd. ("Guangzhou Sansan"), with cash consideration of RMB20.0 million (equivalent to $2.8 million).

*Equity Investment in Beijing Banpingcu Network Technology Co., Ltd.*

In October 2024, the Company through its VIE, Beijing Xiong Xiong, acquired 49.0% equity interest of a private company, Beijing Banpingcu Network Technology Co., Ltd. ("Beijing Banpingcu"), with cash consideration of RMB25.0 million (equivalent to $3.4 million). In 2024, one of the executive directors of Beijing Banpingcu provided technical consultant services to the Company and the total service fee was $0.02 million for the year ended December 31, 2024.

*Equity Investment in Beijing Xuanbai Culture Communication Co., Ltd.*

In November 2024, the Company through its VIE, Beijing Xiong Xiong, acquired 30.0% equity interest of a private company, Beijing Xuanbai Culture Communication Co., Ltd. ("Beijing Xuanbai"), with cash consideration of RMB30.0 million (equivalent to $4.2 million).

For equity method investments, the Company considers if the investment is impaired when events or circumstances suggest the carrying amount may not be recoverable, and recognizes any impairment charge in the consolidated statements of operations and comprehensive income for a decline in value that is determined to be other than temporary. For the year ended December 31, 2024, the impairment recognized for equity method investments was nil.

**Note 9. Commitments and Contingencies**

***Indemnification Obligations***

The Company has entered into indemnification agreements with its officers, directors, and certain current and former employees, and its certificate of incorporation and bylaws contain certain indemnification obligations. It is not possible to make a reasonable estimate of the maximum potential amount under these indemnification agreements due to the unique facts and circumstances involved in each particular agreement. Additionally, the Company has a limited history of prior indemnification claims, and the payments it has made under such agreements have not had a material adverse effect on its results of operations, cash flows, or financial position. However, to the extent that valid indemnification claims arise in the future, future payments by the Company could be significant and could have a material adverse effect on its results of operations or cash flows in a particular period.

### *Payroll Protection Program ("PPP") Loan*

In April 2020, the Company received loan proceeds in the amount of $4.1 million under the Small Business Administration ("SBA") Paycheck Protection Program established under Section 1102 of the Coronavirus Aid, Relief and Economic Security ("CARES") Act. The loan accrued interest at a rate of 1.0% per annum and originally matured in 24 months. All of the proceeds of the PPP Loan were used by the Company to pay eligible payroll costs and the Company maintained its headcount and otherwise complied with the terms of the PPP Loan.

In October 2020, the Company applied for forgiveness of the PPP Loan and corresponding accrued interest, which was approved by the SBA in June 2021, resulting in a gain on loan extinguishment of $4.2 million. Under the PPP, the SBA reserves the right to audit any PPP loan forgiveness application for a period of six years from the date of loan forgiveness.

### *Litigation and Legal Proceedings*

Except as described below, the Company believes it is not presently a party to any litigation the outcome of which, if determined adversely against the Company, would individually or in the aggregate have a material adverse effect on the Company's business, financial condition, cash flows, or results of operations.

*Shareholder Securities Litigation*

On August 31, 2022, a securities class action (the "August 2022 Action") complaint was filed, in the United States District Court for the Southern District of California, against the Company and certain of its current and former directors and officers (Xiaodi Hou, Mo Chen, Cheng Lu, Patrick Dillon, and James Mullen), and the underwriters who underwrote its IPO, on behalf of a putative class of stockholders who acquired its securities from April 15, 2021, through August 1, 2022. The August 2022 Action is captioned: *Dicker v. TuSimple Holdings, Inc. et al., 3:22-cv-01300-BEN-MSB (S. D. Cal.)*. The complaint filed in the August 2022 Action alleged, among other things, that the Company and certain of its current and former directors and officers violated Sections 11 and 15 of the Securities Act and Sections 10(b) and 20(a) of the Exchange Act by making materially false or misleading statements, or failing to disclose information it was required to disclose, regarding the Company's autonomous driving technology. The complaint sought unspecified monetary damages on behalf of the putative class and an award of costs and expenses, including reasonable attorneys' fees.

On November 10, 2022, a second securities class action (the "November 2022 Action") complaint was filed in the United States District Court for the Southern District of New York against the Company and certain of its current and former directors and officers (Xiaodi Hou, Mo Chen, Cheng Lu, Eric Tapia, Patrick Dillon, and James Mullen), and the underwriters who underwrote its IPO, on behalf of a putative class of stockholders who acquired its securities from April 15, 2021, through October 31, 2022. The November 2022 Action was originally captioned: *Woldanski v. TuSimple Holdings, Inc., et al.*, 1:22-cv-09625-AKH (S.D.N.Y.). The complaint in the November 2022 Action alleged, among other things, that the Company and certain of its current and former directors and officers violated Sections 11, 12(a), and 15 of the Securities Act and Sections 10(b) and 20(a) of the Exchange Act, by making false or misleading statements, or failing to disclose information it was required to disclose, regarding the Company's related party transaction with Hydron, Inc. ("Hydron") and the Company's sharing of confidential information and proprietary technology with Hydron without approval from the Company's Board of Directors. The complaint sought unspecified monetary damages on behalf of the putative class and an award of costs and expenses, including reasonable attorneys' fees. The November 2022 Action was transferred to the Southern District of California and was re-captioned: *Woldanski v. TuSimple Holdings, Inc., et al.*, 3:23-cv-00282-BEN-MSB (S. D. Cal.).

On March 28, 2023, the Company made a motion to consolidate the August 2022 Action and November 2022 Action. The Court granted the motion and consolidated the August 2022 Action and November 2022 Action on July 20, 2023.

On October 2, 2023, the plaintiffs filed a consolidated and amended complaint (the "Amended Complaint") against the Company and certain of its current and former directors and officers (Guowei "Charles" Chao, Xiaodi Hou, Mo Chen, Bonnie Yi Zhang, Cheng Lu, Patrick Dillon, Brad Buss, and Karen C. Francis) and the underwriters who underwrote its IPO, containing similar claims as asserted in the complaints filed in the August 2022 and November 2022 Actions. The Amended Complaint alleges, among other things, that the Company and certain of its current and former directors and officers violated Sections 11, 12, and 15 of the Securities Act, Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5, by making false or misleading statements, or failing to disclose information it was required to disclose, regarding the Company's related party transactions with

Hydron, Inc. ("Hydron"), the sharing of confidential information and proprietary technology with Hydron without approval from the Company's board of directors, the Company's safety profile, and certain of the Company's risk factors.

