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

FORM 8-K/A

(Amendment No. 2)

CURRENT REPORT

Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **July 22, 2021**

Lucid Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**001-39408**	**85-0891392**
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

7373 Gateway Blvd **Newark, CA**	**94560**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (510) 648-3553

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Title of each class	Trading Symbol	Name of each exchange on which registered
Class A Common Stock, $0.0001 par value per share	LCID	The Nasdaq Stock Market LLC
Warrants, each exercisable for one share of Class A Common Stock at an exercise price of $11.50 per share	LCIDW	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☒

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

INTRODUCTORY NOTE

This Amendment No. 2 on Form 8-K/A ("*Amendment No. 2*") amends Item 2.01 and Item 9.01 of the Current Report on Form 8-K filed on July 26, 2021, which was previously amended by Amendment No. 1 on Form 8-K/A filed on July 26, 2021 (as so amended, the "*Original Report*"), in which Lucid Group, Inc. (together with its consolidated subsidiaries, the "*Company*") reported, among other events, the completion of the Transactions.

This Amendment No. 2 is being filed in order to include (i) under Item 9.01(a) of the Original Report, the unaudited condensed consolidated financial statements of Atieva, Inc. ("*Lucid*"), as of June 30, 2021 and for the three and six months ended June 30, 2021 and 2020 and (ii) under Item 2.01 of the Original Report, the Management's Discussion and Analysis of Financial Condition and Results of Operations of Lucid for the three and six months ended June 30, 2021 and 2020.

This Amendment No. 2 does not amend any other item of the Original Report or purport to provide an update or a discussion of any developments at the Company or its subsidiaries, including Lucid, subsequent to the filing date of the Original Report. The information previously reported in or filed with the Original Report is hereby incorporated by reference to this Amendment No. 2.

Capitalized terms used herein but not defined herein have the meanings given to such terms in the Original Report.

Item 9.01. Financial Statement and Exhibits.

(a) The unaudited condensed consolidated financial statements of Lucid as of June 30, 2021 and for the three and six months ended June 30, 2021 and 2020, and the related notes thereto are attached as Exhibit 99.1 and are incorporated herein by reference. Also included as Exhibit 99.2 and incorporated herein by reference is the Management's Discussion and Analysis of Financial Condition and Results of Operations of Lucid for the three and six months ended June 30, 2021 and 2020.

(d) Exhibits.

Exhibit Number	Description
99.1	Unaudited condensed consolidated financial statements of Lucid as of June 30, 2021 and for the three and six months ended June 30, 2021 and 2020.
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations of Lucid for the three and six months ended June 30, 2021 and 2020.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Current Report on Form 8-K to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: August 16, 2021

LUCID GROUP, INC.

By: /s/ Sherry House
Name: Sherry House
Title: Chief Financial Officer

PART I – FINANCIAL INFORMATION
Item 1. Financial Statements.

ATIEVA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
Unaudited
(In thousands, except share and per share data)

	June 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 557,938	$ 614,412
Accounts receivable, net	480	260
Other receivable	27,434	—
Short-term investments	505	505
Inventory	28,224	1,043
Prepaid expenses	41,276	21,840
Other current assets	26,587	24,496
Total current assets	682,444	662,556
Property, plant and equipment, net	887,774	713,274
Right-of-use assets	126,655	—
Other noncurrent assets	39,271	26,851
TOTAL ASSETS	$ 1,736,144	$ 1,402,681
LIABILITIES, CONVERTIBLE PREFERRED SHARES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 13,970	$ 17,333
Accrued compensation	24,187	16,197
Finance lease liabilities, current portion	2,572	—
Other current liabilities	159,049	151,753
Total current liabilities	199,778	185,283
Convertible preferred share warrant liability	—	2,960
Finance lease liabilities, net of current portion	3,963	—
Other long-term liabilities	164,547	38,905
Income tax liabilities	243	234
Total liabilities	368,531	227,382
Commitments and contingencies (Note 10)		
CONVERTIBLE PREFERRED SHARES		
Convertible preferred shares, $0.0001 par value; 437,182,072 and 400,510,507 shares authorized as of June 30, 2021 and December 31, 2020, respectively; 437,182,072 and 362,011,991 shares issued and outstanding as of June 30, 2021 and December 31, 2020, respectively; liquidation preference of $4,399,174, and $3,497,913 as of June 30, 2021 and December 31, 2020, respectively	5,836,785	2,494,076
SHAREHOLDERS' DEFICIT:		
Common shares, par value $0.0001; 498,017,734 and 450,000,098 shares authorized as of June 30, 2021 and December 31, 2020, respectively; 13,917,981 and 10,889,451 shares issued and outstanding as of June 30, 2021 and December 31, 2020, respectively	1	1
Additional paid-in capital	26,615	38,115
Accumulated deficit	(4,495,788)	(1,356,893)
Total shareholders' deficit	(4,469,172)	(1,318,777)
TOTAL LIABILITIES, CONVERTIBLE PREFERRED SHARES AND SHAREHOLDERS' DEFICIT	$ 1,736,144	$ 1,402,681

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

ATIEVA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
Unaudited
(In thousands, except share and per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	**2020**	**2021**	**2020**
Revenue	$ 174	$ —	$ 487	$ 8
Cost of revenue	19	(59)	104	(59)
Gross profit	155	59	383	67
Operating expenses:				
Research and development	176,802	97,940	344,171	207,699
Selling, general and administrative	72,272	15,539	203,924	29,784
Total operating expenses	249,074	113,479	548,095	237,483
Loss from operations	(248,919)	(113,420)	(547,712)	(237,416)
Other income (expense), net:				
Change in fair value of forward contracts	(12,382)	(3,203)	(454,546)	(8,719)
Change in fair value of convertible preferred share warrant liability	—	(57)	(6,976)	(114)
Interest expense	(30)	(1)	(35)	(10)
Other expense	(390)	(632)	(400)	(709)
Total other expense, net	(12,802)	(3,893)	(461,957)	(9,552)
Loss before provision for (benefit from) income taxes	(261,721)	(117,313)	(1,009,669)	(246,968)
Provision for (benefit from) income taxes	5	(28)	9	(100)
Net loss and comprehensive loss	(261,726)	(117,285)	(1,009,678)	(246,868)
Deemed dividend related to the issuance of Series E convertible preferred shares	—	—	(2,167,332)	—
Net loss attributable to common shareholders	$ (261,726)	$ (117,285)	$ (3,177,010)	$ (246,868)
Net loss per share attributable to common shareholders - basic and diluted	$ (19.06)	$ (14.10)	$ (243.59)	$ (30.41)
Weighted average shares used in computing net loss per share attributable to common shareholders - basic and diluted	13,728,639	8,319,168	13,042,653	8,117,746

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

ATIEVA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED SHARES AND SHAREHOLDERS' DEFICIT
Unaudited
(In thousands, except share and per share data)

	Convertible Preferred Shares		Common Shares		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
Three months ended June 30, 2021	**Shares**	**Amount**	**Shares**	**Amount**			
Balance as of March 31, 2021	**411,875,942**	**$ 4,454,811**	**13,498,196**	$ 1	$ 6,198	$ (4,234,062)	$ (4,227,863)
Net loss	—	—	—	—	—	(261,726)	(261,726)
Issuance of Series E convertible preferred shares	25,306,130	1,361,273	—	—	15,719	—	15,719
Share-based compensation related to Series E convertible preferred shares	—	20,701	—	—	—	—	—
Exercise of share options	—	—	419,785	—	950	—	950
Share-based compensation	—	—	—	—	3,748	—	3,748
Balance as of June 30, 2021	**437,182,072**	**$ 5,836,785**	**13,917,981**	$ 1	**$ 26,615**	$ (4,495,788)	$ (4,469,172)

	Convertible Preferred Shares		Common Shares		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
Three months ended June 30, 2020	**Shares**	**Amount**	**Shares**	**Amount**			
Balance as of March 31, 2020	**221,285,411**	$ 1,292,190	**8,186,387**	**$ 1**	**$ 17,436**	$ (767,096)	$ (749,659)
Net loss	—	—	—	—	—	(117,285)	(117,285)
Issuance of Series D convertible preferred shares	31,201,256	200,000	—	—	—	—	—
Settlement of Series D contingent forward contract liability	—	21,383	—	—	—	—	—
Exercise of share options	—	—	214,087	—	290	—	290
Share-based compensation	—	—	—	—	1,010	—	1,010
Balance as of June 30, 2020	**252,486,667**	**$ 1,513,573**	**8,400,474**	$ 1	$ 18,736	$ (884,381)	$ (865,644)