On August 26, 2024, the Parties agreed to settle the Consolidated Action for $189.0 million, without any admission of liability or wrongdoing. The Court approved the settlement and entered judgment on December 18, 2024.

The Company recorded an expense of $174.0 million in selling, general and administrative in the consolidated statements of operations and shareholder securities litigation settlement in accrued expenses and other current liabilities in the consolidated balance sheets based on the amount born by the Company. The Company also recorded the $174.0 million in escrow account in restricted cash, current in the consolidated balance sheets. The remaining $15.0 million was covered by insurance.

*Shareholder Derivative Actions*

On November 28, 2022, a shareholder derivative action was filed in the Delaware Court of Chancery by a stockholder purportedly on behalf of the Company against certain of its current and former directors and officers (Xiaodi Hou, Mo Chen, Brad Buss, Karen Francis, Michelle Sterling, and Reed Warner) and Hydron alleging, among other things, that certain of the Company's current and former directors and officers breached their fiduciary duties to the Company in connection with a related party transaction with Hydron: *Nusbaum v. Hou et al.,* 2022-1095-PAF (Del. Ch.). The shareholder derivative action also alleged breaches of fiduciary duties against certain of the Company's current and former directors and officers in connection with the restructuring of the Company's Board of Directors.

On December 15, 2022, a second shareholder derivative action was filed in the Delaware Court of Chancery by a stockholder purportedly on behalf of the Company against certain of its current and former directors and officers (Xiaodi Hou, Mo Chen, Cheng Lu, Patrick Dillon, Eric Tapia, James Mullen, Brad Buss, Charles Chao, Karen Francis, Michelle Sterling, Reed Werner, and Bonnie Zhang) alleging similar claims to the action filed on November 28, 2022: *Young v. Hou et al.,* 2022-1157-PAF (Del. Ch.). The second shareholder derivative action additionally asserted, among other things, claims regarding the safety of the Company's technology and alleged inadequacy of the Company's internal controls.

On March 6, 2023, a third shareholder derivative action was filed in the Delaware Court of Chancery by a stockholder purportedly on behalf of the Company against certain of its current and former directors and officers (Xiaodi Hou, Brad Buss, Mo Chen, Charles Chao, Karen Francis, Wendy Hayes, Cheng Lu, James Lu, Michael Mosier, Michelle Sterling, Reed Werner, and Bonnie Zhang), alleging similar claims to the actions filed on November 28, 2022, and December 15, 2022: *Wolfson v. Hou et al.,* 2023-0279-PAF (Del. Ch.). The stockholder has since purported to voluntarily dismiss her action.

On March 9, 2023, the Company made a motion to consolidate all of the above shareholder derivative actions. The Court granted the motion and consolidated the shareholder derivative actions on May 5, 2023. A consolidated complaint was filed on July 24, 2023, against certain of its current and former directors and officers (Xiaodi Hou, Mo Chen, Brad Buss, Karen C. Francis, Reed Werner), Hydron, and the Company as nominal defendant, containing substantially the same claims as asserted in the complaint filed in *Nusbaum v. Hou et al.,* 2022-1095-PAF (Del. Ch.).

On August 17, 2023, the Delaware Court of Chancery entered an order staying the consolidated action through February 9, 2024, pending an investigation by a special litigation committee formed by the Board of Directors to assess and determine whether the pursuit of derivative claims asserted in the consolidated action would be in the Company's best interests; the Board previously delegated to the committee its authority to take all actions advisable, appropriate, and in the best interests of the Company and its shareholders with respect to the pending shareholder derivative litigation.

On December 22, 2023, a federal shareholder derivative action (the "Wilhoite Action") was filed in the United States District Court for the Southern District of California by stockholders purportedly on behalf of the Company against certain of its current and former directors and officers (Xiaodi Hou, Mo Chen, Cheng Lu, Charles Chao), Hydron, and TuSimple as nominal defendant, alleging violations of the Defend Trade Secrets Act of 2016, the California Uniform Trade Secrets Act, and civil conspiracy for the alleged transfer to Hydron of TuSimple trade secrets: *Wilhoite v. Hou et al.*, 3:23-cv-02333-BEN-MSB (S.D. Cal.).

On December 17, 2024, the Parties in the Consolidation Action and the Wilhoite Action agreed to settle both Actions for $42.5 million, without any admission of liability or wrongdoing. The Plaintiffs moved for approval of the settlement on December 19, 2024 in the United States District Court for the Southern District of California.

On February 18, 2025, Camac Fund, L.P., a stockholder of the Company, filed in the Delaware Chancery Court a derivative action on behalf of the Company against certain of its current and former directors and officers (Mo Chen, Cheng Lu, Jianan Hao, James Lu, Albert Schultz, Zhen Tao, Charles Chao), and Sina Corporation, and naming the Company as nominal defendant: *Camac Fund, L.P. v. Chen et al*., No. 2025-0181-PAF (Del. Ch.) ("Camac Fund Action"). The Camac Fund Action alleges that defendants breached their fiduciary duties and wasted corporate assets by refocusing the Company's business on animation and videogaming, causing the Company to engage in certain transactions with alleged related parties, and making alleged misrepresentations concerning the Company's corporate strategy, operations, and utilization of assets.

The Company is unable to estimate the potential loss or range of loss, if any, associated with this, or any similar, lawsuit, which could be material.

*Delaware Court of Chancery Voting Agreement Litigation*

On November 22, 2024, two entities beneficially owned by Dr. Xiaodi Hou, White Marble LLC and White Marble International Limited ("White Marble"), filed an action in the Delaware Court of Chancery against the Company and Mo Chen, a director and stockholder of the Company. See White Marble LLC v. Chen, C.A. No. 2024-1208-PAF (Del. Ch.). The action alleges that the Company's proxy materials for the 2024 annual stockholder meeting contain false and misleading statements about the November 9, 2022, Voting Agreement by and between Mr. Chen and White Marble. The action seeks a declaratory judgment that the Voting Agreement expired on November 9, 2024, and that Mr. Chen lost his right to vote the shares beneficially owned by Dr. Hou and White Marble covered by the Voting Agreement, which shares account for approximately 29.7% of the voting power of all outstanding shares of the Company. On November 22, 2024, White Marble also moved for expedited proceedings and a temporary restraining order enjoining the Company from conducting its annual meeting scheduled for December 20, 2024, until the Court adjudicates the Voting Agreement controversy. The Court ordered briefing on White Marble's motion to expedite. Defendants did not oppose expedition, and on November 27, 2024, the Court held a telephonic hearing on the motion and granted expedition. The Company informed the Court that it is neutral as to the dispute between Dr. Hou and Mr. Chen as to the merits of the Voting Agreement controversy. The parties then engaged in negotiations for a proposed status quo order to resolve White Marble's motion to enjoin the Company's annual meeting. The parties submitted competing proposed status quo orders to the Court on December 9, 2024. The Court entered a status quo order on December 13, 2024, which substantially reflected the proposed order submitted by the Company and allowed the Company's annual meeting to proceed as scheduled on December 20, 2024. On January 6, 2025, White Marble filed an amended complaint that does not name the Company as a defendant. The action remains pending against Mr. Chen as the sole defendant. Trial on the action is scheduled to be held on May 14 and 15, 2025.

The Company is unable to estimate the potential loss or range of loss, if any, associated with this, or any similar, lawsuit, which could be material.

***Regulatory Investigations***

*Committee on Foreign Investments in the United States ("CFIUS")*

On February 18, 2022, the Company, together with certain related companies, entered into a national security agreement (the "NSA") with the Committee on Foreign Investment in the United States ("CFIUS"), represented by the U.S. Department of the Treasury and the U.S. Department of Defense, as the CFIUS Monitoring Agencies ("CMAs"). The NSA was entered into in order to resolve certain risks to the national security of the United States that were identified by CFIUS in connection with the March 1, 2017 and April 4, 2017 indirect acquisition of assets of TuSimple LLC, by the Company. On November 10, 2022, Dr. Xiaodi Hou and Mr. Mo Chen, exercising their rights as significant the Company shareholders, removed the Company's four independent directors, including the NSA-mandated Security Director. Following the removal of the independent directors, the position of Security Director as well as the Government Security Committee ("GSC") of the Company board of directors temporarily became vacant. The CMAs subsequently notified the Company that the CMAs had commenced an investigation regarding whether the removal of the Company independent directors—including the Security Director and the directors occupying the GSC—constituted a violation of the NSA. The CMAs later issued a notice of penalty alleging that the removal of the independent directors constituted a violation of the NSA.

The CMAs also notified the Company that they had commenced an investigation as to whether the Company had transferred "Covered IP", which includes a category of the Company intellectual property that is subject to certain restrictions under the

NSA, to third parties in the course of the Company's communications with those parties, resulting in violations of material provisions of the NSA. At no point did the CMAs issue a notice of penalty based on this investigation.

On May 17, 2024, the Company and the CMAs entered into a settlement agreement under which the Company agreed to pay a fine of $6.0 million and additional fine of $2.5 million if transfer of Covered IP is not certified as required in order to resolve the alleged violations related to removal of the Company independent directors in November 2022 as well as the investigation related to the Company Covered IP. The agreement did not involve any admission by the Company that the conduct under investigation violated the NSA.

The Company recorded an expense of $6.0 million in selling, general and administrative in the consolidated statements of operations. As of December 31, 2024, the transfer of Covered IP has been certified as required, therefore the Company did not accrue the $2.5 million fine in its consolidated financial statements.

*Securities and Exchange Commission Investigation*

In December 2022, the Staff of the Division of Enforcement of the U.S. Securities and Exchange Commission (the "SEC") began an investigation of the Company regarding (1) a potential related party transaction between the Company and a company called Hydron (f/k/a Turing Auto), a company founded by a co-founder of the Company, and (2) potential information sharing between the U.S. and China that, if it was found to have occurred, would not have been permitted under the Company's National Security Agreement ("NSA") with the Committee of Foreign Investment in the United States ("CFIUS"). The Company conducted its own investigation into the potential related party transaction prior to the SEC Staff's investigation, and on October 31, 2022, issued a Form 8-K stating that the value of the work performed for Hydron to consider a potential OEM relationship exceeded $120,000 and constituted a related party transaction. The SEC's investigation did not uncover anything beyond this announcement.

The SEC's investigation was also focused on whether, as part of the Hydron relationship, the Company shared certain intellectual property with China that would not have been permitted under the Company's NSA with CFIUS. However, this work was consistent with the standard type of work the Company did while considering other OEM partners, and there is no evidence that the Company shared intellectual property covered by the NSA. Additionally, the Company entered into a non-disclosure agreement with Hydron in June 2022.

The Company understands that, during its investigation, the SEC Staff also issued subpoenas to Patrick Dillon (the Company's former CFO), Cheng Lu (the Company's CEO), Eric Tapia (the Company's former CFO), Yinan (Vivian) Sun (the Company's former VP of Business Development), and KPMG (the Company's former accounting firm). The SEC Staff may have issued subpoenas to other entities and/or individuals of which the Company is not aware.

On August 30, 2024, the Company and the SEC Staff reached an agreement in principle, and the Company signed an Offer of Settlement. The settlement agreement awaits Commission review and approval, and the timing for the conclusion of the matter is currently unknown. The Company recorded an expense of $1.0 million in selling, general and administrative in the consolidated statements of operations based on the agreement.

*U.S. Customs and Border Protection ("CBP")*

In November 2023, the Company shipped Nvidia A100 chips to its subsidiary in Australia. The Company confirmed the U.S. export classification and exportability of A100 chips with Sandler, Travis & Rosenberg (ST&R), a U.S. based international trade law firm, prior to the shipment of the chips. The Company, through its legal office, represented to ST&R that the chips would be for internal Company use in Australia. ST&R reviewed the technical specification information for the chips and confirmed that they could be exported to Australia without a U.S. export license as authorized by 15 CFR 742.6(a)(6).

U.S. Customs and Border Protection ("CBP") later on performed a seizure on the Nvidia A100 chips. The Company submitted a petition in March 2024, CBP confirmed the receipt of the petition and requested for information and documentation related to the shipment in May 2024. The Company submitted the response in July 2024, pending CPB's response.