	Convertible Preferred Shares		Common Shares		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
Six Months Ended June 30, 2021	**Shares**	**Amount**	**Shares**	**Amount**			
Balance as of December 31, 2020	**362,011,991**	**$ 2,494,076**	**10,889,451**	**$ 1**	$ 38,115	**$ (1,356,893)**	**$ (1,318,777)**
Net loss	—	—	—	—	—	(1,009,678)	(1,009,678)
Repurchase of Series B convertible preferred shares	(1,333,333)	—	—	—	—	—	—
Issuance of Series D convertible preferred shares upon exercise of warrants	585,022	12,936	—	—	—	—	—
Issuance of Series E convertible preferred shares	75,918,392	3,206,159	—	—	(22,396)	(2,129,217)	(2,151,613)
Share-based compensation related to Series E convertible preferred shares	—	123,614	—	—	—	—	—
Exercise of share options	—	—	3,028,530	—	5,266	—	5,266
Share-based compensation	—	—	—	—	5,630	—	5,630
Balance as of June 30, 2021	**437,182,072**	**$ 5,836,785**	**13,917,981**	$ 1	$ 26,615	**$ (4,495,788)**	**$ (4,469,172)**

	Convertible Preferred Shares		Common Shares		Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
Six Months Ended June 30, 2020	**Shares**	**Amount**	**Shares**	**Amount**			
Balance as of December 31, 2019	**190,084,166**	**$ 1,074,010**	**8,051,722**	**$ 1**	$ 16,432	$ (637,513)	$ (621,080)
Net loss	—	—	—	—	—	(246,868)	(246,868)
Issuance of Series D convertible preferred shares	62,402,501	400,000	—	—	—	—	—
Settlement of Series D contingent forward contract liability	—	39,563	—	—	—	—	—
Exercise of share options	—	—	348,752	—	323	—	323
Share-based compensation	—	—	—	—	1,981	—	1,981
Balance as of June 30, 2020	**252,486,667**	**$ 1,513,573**	**8,400,474**	**$ 1**	$ 18,736	**$ (884,381)**	$ (865,644)

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

ATIEVA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited
(In thousands)

	Six Months Ended June 30,	
	2021	**2020**
Cash flows from operating activities		
Net loss	$ (1,009,678)	$ (246,868)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	11,738	3,292
Amortization of insurance premium	2,747	—
Non-cash operating lease cost	13,502	—
Share-based compensation	129,244	1,981
Loss on disposal of property and equipment	56	139
Change in fair value of contingent forward contracts	454,546	8,719
Change in fair value of warrants	6,976	114
Changes in operating assets and liabilities:		
Accounts receivable	(220)	148
Inventory	(27,181)	(1,703)
Prepaid expenses	(11,233)	3,469
Other current assets	(2,380)	2,789
Other noncurrent assets and security deposit	(3,870)	(2,455)
Accounts payable	(11,871)	4,253
Accrued compensation	7,990	6,128
Operating lease liability	(7,742)	—
Financed insurance premium	(10,950)	—
Other current liabilities and accrued liabilities	4,522	11,752
Net cash used in operating activities	(453,804)	(208,242)
Cash flows from investing activities:		
Purchases of property, equipment, and software	(206,533)	(251,090)
Proceed from sale of property, equipment, and software	19	—
Net cash used in investing activities	(206,514)	(251,090)
Cash flows from financing activities:		
Payment for short-term insurance financing note	(2,747)	—
Payment for capital lease liabilities	—	(90)
Payment for finance lease liabilities	(1,364)	—
Proceeds from short-term insurance financing note	10,950	—
Repurchase of Series B convertible preferred shares	(3,000)	—
Proceeds from issuance of Series D convertible preferred shares	3,000	400,000
Proceeds from issuance of Series E convertible preferred shares	600,000	—
Proceeds from exercise of share options	5,266	323
Net cash provided by financing activities	612,105	400,233
Net decrease in cash, cash equivalents, and restricted cash	(48,213)	(59,099)
Beginning cash, cash equivalents, and restricted cash	640,418	379,651
Ending cash, cash equivalents, and restricted cash	$ 592,205	$ 320,552

[Table continued on next page]

ATIEVA, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited
(In thousands)

	Six Months Ended June 30,	
	2021	**2020**
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 198	$ 12
Supplemental disclosure of non-cash investing and financing activity:		
Property and equipment included in accounts payable and accrued expense	$ (24,661)	$ 29,855
Settlement of Series D convertible preferred share contingent forward contract	—	(39,563)
Conversion of Series D preferred share warrant to Series D convertible preferred share	9,936	—
Issuance of Series E convertible preferred share contingent forward contracts	2,167,332	—
Settlement of Series E convertible preferred share contingent forward contract	(2,621,878)	—
Capital contribution upon issuance of Series E preferred shares	15,719	—
Property and equipment acquired through leases	(4,437)	—
Capital leases retired upon adoption of new lease accounting standard	3,257	—

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

NOTE 1 – DESCRIPTION OF BUSINESS

Overview

Atieva, Inc. and its wholly owned subsidiaries (collectively, "Lucid," the "Company," "we," "us" or "our") is a technology and automotive company. The Company was founded in Silicon Valley in 2007 to develop the next generation of electric vehicle ("*EV*") technologies. Today, Lucid is a vertically-integrated company which (i) designs, engineers and builds electric vehicles, EV powertrains and battery systems in-house using our own equipment and factory, (ii) plans to offer a refined customer experience at our own geographically-distributed retail and service locations and through direct-to-consumer and retail sales and (iii) boasts a strong product roadmap of future vehicle programs and technologies. On February 22, 2021, Churchill Capital Corp IV ("CCIV") (NYSE:CCIV), a special purpose acquisition company or SPAC, entered into a definitive agreement for a merger that would result in the Company becoming a wholly owned subsidiary of CCIV. Upon the completion of the merger on July 23, 2021 (the "Closing"), the Company changed its name to Lucid Group, Inc. ("Lucid Group") and effectively comprised all of CCIV's material operations.

Liquidity and Going Concern

The Company devotes its efforts to business planning, research and development, recruiting of management and technical staff, acquiring operating assets, and raising capital.

From inception through June 30, 2021, the Company has incurred operating losses and negative cash flows from operating activities. For the six months ended June 30, 2021 and 2020, the Company has incurred operating losses, including net losses of $1.0 billion and $246.9 million, respectively. The Company has an accumulated deficit of $4.5 billion as of June 30, 2021.

As of the end of June 30, 2021, the Company completed the first phase of the construction of its newly built manufacturing plant in Casa Grande, Arizona (the "Arizona plant"). The Company plans to begin commercial production of its first vehicle, the Lucid Air, in the second half of 2021, along with the continued expansion of the Arizona plant and build-out of a network of retail sales and service locations. The Company has plans for continued development of additional vehicle model types for future release. The aforementioned activities will require considerable capital, above and beyond the expected cash inflows from the initial sales of the Lucid Air. As such, the future operating plan involves considerable risk if secure funding sources are not identified and confirmed.

The Company's existing sources of liquidity include cash and cash equivalents. Historically, the Company has been able to obtain debt and equity financing as disclosed in these condensed consolidated financial statements. The Company has funded operations primarily with issuances of convertible preferred shares. Upon the completion of the merger with CCIV, the Company received approximately an incremental $2.1 billion in cash from CCIV. In addition, the Company received $2.5 billion in Private Investment in Public Entity ("PIPE") investment. As such, this business combination eliminated the substantial doubt about the Company's ability to continue as a going concern within one year after the date the Current Report on Form 8-K/A to which this document forms an exhibit is available to be filed.

Certain Significant Risks and Uncertainties

The Company's current business activities consist of research and development efforts to design and develop a high-performance fully electric vehicle and advanced electric vehicle powertrain components, including battery pack systems; building of the Company's production operations in Casa Grande, Arizona; and build-out of the Company's retail stores and service centers for distribution of the vehicles to customers. The Company is subject to the risks associated with such activities, including the need to further develop its technology, its marketing, and distribution channels; further develop its supply chain and manufacturing; and hire additional management and other key personnel. Successful completion of the Company's development program and, ultimately, the attainment of profitable operations are dependent upon future events, including its ability to access potential markets, and secure long-term financing.

The Company participates in a dynamic high-technology industry. Changes in any of the following areas could have a material adverse impact on the Company's future financial position, results of operations, and/or cash flows: advances and trends in new technologies; competitive pressures; changes in the overall demand for its products and services; acceptance of the Company's products and services; litigation or claims against the Company based on intellectual property, patent, regulatory, or other factors; and the Company's ability to attract and retain employees necessary to support its growth.

In late 2019, a novel strain of coronavirus (COVID-19) began to affect the population of China and expanded into a worldwide pandemic during 2020, leading to significant business and supply chain disruption, as well as broad-based changes in supply and demand. The Company's operations have experienced disruptions, such as temporary closure of its offices, and those of its customers and suppliers, and product research and development. The Company was able to proceed with the construction of the Arizona plant while still meeting all COVID-19 restrictions and required safety measures. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on future developments, including the duration and spread of the outbreak. Nevertheless, COVID-19 presents a material uncertainty and risk with respect to the Company, its performance, and its financial results and could adversely affect the Company's financial position and results of operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Preparation

The accompanying unaudited interim condensed consolidated financial statements included herein have been prepared pursuant to instructions to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Under these rules and regulations, some information and footnote disclosures normally included in the financial statements prepared under accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted. These financial statements should be read together with the Company's audited financial statements for the year ended December 31, 2020 and 2019 included in Lucid Group's Registration Statement on Form S-1, filed with the SEC on August 2, 2021.