*Anonymous Shareholder Letter*

On July 30, 2024, the Company received an anonymous letter (the "Anonymous Letter") from a purported shareholder with concerns about management's approach to the Company's new AI-Generated Content ("AIGC") expansion and an alleged diversion of assets to China. The Anonymous Letter raised the following three concerns: (1) that management may have redirected resources from autonomous driving toward animation and AIGC without proper disclosure to the Board and shareholders, (2) that the Company's AIGC expansion may have been motivated by management or director self-dealing, and (3) that the Company may have improperly diverted assets to China for non-business purposes.

The Company engaged outside counsel to review these issues, and after a thorough investigation, outside counsel and the Company's Audit Committee determined that the concerns raised in the Anonymous Letter were unfounded. As announced on August 14, 2024, the Company has been working to leverage its existing technology by exploring new business opportunities in animation and AIGC. Based on outside counsel's review, the Audit Committee determined that no further action was required.

*CreateAI v. Bot Auto Inc.*

CreateAI Holdings, Inc. v. Bot Auto TX, Inc., No. 24-BC11A-00007 (Tex. Bus. Ct.—Houston Div.): CreateAI Holdings, Inc. has brought claims for, among other claims, misappropriation of trade secrets against Bot Auto TX, Inc. The action is presently in discovery with a scheduled trial date of March 2026.

**Note 10. Stock-Based Compensation**

***2017 Share Plan***

In April 2017, the Company adopted the 2017 Share Plan (the "2017 Plan") under which employees, directors, and consultants may be granted various forms of equity incentive compensation at the discretion of the board of directors, including stock options, restricted shares, RSUs, and SVAs.

Stock options granted under the 2017 Plan have a contractual term of ten years and have varying vesting terms, but generally vest over a requisite service period of four years. The exercise price of the stock options granted may not be less than the par value of the common stock on the grant date for non-U.S. tax residents and may not be less than the fair market value of the common stock on the grant date for U.S. tax residents. Certain stock options contain a performance condition and are only exercisable subject to the grantee's continuous service and the completion of an IPO. Such performance conditions were satisfied upon the closing of the Company's IPO in April 2021.

In March 2021, the Company's board of directors approved an amendment to the 2017 Plan to increase the number of shares of common stock reserved for issuance by 2,300,000 shares, for a total of 24,267,694 shares reserved.

The 2017 Plan was terminated in connection with the Company's IPO in April 2021, and the Company will not grant any additional awards under the 2017 Plan. However, the 2017 Plan will continue to govern the terms and conditions of the outstanding awards previously granted under the 2017 Plan.

***2021 Equity Incentive Plan***

In March 2021, the board of directors adopted the 2021 Equity Incentive Plan (the "2021 Plan"), which became effective upon its approval by the board of directors, but for which no awards were eligible to be granted prior to the Company's IPO in April 2021. The 2021 Plan provides for the grant of stock options, stock appreciation rights ("SARs"), restricted stock, and RSUs to the Company's employees, directors, and consultants. The number of shares of the Company's Class A common stock reserved for issuance under the 2021 Plan is 20,134,146 plus up to 20,180,166 shares of Class A common stock subject to awards originally granted under the Company's 2017 Plan that were outstanding on the IPO Date and that subsequently are or were forfeited, expire or lapse unexercised or unsettled and Class A common stock issued pursuant to awards granted under the Company's 2017 Plan that were outstanding on the IPO Date and that are or were subsequently forfeited to or reacquired by the Company.

In December 2022, the board of directors and stockholders of the Company approved an amendment (the "2021 Plan Amendment") to the 2021 Plan, subject to which the Company increased the number of shares of Class A Common Stock reserved for issuance under the 2021 Plan by an additional 13,000,000 shares. Additionally, the 2021 Plan Amendment increases the automatic share increase provision in the event that the aggregate number of shares of Class A Common Stock that are available for issuance under the plan as of the last day of a fiscal year (commencing with the last day of the 2023 fiscal year) is less than five percent (5%) of the company capitalization (as of such date) (the "Automatic Trigger"), then on the first day of each fiscal year of the Company commencing with the fiscal year beginning on January 1, 2024 and continuing for each fiscal year thereafter for the duration of the plan (ending on and including the fiscal year commencing on January 1, 2031), the aggregate number of shares of Class A Common Stock that may be issued under the plan will automatically increase in an amount equal to the lesser of (i) five percent (5%) of the company capitalization on the last day of the immediately preceding fiscal year or (ii) such number of shares of Class A Common Stock as may be determined by the board of directors prior to the date of the automatic increase. Furthermore, the 2021 Plan Amendment provides that in the event that the Automatic Trigger is not attained, the board of directors retains the authority in its sole discretion to, prior to the date that such automatic increase would have occurred had the Automatic Trigger been attained, increase the aggregate number of shares of Class A Common Stock that may be issued under the plan in any such fiscal year (commencing with the fiscal year beginning on January 1, 2024 and continuing for each fiscal year thereafter for the duration of the plan (ending on and including the fiscal year commencing on January 1, 2031)) by up to five percent (5%) of the company capitalization on the last day of the immediately preceding fiscal year as if the Automatic Trigger had been attained in accordance with its terms.

***2021 Employee Stock Purchase Plan***

In March 2021, the board of directors adopted the 2021 Employee Stock Purchase Plan (the "2021 ESPP"), which became effective upon the Company's IPO in April 2021. The 2021 ESPP authorizes the issuance of shares of Class A common stock pursuant to purchase rights granted to employees. A total of 2,013,414 shares of the Company's Class A common stock have been reserved for future issuance under the 2021 ESPP, subject to annual increases authorized by the board of directors; however, the aggregate number of shares of Class A common stock that may be approved for issuance under the 2021 ESPP in any given fiscal year may not exceed 1% of the total number of shares of common stock issued and outstanding on the last business day of the prior fiscal year.

During the year ended December 31, 2022, 249,831 shares were purchased under the 2021 ESPP at a weighted-average price of $9.15 per share resulting in cash proceeds of $2.3 million. There were no shares purchased under the 2021 ESPP during the year ended December 31, 2023. In February 2023 the Company suspended the 2021 ESPP.

During the years ended December 31, 2022 and 2023, the Company did not incur significant stock-based compensation expense under the 2021 ESPP.

***Stock Options***

A summary of the stock option activities, including the 2021 CEO Performance Award, for the year ended December 31, 2024 is as follows (in thousands, except share amounts, per share amounts, and years):

| | Options Outstanding | Weighted-Average Exercise Price | Weighted-Average Remaining Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 31, 2023 | 1,327,045 | $ 13.65 | 5.17 | $ 393 |
| Exercised | — | — | | |
| Cancelled/Forfeited | (924,106) | $ 12.52 | | |
| Outstanding at December 31, 2024 | 402,939 | $ 16.22 | 5.73 | $ — |
| Vested and exercisable at December 31, 2024 | 367,939 | $ 13.65 | 5.64 | $ — |

There were no stock options granted during the years ended December 31, 2022, 2023 and 2024. The aggregate intrinsic value of options exercised during the year ended December 31, 2022, 2023, and 2024 was $11.3 million, $0.1 million, and nil, respectively.

As of December 31, 2024, there was $0.4 million of unrecognized stock-based compensation expense related to unvested stock options, which is expected to be recognized over a weighted-average service period of 0.7 years.

***RSUs***

The following table summarizes the activity related to RSUs for the year ended December 31, 2024:

| | RSUs Outstanding | Weighted-Average Grant Date Fair Value per Share |
|---|---|---|
| Unvested and Outstanding at December 31, 2023 | 10,437,944 | $ 4.79 |
| Granted | 17,911,916 | 0.29 |
| Vested | (1,365,571) | 9.35 |
| Cancelled | (5,297,595) | 5.60 |
| Unvested and outstanding at December 31, 2024 | 21,686,694 | $ 0.59 |
| Vested and outstanding at December 31, 2024 | 1,791,058 | $ 9.73 |

***RSAs***

The following table summarizes the activity related to RSAs for the year ended December 31, 2024:

| | RSAs Outstanding | Weighted-Average Grant Date Fair Value per Share |
|---|---|---|
| Unvested and Outstanding at December 31, 2023 | — | $ — |
| Granted | 2,200,000 | 0.24 |
| Vested | — | — |
| Cancelled | — | — |
| Unvested and outstanding at December 31, 2024 | 2,200,000 | $ 0.24 |
| Vested and outstanding at December 31, 2024 | — | $ — |

***SVAs***

There was no activity related to SVAs for the year ended December 31, 2024, the SVAs vested and outstanding at December 31, 2024 was nil.

As of December 31, 2024, there was $9.4 million of unrecognized stock-based compensation expense related to RSUs and RSAs, which is expected to be recognized over a weighted-average service period of 2.3 years.

***2021 CEO Performance Award***

In March 2021, included in the stock options discussed above, the Company granted 1,150,000 stock option awards to Cheng Lu, its former and current CEO, with an exercise price of $14.14 per share and a contractual life of ten years that vest upon the attainment of both operational milestones (performance conditions) and market conditions, assuming continued employment as CEO through the vesting date (the “2021 CEO Performance Award”). In March 2022, the Company underwent a change in CEO and the 2021 CEO Performance Award was cancelled in connection with the separation of Cheng Lu as CEO. As a result, the Company reversed the historical stock-based compensation expense attributable to the 2021 CEO Performance Award of $7.1 million.

In connection with the March 2022 separation of Cheng Lu as CEO, a total of 1,850,000 time-based stock options were modified, of which 440,000 were vested as of the modification date. The terms of the modification allowed for continued vesting of the unvested stock options during the twelve-month period following Cheng Lu’s separation date on March 3, 2022 (“Transition Period”), subject to the provision of advisory services throughout the Transition Period. Upon the completion of such continuous services, all stock options subject to vesting would become vested and exercisable. Each of the modified stock options, including those vested and outstanding as of the modification date were to remain outstanding and exercisable until the earlier of: (x) the date on which any of the Company's outstanding stock options are terminated in connection with a corporate transaction, (y) the original expiration date applicable to such stock options, and (z) the second anniversary of the date on which the transition services with the Company are terminated. The Company determined the continuous service provisions were in-substance an acceleration of the unvested awards and the incremental cost related to the modified options was recorded immediately upon the separation date. Additionally, 175,000 outstanding and unvested RSUs were accelerated in full as of Cheng Lu's separation date. As a result of these modifications, the Company recorded incremental stock compensation expense of $13.9 million during the year ended December 31, 2022.

***2022 CEO Awards***

In November 2022, Cheng Lu was reappointed as the Company's CEO. In connection with the re-appointment, on December 14, 2022, the Company granted Cheng Lu 3,425,000 RSUs that vest annually over a period of four years (the "2022 CEO RSUs") and 3,425,000 RSUs that vest annually over a period of four years upon the attainment of market-based milestones (the "2022 CEO PSUs", together with 2022 CEO RSUs as the "2022 CEO Awards"). The market-based vesting requirements will be satisfied if the Company's average closing price over a 60-day trailing period exceeds certain thresholds at any time on or before November 10, 2026, as follows: (a) 33% of the units of stock will vest if such average closing price equals or exceeds $10.00, (b) 33% of the units of stock will vest if such average closing price equals or exceeds $15.00, and (c) 33% of the units of stock will vest if such average closing price equals or exceeds $20.00. The 2022 CEO Awards were granted in exchange for the cancellation and forfeiture of Cheng Lu's 1,850,000 outstanding stock options (inclusive of the 2021 CEO Performance Award, as discussed above).

***2024 CEO Modifications***

On March 20, 2024, the Company granted Cheng Lu 8,658,750 RSUs that vest only upon the satisfaction of both time-based service and performance-based conditions in exchange for the cancellation of Cheng Lu's unvested and outstanding 2,568,750 RSUs under 2022 CEO RSUs (the "2024 March CEO Modification").

On November 22, 2024, the 2024 March CEO Modification was modified as follows: 1) Cheng Lu shall receive on or about November 22, 2024 an issuance of vested shares and unvested shares, such issued unvested shares will be subject to automatic forfeiture back to the Company for no purchase price payable to Cheng Lu if the underlying RSUs for such unvested shares are not subsequently vested and earned, 2) the RSUs are vested only upon the satisfaction of time-based service requirement, 33% of the RSUs will vest on the 12 month anniversary of the grant date and remaining 67% of the RSUs will vest in equal quarterly installments over a 24 month period (the "2024 November CEO Modification", together with 2024 March CEO Modification the "2024 CEO Modifications").