In management's opinion, these unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments necessary for the fair statement of the Company's financial position as of June 30, 2021, the results of operations for the three and six months ended June 30, 2021 and 2020, and cash flows for the six months ended June 30, 2021 and 2020. The results of operations for the three and six months ended June 30, 2021 are not necessarily indicative of the results to be expected for the full year ending December 31, 2021 or any other future interim or annual period.

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates, assumptions and judgments made by management include, among others, the determination of the useful lives of property and equipment, fair values of warrants, fair value of contingent forward contracts liability, fair values of common shares, accounting for income taxes, and share-based compensation expense, and estimated incremental borrowing rates for assessing operating and financing lease liabilities. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. The Company adjusts such estimates and assumptions when facts and circumstances dictate. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Cash, Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with an original or remaining maturity at the date of purchase of three months or less to be cash equivalents.

Restricted cash in the other current assets is comprised primarily of customer reservation payments for electric vehicles and other escrow deposit for building of the Arizona plant. Restricted cash included in other non-current assets is primarily related to letters of credit issued to the landlord for the Company's headquarter in Newark, California and retail locations, and escrow deposit required under the escrow agreement for the lease with Pinal county, Arizona, related to the Arizona plant.

The following table provides a reconciliation of cash and restricted cash to amounts shown in the statements of cash flows (in thousands):

	June 30, 2021	December 31, 2020	June 30, 2020
Cash	$ 557,938	$ 614,412	$ 293,896
Restricted cash included in other current assets	10,989	11,278	18,456
Restricted cash included in other noncurrent assets	23,278	14,728	8,200
Total cash and restricted cash	$ 592,205	$ 640,418	$ 320,552

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash, cash equivalents, short-term investments, and accounts receivable. The Company places its cash primarily with domestic financial institutions that are federally insured within statutory limits, but at times its deposits may exceed federally insured limits. Further, accounts receivable primarily consists of current trade receivables from a single customer as of June 30, 2021 and December 31, 2020, and all of the Company's revenue is from the same customer for the three and six months ended June 30, 2021 and 2020.

Other Significant Accounting Policies

As of June 30, 2021, there were no material changes in the other significant accounting policies disclosed in Note 2 of the audited consolidated financial statements as of and for the years ended December 31, 2020 and 2019 included in Lucid Group's Registration Statement on Form S-1 filed with SEC on August 2, 2021.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02 ("ASC 842"), Leases, to require lessees to recognize all leases, with certain exceptions, on the balance sheet, while recognition on the statement of operations will remain similar to current lease accounting. Subsequently, the FASB issued ASU No. 2018-10, Codification Improvements to Topic 842, Leases, ASU No. 2018-11, Targeted Improvements, ASU No. 2018-20, Narrow-Scope Improvements for Lessors, and ASU 2019-01, Codification Improvements, to clarify and amend the guidance in ASU No. 2016-02. ASC 842 eliminates real estate-specific provisions and modifies certain aspects of lessor accounting. This standard is effective for interim and annual periods beginning after December 15, 2018 for public business entities. Private companies are required to adopt the new leases standard for annual periods beginning after December 15, 2021 and interim periods in annual periods beginning after December 15, 2022. Early adoption is permitted for all entities. The Company adopted ASC 842 as of January 1, 2021 using the modified retrospective approach ("adoption of the new lease standard"). This approach allows entities to either apply the new lease standard to the beginning of the earliest period presented or only to the consolidated financial statements in the period of adoption without restating prior periods. The Company has elected to apply the new guidance at the date of adoption without restating prior periods. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which allowed the Company to carry forward the historical determination of contracts as leases, lease classification and not reassess initial direct costs for historical lease arrangements. Accordingly, previously reported financial statements, including footnote disclosures, have not been recast to reflect the application of the new standard to all comparative periods presented. The finance lease classification under ASC 842 includes leases previously classified as capital leases under ASC 840.

The Company has lease agreements with lease and non-lease components and has elected not to utilize the practical expedient to account for lease and non-lease components together, rather the Company is accounting for the lease and non-lease components separately on the consolidated financial statements.

Operating lease assets are included within operating lease right-of-use ("ROU") assets. Finance lease assets are included within property, plant and equipment, net. The corresponding operating lease liabilities and finance lease liabilities are included within other current liabilities and other long-term liabilities on the Company's consolidated balance sheet as of June 30, 2021.

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. All other lease assets and lease liabilities are recognized based on the present value of lease payments over the lease term at the later of ASC 842 adoption date or lease commencement date. Because most of the Company's leases do not provide an implicit rate of return, the Company used the Company's incremental borrowing rate based on the information available at adoption date or lease commencement date in determining the present value of lease payments.

Adoption of the new lease standard on January 1, 2021 had a material impact on the Company's interim unaudited consolidated financial statements. The most significant impacts related to the (i) recording of ROU asset of $94.2 million, and (ii) recording lease liability of $126.0 million, as of January 1, 2021 on the consolidated balance sheets. The Company also reclassified prepaid expenses of $0.2 million and deferred rent balance, including tenant improvement allowances, and other liability balances of $31.8 million relating to the Company's existing lease arrangements as of December 31, 2020, into the ROU asset balance as of January 1, 2021. 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. The standard did not materially impact the Company's consolidated statement of operations and consolidated statement of cash flows.

The cumulative effect of the changes made to the Company's consolidated balance sheet as of January 1, 2021 for the adoption of the new lease standard was as follows (in thousands):

	Balances at December 31, 2020	Adjustments from Adoption of New Lease Standard	Balances at January 1, 2021
Assets			
Prepaid expenses	$ 21,840	$ (180)	$ 21,660
Property, plant and equipment, net	713,274	3,237	716,511
Operating lease right-of-use assets	—	90,932	90,932
Liabilities			
Other current liabilities	151,753	8,030	159,783
Other long-term liabilities	38,905	86,152	125,057

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes by eliminating some exceptions to the general approach in Topic 740, Income Taxes in order to reduce cost and complexity of its application. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. For nonpublic entities, the guidance is effective for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted if financial statements have not yet been issued (for public business entities) or have not yet been made available for issuance (for all other entities). The Company adopted this ASU starting on January 1, 2021. The adoption of this ASU did not have an immediate impact to the consolidated financial statements and related disclosure.

The Company has considered all other recently issued accounting pronouncements and does not believe the adoption of such pronouncements will have a material impact on its financial statements or notes thereto.

NOTE 3 – BALANCE SHEETS COMPONENTS

OTHER CURRENT AND LONG-TERM LIABILITIES

Other current liabilities and long-term liabilities as of June 30, 2021 and December 31, 2020 were as follows (in thousands):

	June 30, 2021	December 31, 2020
Engineering, design, and testing	$ 42,674	$ 42,518
Construction of Arizona plant	12,227	43,115
Retail leasehold improvements	15,153	6,114
Professional services	5,399	9,083
Tooling	8,770	15,243
Payroll tax liability	32,728	—
Series B convertible preferred share repurchase liability	—	3,000
Short-term insurance financing note	8,204	980
Operating lease liabilities, current portion	11,620	—
Other liabilities	22,274	31,700
Total other current liabilities	$ 159,049	$ 151,753

As of June 30, 2021, the Company accrued a non-income tax liability of $32.7 million as other liabilities primarily related to payroll tax associated with certain compensation related events. The Company also recorded a $27.4 million receivable from employees related to this non-income tax liability as other receivables on the condensed consolidated balance sheets as of June 30, 2021.

In April 2021, the Company financed an insurance premium of $11.0 million with a bank related to three commercial insurance policies. All three insurance policies have a one year term. The Company made a down payment for the insurance premium finance note of $0.9 million, and the total interest was $0.1 million, representing an annual interest of 2.65%. The Company will make 11 monthly installments of $0.9 million for principal and interest from May 2021 to March 2022. The Company recorded the total insurance premium of $11.0 million as prepaid insurance and is amortizing it on a straight-line basis over the insurance term of one year. The Company made $2.7 million of principal payments and $24.2 thousand of interest payments on the short-term insurance financing note during the three and six months ended June 30, 2021. The remaining principal balance of $8.2 million is recorded as part of the Company's other current liabilities as of June 30, 2021.