The Company accounted for the 2024 March CEO Modification as a Type II probable-to-improbable modification under ASC 718, Compensation-Stock Compensation ("ASC 718"). The 2024 March CEO Modification did not result in any incremental fair value at the modification date, the Company recognizes the unrecognized original grant-date fair value ratably over the modified service period.

The Company accounted for the 2024 November CEO Modification as a Type III improbable-to-probable modification under ASC 718. As a result of the 2024 November CEO Modification, the incremental stock compensation expense is approximately $2.0 million, of which $0.1 million of the incremental stock compensation expense was recognized during the year ended December 31, 2024. No shares under the 2024 CEO Modifications were issued as of December 31, 2024.

During the year ended December 31, 2022, the Company did not recognize significant stock-based compensation expense for the 2022 CEO Awards. During the years ended December 31, 2023 and 2024, the Company recognized stock-based compensation expense of $2.8 million and $1.0 million respectively, together for the 2022 CEO Awards and 2024 CEO Modifications (together the "CEO Awards"). As of December 31, 2024, there was a total of $2.6 million unrecognized stock-based compensation expense, which will be recognized over a weighted-average service period of 2.0 years for the CEO Awards.

***Stock-based Compensation Expense***

Total stock-based compensation expense was as follows (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2023 | 2024 |
| Research and development | $ 75,260 | $ 27,180 | $ 2,540 |
| Selling, general and administrative | 23,407 | 15,837 | 3,777 |
| Total stock-based compensation expense | $ 98,667 | $ 43,017 | $ 6,317 |

The Company did not recognize any income tax benefits from stock-based compensation arrangements during the years ended December 31, 2022, 2023 and 2024 due to cumulative losses and valuation allowances.

**Note 11. Income Taxes**

Loss before provision for income taxes consisted of the following (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2023 | 2024 |
| U.S. | $ (389,462) | $ (199,235) | $ (238,777) |
| Foreign | (82,583) | (81,300) | (115,500) |
| Loss before provision for income taxes | $ (472,045) | $ (280,535) | $ (354,277) |

The current and deferred provision for income taxes for the years ended December 31, 2022, 2023, and 2024 by the Company's applicable jurisdictions (i.e., U.S., Cayman Islands, and Foreign) is nil for all years.

Prior to February 2021, the Company was a Cayman Islands incorporated holding company and subject to taxation under the laws of Cayman Islands, for which there is no current tax regime. In February 2021, the Company completed a domestication pursuant to Section 388 of the Delaware General Corporation Law, becoming a Delaware corporation and no longer subject to the laws of the Cayman Islands (the "Domestication"). Following the Domestication, the U.S. federal income tax rate is the applicable statutory rate. The provision for income taxes differs from the amount computed by applying the U.S. statutory tax rate of 21% and Cayman Islands statutory tax rate of 0% as follows (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2023 | 2024 |
| Tax at statutory rate | $ (99,129) | $ (58,912) | $ (74,398) |
| State and local taxes (net of federal tax benefit) | (3,011) | (2,454) | 2,567 |
| Change in valuation allowances | 109,041 | 45,360 | 31,630 |
| Foreign tax rate differential | 3,489 | 3,295 | 4,846 |
| Research and development tax credits | (25,341) | (19,170) | (6,727) |
| Non-deductible expenses | — | — | 36,540 |
| Section 162(m) limitation - officers compensation | 2,005 | 403 | 250 |
| Uncertain tax position reserves | 3,185 | 19,601 | — |
| Stock-based compensation | 14,285 | 12,222 | 2,239 |
| Other | (4,524) | (345) | 3,053 |
| Total | $ — | $ — | $ — |

The effective tax rate for 2022, 2023, and 2024 was 0%, primarily due to the valuation allowances recorded on U.S. and other local jurisdiction activities that the Company concluded do not meet the more likely than not criteria for realization.

The Company recognizes the benefit of tax positions taken or expected to be taken in its tax returns in the consolidated financial statements when it is more likely than not that the position will be sustained upon examination by authorities. Recognized tax positions are measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The total amount of unrecognized tax benefits ("UTBs") at December 31, 2024 was $31.4 million. If recognized in the future, $28.1 million of the UTBs would impact the effective tax rate (prior to consideration of valuation allowance). The Company does not believe its total amount of unrecognized tax benefits will significantly increase or decrease within 12 months of the balance sheet date.

A reconciliation of the beginning and ending balance to total unrecognized tax position is as follows (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2023 | 2024 |
| Unrecognized tax benefit, beginning of year | $ 6,900 | $ 9,815 | $ 31,368 |
| Decreases (increase) related to prior year tax positions | (538) | 16,182 | — |
| Increases related to current year tax positions | 3,453 | 5,371 | — |
| Unrecognized tax benefit, end of year | $ 9,815 | $ 31,368 | $ 31,368 |

The Company classifies interest expense and penalties related to the underpayment of income taxes in the consolidated financial statements as income tax expense. As of December 31, 2022, 2023, and 2024, the Company recorded no accrued interest or penalties related to unrecognized tax benefits.

The Company is subject to tax examination in U.S. federal and state and other local country jurisdictions for tax years 2016 to the present.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

| | As of December 31, | |
|---|---|---|
| | 2023 | 2024 |
| Deferred tax assets: | | |
| Net operating loss carryforwards | $ 246,453 | $ 288,861 |
| Tax credit carryforwards | 25,277 | 25,277 |
| Lease liability | 5,695 | 2,494 |
| Stock-based compensation | 1,977 | 1,035 |
| Fixed assets and intangible assets | 1,128 | 228 |
| Capitalized research expenses | 55,368 | 39,670 |
| Other | 2,153 | 6,970 |
| Gross deferred tax assets | 338,051 | 364,535 |
| Valuation allowance | (333,775) | (363,275) |
| Net deferred tax assets | 4,276 | 1,260 |
| Deferred tax liabilities: | | |
| Capital lease assets | 4,276 | 1,260 |
| Net deferred tax liabilities | 4,276 | 1,260 |
| Net deferred tax asset/(liability) | $ — | $ — |

As of December 31, 2024, the Company had accumulated federal and state net operating loss carryforwards of $900.0 million and $292.7 million, respectively. Of the $900.0 million of federal net operating losses ("NOL"), $893.0 million is carried forward indefinitely and $7.0 million of NOL will expire in 2037. The $292.7 million of state net operating loss carryforwards will begin to expire in 2037 and $40.3 million of California state net operating losses are not more-likely-than-not to be sustained upon examination by the relevant taxing authority. As of December 31, 2024, the Company had foreign net operating loss carryforwards of $544.3 million, $25.1 million that is carried forward indefinitely and $519.2 million that begin to expire between 2025 and 2034.