	June 30, 2021	December 31, 2020
Deferred rent	$ —	$ 28,881
Customer deposits	11,908	8,028
Capital lease liabilities	—	1,996
Operating leases liabilities, net of current portion	152,639	—
Total other long-term liabilities	$ 164,547	$ 38,905

PROPERTY, PLANT, AND EQUIPMENT, NET

Property, plant, and equipment as of June 30, 2021 and December 31, 2020 were as follows (in thousands):

	June 30, 2021	December 31, 2020
Land and land improvements	$ 1,050	$ 1,050
Building and improvements	189,466	—
Machinery	35,847	28,830
Computer equipment and software	20,755	15,716
Leasehold improvements	72,521	47,187
Furniture and fixtures	7,256	4,503
Capital leases	—	3,908
Finance leases	7,674	—
Construction in progress	588,057	636,851
Total property, plant, and equipment	922,626	738,045
Less accumulated depreciation and amortization	(34,852)	(24,771)
Property, plant, and equipment — net	$ 887,774	$ 713,274

Construction in progress represents the costs incurred in connection with the construction of buildings or new additions to the Company's plant facilities including tooling, which is with outside vendors. Costs classified as construction in progress include all costs of obtaining the asset and bringing it to the location in the condition necessary for its intended use. No depreciation is provided for construction in progress until such time as the assets are completed and are ready for use. Construction in progress consisted of the following (in thousands):

	June 30, 2021	December 31, 2020
Tooling	$ 277,512	$ 203,241
Construction of Arizona plant	4,701	171,532
Leasehold improvements	59,478	50,790
Machinery and equipment	246,366	211,288
Total construction in progress	$ 588,057	$ 636,851

Depreciation and amortization expense for the three months ended June 30, 2021 and 2020, was approximately $6.8 million and $1.8 million, respectively, and for the six months ended June 30, 2021 and 2020, was approximately $11.7 million and $3.3 million, respectively.

NOTE 4 - FAIR VALUE MEASUREMENTS

The accounting standard for fair value measurements provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. Fair value is defined as the price that would be received for an asset or the "exit price" that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between independent market participants on 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 classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The accounting standard established a fair value hierarchy, which requires an entity to maximize the use of observable inputs, where available. This hierarchy prioritizes the inputs into three broad levels as follows:

- ***Level 1***—Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities.
- ***Level 2***—Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- ***Level 3***—Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. Factors used to develop the estimated fair value are unobservable inputs that are not supported by market activity. The sensitivity of the fair value measurement to changes in unobservable inputs might result in a significantly higher or lower measurement.

Level 1 investments consist solely of short-term and long-term restricted cash valued at amortized cost that approximates fair value. Level 2 investments consist solely of certificate of deposits. Level 3 liabilities consist of convertible preferred share warrant liability, in which the fair value was measured upon issuance and is remeasured at each reporting date. The valuation methodology and underlying assumptions are discussed further in Note 5 "Contingent Forward Contracts" and Note 6 "Convertible Preferred Share Warrant Liability".

The following table sets forth the Company's financial assets subject to fair value measurements on a recurring basis by level within the fair value hierarchy as of June 30, 2021 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investment—				
Certificates of deposit	$ —	$ 505	$ —	$ 505
Restricted cash	34,267	—	—	34,267
Total assets	$ 34,267	$ 505	$ —	$ 34,772

The following table sets forth the Company's financial assets and liabilities subject to fair value measurements on a recurring basis by level within the fair value hierarchy as of December 31, 2020 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Short-term investment—				
Certificates of deposit	$ —	$ 505	$ —	$ 505
Restricted cash	26,006	—	—	26,006
Total assets	$ 26,006	$ 505	$ —	$ 26,511
Liabilities:				
Convertible preferred share warrant liability	$ —	$ —	$ 2,960	$ 2,960
Total liabilities	$ —	$ —	$ 2,960	$ 2,960

A reconciliation of the contingent forward contract liability measured and recorded at fair value on a recurring basis is as follows (in thousands):

	Six Months Ended June 30,	
	2021	2020
Fair value-beginning of period	$ —	$ 30,844
Issuance	2,167,332	—
Change in fair value	454,546	8,719
Settlement	(2,621,878)	(39,563)
Fair value-end of period	$ —	$ —

A reconciliation of the convertible preferred share warrant liabilities measured and recorded at fair value on a recurring basis is as follows (in thousands):

	Six Months Ended June 30,	
	2021	2020
Fair value-beginning of period	$ 2,960	$ 1,755
Change in fair value	6,976	114
Settlement	(9,936)	—
Fair value-end of period	$ —	$ 1,869

NOTE 5 - CONTINGENT FORWARD CONTRACTS

In September 2018, the Company entered into a Securities Purchase Agreement with PIF. Along with the execution of the Securities Purchase Agreement, the Company granted PIF the right to purchase the Company's Series D convertible preferred shares in future periods. The Company determined PIF's right to participate in future Series D convertible preferred shares financing to be freestanding similar to a derivative in the form of contingent forward contracts and recorded the initial valuation of $18.6 million as a debt discount to the Convertible Notes issued in September 2018.

In March 2020, the Company received $200.0 million in exchange for 31,201,245 shares of Series D convertible preferred shares as partial settlement of the Series D contingent forward contract liability and revalued the contingent forward contract liability to the then fair value of $36.4 million and reclassified $18.2 million of the contingent forward contract liability into Series D convertible preferred shares. In June 2020, upon satisfaction of the second set of milestones (refer to Note 7 "Convertible Preferred Shares and Shareholders' Deficit"), the Company received the remaining $200.0 million in exchange for 31,201,256 shares of Series D convertible preferred shares as final settlement of the Series D contingent forward contract liability and revalued the contingent forward contracts liability to the then fair value of $39.6 million and reclassified the liability into Series D convertible preferred shares. The Series D contingent forward contract liability incurred a total fair value loss of $3.2 million and $8.7 million during the three and six months ended June 30, 2020. Since the Series D contingent forward contract liability was fully settled in June 2020, there was no related outstanding contingent forward contract liability as of June 30, 2020.

As discussed in Note 7 "Convertible Preferred Shares and Shareholders' Deficit", in September 2020, along with the execution of the Securities Purchase Agreement, the Company granted Ayar Third Investment Company ("Ayar") the right to purchase the Company's additional Series E convertible preferred shares upon the Company's satisfaction of certain milestones in November 2020. The Company determined Ayar's right to participate in future Series E convertible preferred shares financing to be freestanding similar to a derivative in the form of contingent forward contracts and recorded the initial valuation of $0.8 million into contingent forward contract liabilities.

In December 2020, Ayar waived the Company's remaining outstanding obligations, and the Company received $400.0 million for the issuance of Series E convertible preferred shares. Upon settlement, the Company revalued the Series E contingent forward contracts to the then fair value of $110.5 million and reclassified the contingent forward contract liability into Series E convertible preferred shares. The Company recorded a loss of $109.7 million related to fair value remeasurements of the Series E contingent forward contracts during the year ended December 31, 2020.

In February 2021, the Company and Ayar entered into Amendment No. 1 to the original Series E Preferred Share Purchase Agreement ("Amendment No. 1"). Under the Amendment No. 1, Ayar and the Company agreed to enter into the third closing of additional 50,612,262 Series E convertible preferred share at $7.90 per share, aggregating to $400.0 million. Upon the signing of the Amendment No. 1, the Company received the issuance proceeds of $400.0 million from Ayar in February 2021.
Amendment No. 1 also allowed the Company to provide an opportunity to all current convertible preferred shareholders other than Ayar ("Eligible Holders") to enter into the fourth closing to purchase up to 8,977,769 shares of Series E convertible preferred shares on a pro rata basis at $7.90 per share, aggregating to $71.0 million. In addition, the amendment allowed the Company to offer for purchase at the fourth closing at $7.90 per share, a number of Series E Preferred Shares to senior management employees, directors, consultants, advisors and/or contractors of the Company ("Additional Purchaser") and Ayar. Refer to Note 7 "Convertible Preferred Share and Shareholders' Deficit".

In April 2021, the Company issued 25,306,130 Series E convertible preferred shares from the fourth closing at $7.90 per share for cash consideration of $200.0 million. The Company received $107.1 million of the total issuance proceeds in March 2021 and the remaining $92.9 million in April 2021 (refer to Note 7 "Convertible Preferred Shares and Shareholders' Deficit").

The Company determined the right to participate in future Series E convertible preferred share financing to be a freestanding financial instrument similar to a derivative in the form of contingent forward contracts and recorded the initial valuation of $1.4 billion and $722.4 million for the third closing and fourth closing, respectively, as contingent forward contract liabilities. Since the contingent forward contract liability related to the third closing was fully settled in the same month following the execution of the amendment, the Company recorded no related fair value remeasurements in the consolidated statements of operations.

The Company issued Offer Notices to certain of the Company's management and members of the Board of Directors in March 2021 and April 2021. The Series E convertible preferred shares issued from the fourth closing included 1,147,577 shares to the Company's management and 627,347 shares to members of the Board of Directors. The total issuance to the Company's management includes 202,449 shares offered to the CEO in April 2021. The offer to employees in the fourth closing to participate in future Series E convertible preferred shares financing represent a fully vested, equity classified award. The award's full fair value on each recipient's grant date was recorded as share-based compensation, and the related contingent forward contract liability was derecognized. The Company revalued the contingent forward contract liability for the remaining participants and recorded $12.4 million and $454.5 million fair value remeasurement loss related to the contingent forward contract liability for the three and six months ended June 30, 2021, respectively. Final fair value of the contingent forward contract liability of $1.2 billion was reclassified into Series E convertible preferred shares upon the fourth closing in April 2021. There was no related outstanding contingent forward contract liability as of June 30, 2021.

The fair value of the Series E convertible preferred share contingent forward contract liability for the third closing was determined using Forward Payoff. The Company's inputs used in determining the fair value on the issuance date and settlement date, were as follows:

Stock Price	$ 36.45
Volatility	100%
Expected term	0.01 Years
Risk-free rate	0.03%

The fair value of the Series E convertible preferred share contingent forward contract liability for the fourth closing was determined using Forward and an Option Payoff. The Company's inputs used in determining the fair value on the issuance date were as follows:

Fair value of Series E convertible preferred share	$ 36.45
Volatility	100%
Expected term	0.11 Years
Risk-free rate	0.03%

The fair value of the Series E convertible preferred share contingent forward contract liability for the fourth closing on closing date was determined as the difference between the Series E convertible preferred shares fair value and the purchase price. The Company estimated the fair value of each of the Series E convertible preferred shares on the settlement date by taking the closing price of CCIV's Class A common stock on April 1, 2021 of $23.78 multiplied by the expected exchange ratio, and adjusting down by 5% discount for lack of marketability.

NOTE 6 - CONVERTIBLE PREFERRED SHARE WARRANT LIABILITY

In March and September 2017, in connection with the Long-Term Debt to Trinity, the Company issued two convertible preferred share warrants (the "Warrants") to purchase a total of 585,022 shares of Series D convertible preferred shares, with an exercise price of $5.128 per share. The Warrants are exercisable for 10 years from the date of issuance and expire in 2027 or earlier upon the consummation of an initial public offering ("IPO"). The Company determined that these Warrants met the requirements for liability classification under ASC 480, *Distinguishing Liabilities from Equity*, due to the Warrants holders having a put-right and the Company having an obligation to settle the Warrants by transferring cash.

The fair value of the Warrants was approximately $0.4 million and $0.2 million at the time of issuance in March and September 2017, respectively, calculated using a Monte-Carlo simulation method under the income approach. The Warrants were recorded at fair value at issuance and are subsequently remeasured to fair value each reporting period with the changes recorded in the consolidated statements of operations. As of December 31, 2020, 585,022 shares of the Warrants were outstanding with a fair value of $5.06 per share, and aggregate fair value of $3.0 million.

The Company's assumptions used in determining the fair value of convertible preferred share warrants on December 31, 2020 are as follows:

	December 31, 2020
Volatility	50.00%
Expected term (in years)	0.5 - 1.5
Risk-free rate	0.09 – 0.12%
Expected dividend rate	0.00%

In February 2021, all the outstanding warrants were settled in its entirety at an exercise price of $5.13 per share for an aggregate purchase price of $3.0 million. Upon final settlement, the Company converted the warrant into $12.9 million Series D convertible preferred shares, and recorded $7.0 million loss related to fair value remeasurements of the warrants in the consolidated statements of operations for the six months ended June 30, 2021. The Company recorded $0.1 million loss related to fair value remeasurements of the warrants for the three and six months ended June 30, 2020.

The fair value of the Series D preferred shares that was converted from warrant liability at settlement was estimated using the PWERM framework and considered the same three scenarios and probability for each of the three scenarios used to value our common shares: OPM scenario (20%), as-converted SPAC scenario (70%), and as-converted IPO scenario (10%). Under the OPM scenario, the fair value of Series D convertible preferred shares is a direct output of the model used for the equity valuation of the Company and reflects the present value. Under the as-converted SPAC scenario, the present value of the Series D convertible preferred shares is estimated using the pre-money equity value. Under the as-converted IPO scenario, the Company applies the market-based approach and determines the fair value based on the average revenue multiples derived from our peer group.

NOTE 7 – CONVERTIBLE PREFERRED SHARES AND SHAREHOLDERS' DEFICIT

Convertible Preferred Shares

Convertible preferred shares are carried at its issuance price, net of issuance costs.

In 2014 through June 30, 2021, the Company issued Series A, Series B, Series C, and Series D and Series E convertible preferred shares ("Series A," "Series B," "Series C," "Series D," "Series E," respectively) (collectively, the "Convertible Preferred Shares").

In September 2018, concurrent with the execution of the Security Purchase Agreement with PIF, the Company entered into a Share Repurchase Agreement (the "Repurchase Agreement") with Blitz Technology Hong Kong Co. Limited and LeSoar Holdings, Limited (the "Sellers") to repurchase Series C convertible preferred shares. From September 2018 to December 31, 2019, the Company repurchased in aggregate 4,285,715 shares of Series C convertible preferred shares with $60.0 million at a per share price of $14.00 from the first and second Company repurchase.

Third Company Repurchase (Series C – August 2020)

In August 2020, the Company entered into a Share Repurchase Agreement with the Sellers. Pursuant to the Share Repurchase Agreement, the Company agreed to repurchase 3,652,265 shares of Series C convertible preferred shares owned by the Sellers in August 2020 at a price of $2.70 per share for total of $9.9 million. The carrying value of the repurchased Series C convertible preferred shares is $20.4 million. As such, the Company recognized $10.5 million in additional paid-in capital under shareholder's equity in the consolidated balance sheet as of December 31, 2020 related to the difference in fair value and carrying value of the Series C shares repurchased.

Fourth Company Repurchase (Series C - December 2020)

In December 2020, the Company entered into a Share Repurchase Agreement with Blitz Technology Hong Kong Co. Limited ("Blitz").

The Company agreed to repurchase 700,000 Series C convertible preferred shares from Blitz at a price of $3.20 per share, aggregating to $2.2 million. As the carrying amount of each share of Series C was $6.41 aggregating to $4.5 million in September 2020, the Company recognized $2.2 million as additional paid-in capital under shareholders' equity in the consolidated balance sheet as of December 31, 2020, related to the difference in fair value and carrying value of the Series C shares repurchased.

Fifth Company Repurchase (Series B - December 2020)

On December 22, 2020, the Company entered into an agreement with JAFCO Asia Technology Fund V ("JAFCO") whereby the Company agreed to repurchase 1,333,333 Series B convertible preferred shares having a carrying value of $4.0 million, from JAFCO for a total consideration of $3.0 million. The agreement resulted in an extinguishment of the Series B convertible preferred shares and the Company recognized $1.0 million in additional paid-in capital being the difference in fair value of the consideration payable and the carrying value of the Series B convertible preferred shares. As of the date of extinguishment and as of December 31, 2020 the Series B convertible preferred shares subject to repurchase are mandatorily redeemable within 45 days of the agreement and accordingly have been reclassified to other accrued liabilities on the consolidated balance sheets.

Series D Preferred Share Issuance

In 2018, the Security Purchase Agreement with PIF granted PIF rights to purchase the Company's Series D convertible shares at various tranches. The first tranche of $200.0 million is issuable upon the approval of the PIF's equity investment into the Company by CFIUS (refer to Note 5 – Contingent Forward Contracts). The second and third tranches of $400.0 million each are issuable upon the Company's satisfaction of certain milestones related to further development and enhancement in marketing, product, and administrative activities.

In April 2019, upon CFIUS's approval of PIF's equity investment into the Company, the Company received the first $200.0 million proceeds from PIF. In October 2019, the Company received additional $400.0 million upon achieving the first set of milestones. Together with the conversion of $272.0 million Convertible Notes and accrued interest, the Company issued 141,746,324 shares of Series D convertible preferred shares at a price of $6.15 per share, for net proceeds of approximately $872.0 million during the year ended December 31, 2019.

In March 2020, the Company received $200.0 million of the remaining $400.0 million in proceeds from PIF and issued 31,201,245 shares of Series D in exchange. In June 2020 the Company successfully satisfied certain of the second set of milestones related to further development and enhancement in marketing, product, and administrative activities, and received a waiver from PIF for the remaining milestones. The Company received the remaining $200 million proceeds in exchange for 31,201,256 shares of Series D convertible preferred shares.

See activities related to the PIF Convertible Notes and Series D convertible preferred share funding as below (in thousands):

Conversion of Convertible Notes	$	271,985
Series D received in April 2019		200,000
Series D received in October 2019		400,000
Series D received in March 2020		200,000
Series D received in June 2020		200,000
Contingent forward contract liability reclassified to Series D		39,564
Conversion of preferred stock warrant to Series D in February 2021		3,000
Reclassification of preferred stock warrant liability to Series D in February 2021		9,936
Total proceeds of Series D	$	1,324,485

Series E convertible preferred share Issuance

In September 2020 the Company entered into an arrangement with Ayar to issue and sell Series E convertible preferred shares pursuant to a securities purchase agreement (the "SPAE"). Along with the execution of the SPAE, the Company granted Ayar the right to purchase additional Series E convertible preferred shares upon the Company's satisfaction of certain milestones in November 2020. The Company determined Ayar's right to participate in future Series E convertible preferred share financing to be freestanding, similar to a derivative in the form of contingent forward contracts, and recorded the initial valuation of $0.8 million as a contingent forward contract liability. The contingent forward contract terms were included within the SPAE, which dictated a price of $7.90 per share of Series E convertible preferred shares. The Company needed to satisfy two sets of milestone conditions relating to further development and enhancement in marketing, product, and administrative activities for Ayar to provide funding under the SPAE.