As of December 31, 2024, the Company had a U.S. federal and state research and development tax credit carryforward resulting in a deferred tax asset of $55.6 million, of which $41.0 million will expire between 2035 and 2043 and $14.6 million does not expire.

The Company recorded a valuation allowance to reflect the estimated amount of certain U.S. federal and state, and other local jurisdictions' deferred tax assets that, more likely than not, will not be realized. In making such a determination, the Company evaluates a variety of factors including the Company's operating history, accumulated deficit, and the existence of taxable or deductible temporary differences and reversal periods. The net change in total valuation allowance for the years ended December 31, 2023 and 2024 was an increase of $43.9 million and an increase of $29.5 million, respectively. The 2023 and 2024 valuation allowance increases were both driven primarily by U.S. federal and state, and other local jurisdictions' NOL carryforwards that are not expected on a more likely than not basis to be realized. The net increase in 2023 and 2024 were debited to tax expense and other comprehensive income.

| | As of December 31, | |
|---|---|---|
| | 2023 | 2024 |
| Beginning valuation allowance balance | $ 289,901 | $ 333,775 |
| Current year activity | 43,874 | 29,500 |
| Charge-offs/ write-offs | — | — |
| Ending valuation allowance balance | $ 333,775 | $ 363,275 |

The Company's ability to utilize the net operating losses and tax credit carryforwards is subject to limitations in the event of an ownership change as defined in Section 382 of the Internal Revenue Code ("IRC") of 1986, as amended, and similar state law. In general, an ownership change occurs if the aggregate share ownership of certain stockholders increases by more than 50 percentage points over such stockholders' lowest percentage ownership during the testing period. The Company incurred ownership changes in 2018, 2020, and December 31, 2021 and the Company's net operating loss and tax credit carryforwards are subject to Section 382 limitations. Due to the existence of the valuation allowance, limitations created by future ownership changes, if any, related to the Company's operations in the United States will not impact the Company's effective tax rate.

Under the Corporate Income Tax Law ("CIT Law") in the PRC, Foreign Investment Enterprises ("FIEs") and domestic companies are subject to corporate income tax at a uniform rate of 25%. The Company also has subsidiaries that qualify for the High and New-Technology Enterprise program ("HNTE"), which has a preferential CIT rate of 15%.

**Note 12. Net Loss Per Share Attributable to Common Stockholders**

Basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average shares of common stock outstanding during the period. Diluted loss per share attributable to common stockholders is the same as basic net loss per share attributable to common stockholders for all years presented because the effects of potentially dilutive items were antidilutive given the Company's net loss in each period presented.

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

| | Year Ended December 31, 2022 | 2023 | 2024 |
|---|---|---|---|
| **Numerator:** | | | |
| Net loss | $ (472,045) | $ (280,535) | $ (354,277) |
| Net loss attributable to common stockholders, basic and diluted | $ (472,045) | $ (280,535) | $ (354,277) |
| **Denominator:** | | | |
| Weighted-average shares used in computing net loss per share, basic and diluted | 224,164,514 | 229,002,377 | 234,266,840 |
| **Net loss per share:** | | | |
| Net loss per share attributable to common stockholders, basic and diluted | $ (2.11) | $ (1.23) | $ (1.51) |

The following outstanding potentially dilutive ordinary share equivalents have been excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented due to their antidilutive effect:

| | As of December 31, 2022 | 2023 | 2024 |
|---|---|---|---|
| Options to purchase common stock | 2,623,511 | 1,327,045 | 402,939 |
| RSUs subject to future vesting | 17,847,473 | 10,437,944 | 21,686,694 |
| RSAs subject to future vesting | — | — | 2,200,000 |
| SVAs subject to future vesting | 79,438 | — | — |
| Common stock contingently issuable under ESPP | 439,415 | — | — |
| Total | 20,989,837 | 11,764,989 | 24,289,633 |

**Note 13. Segment Information**

The segment performance measure used by the CODM is Adjusted EBITDA, which is defined as loss before provision for income taxes and share of loss from equity method investments, adjusted to exclude stock-based compensation expense, depreciation and amortization, restructuring expenses, shareholder securities litigation settlement expense, finance lease interest expense included within cost of revenue, interest income and other income (expense), net. The Company has concluded Adjusted EBITDA better reflects the underlying business performance of the Company and is the most relevant measure considered in the Company's internal evaluation of the financial performance of its segment. The CODM does not evaluate operating segment using assets information and, accordingly, the Company does not disclose the assets information.

The following table provides information about the Company's segment and a reconciliation of consolidated loss before provision for income taxes and share of loss from equity method investments to total segment Adjusted EBITDA, inclusive of significant segment expenses information provided to the CODM (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2023 | 2024 |
| Revenue | $ 9,369 | $ 307 | $ — |
| Less: | | | |
| Staff expense [1] | 210,325 | 133,919 | 64,691 |
| Other segment items [2] | 147,697 | 112,300 | 92,582 |
| Total Segment Adjusted EBITDA | (348,653) | (245,912) | (157,273) |
| Reconciling item: | | | |
| Stock-based compensation expense [3] | (101,718) | (48,711) | (6,399) |
| Depreciation and amortization [3] | (11,264) | (5,682) | (3,255) |
| Restructuring expenses | (26,855) | (17,584) | (35,756) |
| Shareholder securities litigation settlement expense | — | — | (174,000) |
| Finance lease interest expense included within cost of revenue | (573) | (53) | — |
| Interest income | 16,906 | 37,798 | 25,762 |
| Other income (expense), net | 112 | (391) | (3,256) |
| Loss before provision for income taxes and share of loss from equity method investments | $ (472,045) | $ (280,535) | $ (354,177) |

(1) Excludes stock-based compensation expense.

(2) Mainly includes amounts related to cloud storage & computing expenses, professional fee expenses, game development expenses and office expenses.

(3) Excludes amounts related to restructuring events, which are reflected in the "restructuring expenses" line item.