Immediately upon closing of the SPAE, the Company received the full first tranche of $500.0 million in funding in exchange for 63,265,327 Series E convertible preferred shares as the requirement for the first milestones were met prior to execution of the purchase agreement. Subsequently, the Company successfully satisfied certain of the second set of milestones and received a waiver from PIF for the remaining milestones; and on December 24, 2020, the investor provided $400.0 million of funding in exchange for 50,612,262 shares as the final issuance of Series E convertible preferred shares related to the second milestones. Upon final settlement, the Company re-valued the liability associated with the contingent forward contract to the then fair value of $110.5 million from a contingent liability of $0.8 million and derecognized the liability as the contract was settled in its entirety. The Company recognized the increase in fair value of $109.7 million in the consolidated statements of operations and reclassified the liability into convertible preferred shares on the Company's consolidated balance sheets as of December 31, 2020.

In February 2021, the Company and Ayar entered into Amendment No. 1 to the original Series E Preferred Share Purchase Agreement ("Amendment No. 1"). Under the Amendment No. 1, Ayar and the Company agreed to enter into the third closing of additional 50,612,262 shares of Series E convertible preferred shares at $7.90 per share, aggregating to $400.0 million. Upon the signing of the Amendment No. 1, the Company received the issuance proceeds of $400.0 million from Ayar in February 2021.

Amendment No. 1 also allowed the Company to provide an opportunity to all current convertible preferred shareholders other than Ayar ("Eligible Holders") to enter into the fourth closing to purchase up to 8,977,769 shares of Series E convertible preferred share on a pro rata basis at $7.90 per share, aggregating to $71.0 million. In addition, the amendment allowed the Company to offer for purchase at the fourth closing at $7.90 per share, a number of Series E Preferred Shares to senior management employees, directors, consultants, advisors and/or contractors of the Company ("Additional Purchasers"). The aggregate number of Series E Preferred Shares sold at the third closing and fourth closing will not exceed 75.9 million shares ("Extension Amount"). Ayar committed to purchase the entire Extension Amount to the extent not subscribed by Eligible Holders or Additional Purchasers.

In April 2021, the Company issued 25,306,130 Series E convertible preferred shares from the fourth closing at $7.90 per share for cash consideration of $200.0 million. The Company received $107.1 million of the entire cash consideration in March 2021, and the remaining $92.9 million in April 2021. The Company issued Offer Notices to certain of the Company's management and members of the Board of Directors in March 2021 and April 2021. The Series E convertible preferred shares issued from the fourth closing included 1,147,577 shares to the Company's management and 627,347 shares to members of the Board of Directors. The total issuance to the Company's management includes 202,449 shares offered to the CEO in April 2021. The offer to employees to participate in a future Series E convertible preferred share financing represented a fully vested, equity classified award. The excess of the award's fair value over the purchase price of $20.7 million and $123.6 million on each recipient's grant date during the three months and six months ended June 30, 2021 was recorded as share-based compensation.

Along with the execution of Amendment No. 1, the Company also increased the authorized number of common shares and convertible preferred shares to 498,017,734 and 437,182,072 shares, respectively.

As of June 30, 2021 and December 31, 2020, the Company had the following convertible preferred shares, par value of $0.0001 per share, authorized, and outstanding (in thousands, except share and per share amounts):

As of June 30, 2021

Convertible Preferred Shares	Shares Authorized	Shares Outstanding	Net Carrying Value	Conversion Per Share to Common Shares	Liquidation Per Share Amount	Liquidation Amount
Series A	12,120,000	12,120,000	$ 11,925	$ 1.00	$ 1.00	$ 12,120
Series B	8,000,000	8,000,000	23,740	3.00	3.00	24,000
Series C	22,532,244	22,532,244	137,475	6.41	6.41	144,432
Series D	204,733,847	204,733,847	1,324,485	6.15	9.62	1,969,540
Series E	189,795,981	189,795,981	4,339,160	7.90	11.85	2,249,082
Total	437,182,072	437,182,072	$ 5,836,785			$ 4,399,174

As of December 31, 2020

Convertible Preferred Shares	Shares Authorized	Shares Outstanding	Net Carrying Value	Conversion Per Share to Common Shares	Liquidation Per Share Amount	Liquidation Amount
Series A	12,120,000	12,120,000	$ 11,925	$ 1.00	$ 1.00	$ 12,120
Series B*	9,333,333	9,333,333	23,740	3.00	3.00	28,000
Series C	31,170,225	22,532,244	137,475	6.41	6.41	144,432
Series D	234,009,360	204,148,825	1,311,548	6.15	9.62	1,963,912
Series E	113,877,589	113,877,589	1,009,388	7.90	11.85	1,349,449
Total	400,510,507	362,011,991	$ 2,494,076			$ 3,497,913

*As of December 31, 2020, 1,333,333 Series B convertible preferred shares at aggregate fair value of $3.0 million were extinguished and reclassified to other accrued liabilities, with cash settlement occurring in January 2021.

The significant rights and preferences of the outstanding convertible preferred shares are as follows:

Dividends—Holders of Series A, Series B, and Series C are entitled to receive noncumulative dividends at an annual rate of $0.08, $0.24, $0.5128 per share, respectively. Holders of Series D and Series E are entitled to receive noncumulative dividends at the rate of 8% of the Series D and Series E Original Issue Price (as adjusted for any Share Split Change) per annum on each outstanding share of Series D and Series E. Such dividends shall be payable when and if declared by the Company's board of directors (the "Board of Directors"). No other dividends shall be paid on any common or convertible preferred shares until such dividends on Series A, Series B, Series C, Series D and Series E have been paid or declared by the Board of Directors. As of June 30, 2021 and December 31, 2020, no dividends have been declared.

Liquidation Preference—In the event of any liquidation, dissolution, or winding-up of the Company, whether voluntary or involuntary (a Liquidation Event), before any distribution or payment shall be made to holders of common shares, each holder of convertible preferred shares then outstanding shall be entitled to be paid, pro rata, out of the assets of the Company available for distribution to members, whether from capital, surplus, or earnings, in the sequence of Series E, Series D, Series C, Series B and Series A, an amount equal to one and one-half times (1.5x), one and one-half times (1.5x), one time (1x), one time (1x), one time (1x) of the Series E, Series D, Series C, Series B, and Series A original issue price per share (as adjusted for Share Split Changes), plus all declared and unpaid distributions thereon. If, upon the occurrence of such event, the assets and funds to be distributed among the holders of the convertible preferred shares shall be insufficient to permit the payment to such holders of the full aforesaid preferential amounts, the holders of the convertible preferred shares shall receive a pro rata distribution of assets, on a pari passu basis, according to the amounts which would be payable in respect of the Series E and Series D convertible preferred shares held by them upon such distribution if all amounts payable on or with respect to said shares were paid in full.

Upon completion of the full distribution required above, the remaining assets of the Company available for distribution to members shall be distributed pari passu among the holders of common shares pro rata based on the number of the common shares held by each member.

Voting Rights—The holders of Series A, Series B, Series C, Series D and Series E convertible preferred shares are entitled to the number of votes equal to the number of Common shares into which such convertible preferred shares are convertible, and with respect to such vote, such holder shall have full voting rights and powers equal to the voting rights and powers of the holders of common shares, and shall be entitled, notwithstanding any provision hereof, to notice of any shareholders' meeting in accordance with our bylaws. The holders of convertible preferred shares and the holders of common shares shall vote together and not as separate classes.

Conversion—Each Series A, Series B, Series C, Series D and Series E convertible preferred shares is convertible, at the option of the holder, into one fully paid nonassessable common shares. The conversion formula is adjusted for such events as dilutive issuances, share splits, or business combinations. Each share of Series A, Series B, Series C, Series D and Series E convertible preferred shares shall automatically convert into one share of common shares at the applicable conversion price upon the earlier of (1) vote or written consent of the holders of at least 66.67% of the outstanding Series A, Series B, Series C, Series D or 50% for Series E convertible preferred shares, as applicable (each calculated on an as-converted basis), voting as a class, or (2) immediately before the closing of the Company's sale of its common shares in a firm commitment underwritten public offering on a U.S. national securities exchange or other internationally recognized securities exchange, which reflects a pre-offering market capitalization in excess of $2.5 billion and which results in gross proceeds to the Company of at least $200.0 million (before payment of underwriters' discounts, commissions and offering expenses) (such transaction, a "Qualified IPO").

Antidilution Adjustment—Subject to certain exceptions, if the Company issues additional common shares without consideration or for a consideration per share, less than the conversion price with respect to such series of the convertible preferred shares in effect immediately before the issuance of such additional shares, the conversion price of such series of convertible preferred shares in effect immediately before each such issuance shall automatically be adjusted. The new conversion price for such series of convertible preferred shares shall be determined by multiplying the conversion price for such series of convertible preferred shares then in effect by a fraction, the numerator of which will be the number of common shares outstanding immediately before such issuance, plus the number of shares that the aggregate consideration received by the Company for such issuance would purchase at such conversion price then in effect, and the denominator of which will be the number of common shares outstanding immediately before such issuance, plus the number of such additional common shares to be issued.

Common Shares

No dividends other than those payable solely in common shares shall be paid on any common share, unless and until (i) the dividends are paid on each outstanding share of convertible preferred share and (ii) a dividend is paid with respect to all outstanding convertible preferred shares in an amount equal to or greater than the aggregate amount of dividends, which would be payable on each convertible preferred share, if immediately prior to such payment on common shares, it had been converted into common shares.

Common Share Reserved for Issuance

The Company's common shares reserved for future issuances as of June 30, 2021 and December 31, 2020, are as follows:

	June 30, 2021	December 31, 2020
Convertible preferred shares outstanding	437,182,072	362,011,991
Share options outstanding	26,099,336	26,730,453
Restricted stock unit outstanding	15,763,598	—
Convertible preferred share warrant	—	585,022
Shares available for future grants	4,469,725	3,981,178
Total common shares reserved	483,514,731	393,308,644

NOTE 8 – SHARES-BASED AWARDS

Share Incentive Plans and Share Option Grants to Employees and Directors

In 2009, the Company adopted the 2009 Share Plan (the "2009 Plan"). In 2014, in connection with the Series C convertible preferred share financing, the Company adopted the 2014 Share Plan (the "2014 Plan"). Both the 2009 Plan and the 2014 Plan provide for the granting of incentive and non-statutory share options to directors, officers, employees, and consultants. Under the 2009 Plan and the 2014 Plan, the Company may grant options to purchase up to 5,000,000 and 31,884,190 common shares, respectively, at prices not less than the fair market value (FMV) at the date of grant, with limited exceptions. These options generally expire 10 years from the date of grant and are exercisable when the options vest. Incentive share options and non-statutory options generally vest over four years, the majority of which vest at a rate of 25% on the first anniversary of the grant date, with the remainder vesting ratably each month over the next three years.

In January 2021, the Company's Board of Directors approved the 2021 Stock Incentive Plan (the "2021 Plan"). The 2021 Plan replaced the 2009 Plan and 2014 Plan. 3,981,178 shares reserved for future issuance under 2009 Plan and 2014 Plan were removed and added to share reserve under the 2021 Plan. If outstanding share awards issued under the 2009 Plan and 2014 Plan 1) expire or terminate for any reason prior to exercise or settlement, 2) are forfeited, canceled or otherwise returned to the Company because of the failure to meet vesting conditions, or 3) are reacquired, withheld to satisfy a tax withholding obligation in connection with an award or to satisfy the purchase price or exercise price of a share award (collectively, the "Returning Shares"), will be added back to the 2021 Plan. The 2021 Plan provides for the grant of incentive share options, within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, to the Company's employees and any parent and subsidiary corporations' employees, and for the grant of non-statutory share options, restricted shares, Restricted Stock Units (RSU), share appreciation rights, performance based awards and cash based awards to the Company's employees, directors, and consultants and its parent and subsidiary corporations' employees and consultants. The 2021 Plan became effective in January 2021. 16,616,225 shares were authorized to issue under the 2021 Plan. In January 2021, the Company also increased the number of shares reserved for issuance under the 2014 Share Plan by 2,033,333 shares which was transferred to the 2021 Plan.

As of June 30, 2021, 4,469,725 shares were remaining under the 2021 Plan. No shares were remaining under the 2009 Plan and 2014 Plan for future grant. As of December 31, 2020, nil and 3,981,178 shares were remaining under the 2009 Plan and the 2014 Plan, respectively, for future grant.

A summary of share option activity under the 2009 Plan, the 2014 Plan, and the 2021 Plan is as follows:

	Outstanding Options			
	Number of Options	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term	Intrinsic Value (in thousands)
Balance—December 31, 2020	26,730,453	$ 2.21	$ 7.8	$ 118,155
Options granted	3,177,756	7.51		
Options exercised	(3,028,530)	1.74		
Options canceled	(780,343)	3.13		
Balance—June 30, 2021	26,099,336	$ 1.80	$ 8.5	$ 2,491,171
Options vested and exercisable June 30, 2021	14,842,155	$ 1.88	$ 6.6	$ 883,724

Aggregate intrinsic value represents the difference between the exercise price of the options and the estimated fair value of common shares. The aggregate intrinsic value of options exercised was approximately $102.5 million for the six months ended June 30, 2021, and $0.7 million for the six months ended June 30, 2020.

The total fair value of share options granted during the six months ended June 30, 2021 and 2020, was approximately $23.9 million and $10.1 million, respectively, which is being recognized over the respective vesting periods. The total fair value of share options vested during the six months ended June 30, 2021 and 2020, was approximately $3.1 million and $1.8 million, respectively. The unamortized share-based compensation for the six months ended June 30, 2021 was approximately $817.2 million, and weighted average remaining amortization period as of June 30, 2021 was 3.9 years.

The Black-Scholes Model used to value share options incorporates the following assumptions:

Volatility—The expected share price volatilities are estimated based on the historical and implied volatilities of comparable publicly traded companies as the Company does not have sufficient history of trading its common shares.

Risk-Free Interest Rate—The risk-free interest rates are based on U.S. Treasury yields in effect at the grant date for notes over the expected option term.

Expected Life—The expected term of options granted to employees represents the period that the share-based awards are expected to be outstanding. The Company utilizes historical data when establishing the expected term assumptions. For options granted with an extended exercise term, refer to the below section for details.

Dividend Yield—The expected dividend yield assumption of zero is based on our current expectations about our anticipated dividend policy over the expected option term, and an estimate of expected forfeiture rates. Over the course of the Company's history, it has not declared or paid any dividends to shareholders.

The Company estimates the fair value of the options utilizing the Black-Scholes option pricing model, which is dependent upon several variables, such as the expected option term, expected volatility of the Company's share price over the expected term, expected risk-free interest rate over the expected option term, expected dividend yield rate over the expected option term, and an estimate of expected forfeiture rates. The Company believes this valuation methodology is appropriate for estimating the fair value of share options granted to employees and directors that are subject to ASC 718, *Compensation—Stock Compensation*, requirements. These amounts are estimates and, thus, may not be reflective of actual future results, nor amounts ultimately realized by recipients of these grants.

A summary of the assumptions the Company utilized to record compensation expense for share options granted during the three and six months ended June 30, 2021 and 2020, is as follows:

	Six Months Ended June 30,	
	2021	**2020**
Weighted average volatility	41.9%	42.7%
Expected term (in years)	5.9	6.0
Risk-free interest rate	0.6%	1.1%
Expected dividends	—	—

A summary of RSU award activity under the 2021 Plan is as follow:

	Restricted Stock Units			
	Time-Based Shares	**Performance-Based Shares**	**Total Shares**	**Weighted-Average Grant-Date Fair Value**
Nonvested balance as of December 31, 2020	—	—	—	$ —
Granted	9,729,078	6,060,670	15,789,748	50.71
Cancelled/Forfeited	(26,150)	—	(26,150)	56.06
Nonvested balance as of June 30, 2021	9,702,928	6,060,670	15,763,598	$ 50.70

Time-based RSUs vest based on a performance condition and a service condition. The performance condition will be satisfied upon the Closing of the merger with CCIV, and service condition will be met generally over 4.0 years. The Company granted 5,232,507 shares of the time-based RSUs to the CEO. Subject to the CEO's continued employment on each vesting date, the CEO's time-based RSUs will vest in sixteen equal quarterly installments beginning on the first Vesting date that is at least two months following the Closing.

The service condition for 25% of the Company's non-CEO RSUs will be satisfied 375 days after the Closing. The remaining RSUs will be satisfied in equal quarterly installments thereafter, subject to continuous employment. The fair value of these award is estimated on the date of grant based on the market price of the CCIV's stock times the actual exchange ratio on the Closing, discounted for lack of marketability.

All performance-based RSUs are granted to the CEO. The CEO performance RSUs will vest subject to the performance and market conditions. The performance condition will be satisfied upon the Closing of the merger. The market conditions will be satisfied and vest in five tranches based on the achievement of market capitalization goals applicable to each tranche over any six-month period subject to the CEO's continued employment through the applicable vesting date. Any CEO performance RSUs that have not vested within five years after the Closing of the merger will be forfeited. The fair value of these award is estimated on the grant date using Monte Carlo simulation model, and used the following assumptions for the six months ended June 30, 2021:

	Six Months Ended June 30, 2021
Weighted average volatility	60.0%
Expected term (in years)	5.0
Risk-free interest rate	0.9%
Expected dividends	—

The Company recognizes compensation expense on a graded vesting schedule over the requisite vesting period for the time-based award. Stock-based compensation expense is recognized when the relevant performance condition is considered probable of achievement for the performance-based award. For the six months ended June 30, 2021, no compensation expense was recognized as the different vesting conditions were not met, and the performance condition cannot be deemed probable until the Closing occurs.

Total employee and nonemployee share-based compensation expense, including that related to the extended exercise terms for senior management and consultants for the three and six months ended June 30, 2021 and 2020, is classified in the consolidated statements of operations as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Research and development	$ 13,539	$ 552	$ 26,703	$ 1,393
Selling, general and administrative	10,910	458	102,541	588
Total	$ 24,449	$ 1,010	$ 129,244	$ 1,981

Total share-based compensation expense for the three and six months periods includes the $20.7 million and $123.6 million share-based compensation expense, respectively, related to the Series E convertible preferred shares issuance in March 2021 and April 2021. Refer to Note 5 “Contingent Forward Contracts” and Note 7 “Convertible Preferred Shares and Shareholders Deficit” for further detail.