*Geographic Information*

| | As of December 31, | |
|---|---|---|
| | 2023 | 2024 |
| U.S. | $ 28,371 | $ 14,181 |
| APAC | 21,453 | 13,067 |
| Total long-lived assets, net [1] | $ 49,824 | $ 27,248 |

(1) Long-lived assets, net excludes intangible and financial assets.

**Note 14. Related Party Transactions**

The Company's significant related party transactions include transactions with: a) entities under common control, b) entities on which the Company has significant influence, c) entities controlled by or affiliated with the beneficial owners, directors, or executive officers of the Company, or d) other parties which have significant influence on the entities included in a), b) or c). The following transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

On November 18, 2024, with the approval of the Board of Directors, which included review by the Audit Committee as a related party transaction, the Company signed a collaboration contract with two game development companies named Chinese Ink Paiting Xia Dao Co., Limited and Beijing Shuimo Xiadao Culture Communication Co., Ltd. (the "Other Parties"). The Company agreed to pay a transaction price of $25,000,000 to the Other Parties in exchange for development, distribution, and revenue sharing rights to "Heros of Jin Yong" (the "Game"). The Company engaged a third-party appraiser to perform valuation analysis for the Game. The Audit Committee and Board of Directors also took into consideration the intellectual property ("IP") acquisition costs, development progress to date, and competing letters of intent from third-party strategic investors. The Other Parties are affiliated with Mr. Mo Chen, one of the directors of the Company. In May 2024, Mr. Mo Chen transferred 100% of his ownership interest in the Other Parties to a trust. Mr. Mo Chen does not control the trust and its decision making. The beneficiaries of the trust are certain members of his family. In 2024, one of the executive directors of Chinese Ink Paiting Xia Dao Co., Limited provided technical consultant services to the Company and the total service fee was $0.06 million for the year ended December 31, 2024. The Other Parties also granted a free-of-use IP license to the Company for the development of digital entertainment content. The signing of the IP license contract is in progress and expected to be completed in 2025.

The Company entered into an IP transfer agreement with an affiliate of Guangzhou Sansan to transfer certain IP assets to the latter, an equity investee of the Company, for an amount of approximately $0.7 million (originally settled at RMB 5.0 million) on December 2, 2024. The transaction price was determined based on the cost at which the Company initially acquired the IP. The full payment was received in January 2025, and the transfer of IP ownership is expected to be completed within the same year.

The Company entered into a short-term, non-interest-bearing loan agreement with Beijing Banpingcu for an amount of $0.7 million. The loan was provided to Beijing Banpingcu in September 2024 to support its operations and was fully repaid in November 2024. In October 2024, the Company, through its VIE, acquired 49.0% equity interest in Beijing Banpingcu.

The Company entered into a sublease agreement with Beijing Weijing Culture Development Co., Ltd., which is ultimately controlled by Sina Corporation through VIE structure. The sublease has a term of three years started from June 2024 and the total contract amount was approximately $0.4 million with original settlement currency in RMB amounting to 2.9 million. The price in the sublease contract was based on the price in the original lease between the Company and a third party. The sublease income was $0.05 million for the year ended December 31, 2024.

The Company purchased game development outsourcing services from Guangzhou Sansan, an equity investee of the Company, with an amount of $0.1 million for the year ended December 31, 2024.

**Note 15. Restructuring and Related Charges**

During the fourth quarter of 2022 and the first half of 2023, the Board authorized various restructuring plans to rebalance the Company's cost structure in alignment with its strategic priorities (the "Restructuring Plans"). In connection with the Restructuring Plans, the Company incurred costs consisting primarily of cash expenditures for employee transition, notice period and severance payments, employee benefits and related costs, as well as non-cash charges of certain non-current assets.

The following tables present restructuring and related charges associated with the Restructuring Plans, by line item on the consolidated statement of operations (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2022 | 2023 | 2024 |
| Research and development | $ 23,864 | $ 10,737 | $ 15,789 |
| Selling, general and administrative | 2,991 | 6,847 | 19,967 |
| Total restructuring and related cost | $ 26,855 | $ 17,584 | $ 35,756 |

The following table provides the components of and changes in the accrued restructuring and related charges during the years ended December 31, 2023 and 2024 (in thousands):

| | Severance and Other Termination Benefits | Long-Lived Asset Costs | Stock-based Compensation [(1)] | Contract Termination Settlements | Total |
|---|---|---|---|---|---|
| **Balance as of December 31, 2022** | $ 10,191 | $ — | $ — | $ — | $ 10,191 |
| Charges | 16,461 | 6,817 | (5,694) | — | 17,584 |
| Cash payments | (21,909) | (949) | — | — | (22,858) |
| Non-cash adjustments | — | (5,868) | 5,694 | — | (174) |
| **Balance as of December 31, 2023** | $ 4,743 | $ — | $ — | $ — | $ 4,743 |
| Charges | 19,236 | 4,848 | (83) | 11,755 | 35,756 |
| Cash payments | (23,952) | (2,500) | — | (2,257) | (28,709) |
| Non-cash adjustments | — | (2,348) | 83 | (8,330) | (10,595) |
| **Balance as of December 31, 2024** | $ 27 | $ — | $ — | $ 1,168 | $ 1,195 |

(1) Related to reversal of stock-based compensation expense due to modification of equity awards.

**Note 16. Other Income (Expense), Net**

For the year ended December 31, 2024, other income (expense), net included an expense caused by cyber incident amounting to $5.1 million, which was caused by a phishing attack that compromised employees' email accounts through one of the system administrator accounts. Upon discovering the incident, the Company engaged a third-party expert to perform forensic analysis and undertook extensive efforts to recover from this attack as rapidly as possible. The Company blocked the compromised administrator account immediately and had conducted additional cyber-security training company wide.

**Note 17. Subsequent Events**

The Company has evaluated all events or transactions that occurred after the balance sheet date up to March 27, 2025, the date that the Financial Statements were issued, and determined that there were no subsequent events or transactions that require recognition or disclosure in the consolidated financial statements, except for those disclosed within Note 9. Commitments and Contingencies and as follows:

On January 9, 2025, the Company entered into an asset purchase agreement with a U.S. third party, to sell certain technology and U.S. data, without objection from the CFIUS, from its autonomous driving business at the price of approximately $10.0 million to the third party. The transaction is estimated to be processed and to be closed in the second quarter of 2025.