NOTE 9 – LEASES

The Company has entered into various non-cancellable operating and finance lease agreements for certain of the Company’s offices, manufacturing and warehouse facilities, retail and service locations, equipment, vehicles, and solar energy systems, worldwide. The Company has determined if an arrangement is a lease, or contains a lease, at inception and record the leases in the Company’s financial statements upon later of ASC 820 adoption date of January 1, 2021, or lease commencement, which is the date when the underlying asset is made available for use by the lessor.

Lease expense for operating lease payments is recognized on a straight-line basis over the lease term. Certain operating leases provide for annual increases to lease payments based on an index or rate. The Company estimates the annual increase in lease payments based on the index or rate at the lease commencement date, for both the Company’s historical leases and for new leases commencing after January 1, 2021. Differences between the estimated lease payment and actual payment are expensed as incurred. Lease expense for finance lease payments is recognized as amortization expense of the finance lease ROU asset and interest expense on the finance lease liability over the lease term.

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

	As of June 30, 2021
Operating leases:	
Operating lease right-of-use assets	$ 126,655
Other current liabilities	$ 11,620
Other long-term liabilities	152,639
Total operating lease liabilities	$ 164,259
Finance leases:	
Property, plant and equipment, net	6,442
Total finance lease assets	$ 6,442
Finance lease liabilities, current portion	$ 2,572
Finance lease liabilities, net of current portion	3,963
Total finance lease liabilities	$ 6,535

The components of lease expense are as follows within the Company’s consolidated statement of operations (in thousands):

	Three Months Ended June 30, 2021	Six Months Ended June 30, 2021
Operating lease expense:		
Operating lease expense (1)	$ 7,219	$ 13,522
Variable lease expense	579	1,159
Finance lease expense:		
Amortization of leased assets	$ 637	$ 1,232
Interest on lease liabilities	104	213
Total finance lease expense	$ 741	$ 1,445
Total lease expense	$ 8,539	$ 16,126

(1) Includes short-term leases, which are immaterial.

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

	As of June 30, 2021
Weighted-average remaining lease term (in years):	
Operating leases	8.2
Finance leases	2.5
Weighted-average discount rate:	
Operating leases	11.03%
Finance leases	6.65%

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

	Six Months Ended June 30, 2021
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 7,742
Operating cash flows from finance leases (interest payments)	213
Financing cash flows from finance leases	1,364
Leased assets obtained in exchange for new operating lease liabilities	43,780
Leased assets obtained in exchange for new finance lease liabilities	4,437

As of June 30, 2021, the maturities of the Company's operating and finance lease liabilities (excluding short-term leases) are as follows (in thousands):

	Operating Leases	Finance Leases
Six months ending June 30, 2021	$ 14,825	$ 1,496
2022	31,431	2,810
2023	30,577	2,457
2024	30,822	318
2025	29,778	—
Thereafter	121,109	—
Total minimum lease payments	258,542	7,081
Less: Interest	(94,283)	(546)
Present value of lease obligations	164,259	6,535
Less: Current portion	11,620	2,572
Long-term portion of lease obligations	$ 152,639	$ 3,963

As previously reported in the Company's audited financial statements for the year ended December 31, 2020 and under legacy lease accounting (ASC 840), future minimum lease payments under non-cancellable leases as of December 31, 2020 are as follows (in thousands):

	Operating Leases	Finance Leases
2021	$ 25,490	$ 1,729
2022	28,837	1,547
2023	27,633	1,174
2024	28,207	9
2025	27,474	—
Thereafter	116,155	—
Total minimum lease payments	$ 253,796	4,459
Less: Interest		(1,202)
Present value of lease obligations		3,257
Less: Current portion		(1,261)
Long-term portion of lease obligations		1,996

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Contractual Obligations

As of June 30, 2021, and December 31, 2020, the Company had $79.2 million and $406.1 million in commitments related to the Arizona manufacturing plant and equipment. This represents future expected payments on open purchase orders entered as of June 30, 2021, and December 31, 2020.

The Company entered into non-cancellable purchase commitment to purchase battery cells over the next 3 years with various vendors. Battery cell costs can fluctuate from time to time based on, among other things, supply and demand, costs of raw materials, and purchase volumes. The estimated purchase commitment as of June 30, 2021 is set as follows (in thousands):

Years ended December 31,	Minimum Purchase Commitment
2021 (remainder of the year)	$ 104,370
2022	202,400
2023	202,400
Total	$ 509,170

In recognition of the CEO’s efforts on the contemplated merger, the board of directors approved a $2 million transaction bonus payable to the CEO, subject to: (1) the Closing of the merger, (ii) the CEO’s continued employment through the closing date and (iii) the CEO’s not giving notice of his intent to resign on or before the closing date. The transaction bonus was paid to the CEO on the first regularly scheduled payroll date after the Closing.

Legal Matters

From time to time, the Company may be involved in litigation relating to claims arising out of the Company’s operations in the normal course of business. Management is not currently aware of any matters that could have a material adverse effect on the financial position, results of operations, or cash flows of the Company. However, the Company may be subject to various legal proceedings and claims that arise in the ordinary course of its business activities. There is no material pending or threatened litigation against the Company that remains outstanding as of June 30, 2021.

Indemnification

In the ordinary course of business, the Company may provide indemnification of varying scope and terms to customers, vendors, investors, directors, and officers with respect to certain matters, including, but not limited to, losses arising out of our breach of such agreements, services to be provided by the Company, or from intellectual property infringement claims made by third parties. These indemnification provisions may survive termination of the underlying agreement and the maximum potential amount of future payments the Company could be required to make under these indemnification provisions may not be subject to maximum loss clauses. The maximum potential amount of future payments the Company could be required to make under these indemnification provisions is indeterminable. The Company has never paid a material claim, nor has it been sued in connection with these indemnification arrangements. The Company has indemnification obligations with respect to letters of credit and surety bond primarily used as security against facility leases and utilities infrastructure in the amount of $24.6 million and $15.5 million as of June 30, 2021 and December 31, 2020, respectively, for which no liabilities are recorded on the consolidated balance sheets.

NOTE 11 - INCOME TAXES

The Company's provision from income taxes for interim periods is determined using an estimate of its annual effective tax rate, adjusted for discrete items, if any, that arise during the period. Each quarter, the Company updates its estimate of the annual effective tax rate, and if the estimated annual effective tax rate changes, the Company makes a cumulative adjustment in such period.

The Company's quarterly tax provision, and estimate of its annual effective tax rate, is subject to variation due to several factors, including variability in pre-tax income (or loss), the mix of jurisdictions to which such income relates, changes in how the Company does business, and tax law developments. The Company's estimated effective tax rate for the year differs from the U.S. statutory rate of 21% because the entity is in a year-to-date and forecasted loss position; therefore, any taxes reported are due to foreign income taxes and state minimum taxes.

The Company recorded an income tax provision (benefit) of $0.0 million for the three and six months ended June 30, 2021, as compared to $(0.0) million and $(0.1) million for the same periods in the prior year. This resulted in an effective tax rate of (0.0)% for the three and six months ended June 30, 2021, and the same periods prior year. The change is primarily due to foreign income taxes, state income taxes, and a decrease in pre-tax income.

As of June 30, 2021, and December 31, 2020, the Company had unrecognized tax benefits of $65.4 million and $42.9 million, of which $2.6 million, if recognized for both periods, would favorably impact the Company's effective tax rate. The Company does not anticipate a material change in its unrecognized tax benefits in the next 12 months.

On June 29, 2020, the California governor signed into law the 2020 Budget Act, which temporarily suspends the utilization of net operating losses and limits the utilization of the research credit to $5.0 million annually for 2020, 2021 and 2022. The Company is continuing to assess the 2020 Budget Act, but currently does not expect any material impact to the condensed consolidated financial statements.

NOTE 12 – NET LOSS PER SHARE

Basic and diluted net loss per share are calculated as follows (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net loss	$ (261,726)	$ (117,285)	$ (1,009,678)	$ (246,868)
Deemed dividend related to the issuance of Series E convertible preferred shares	—	—	(2,167,332)	—
Net loss attributable to common shareholders	$ (261,726)	$ (117,285)	$ (3,177,010)	$ (246,868)
Weighted-average shares outstanding—basic and diluted	13,728,639	8,319,168	13,042,653	8,117,746
Net loss per share:				
Basic and diluted	$ (19.06)	$ (14.10)	$ (243.59)	$ (30.41)

The following table sets forth the potential shares of common share as of the end of each period presented that are not included in the calculation of diluted net loss per share because to do so would be anti-dilutive:

	As of June 30,	
	2021	2020
Convertible preferred shares outstanding	437,182,072	252,486,667
Share options outstanding	26,099,336	22,729,435
Restricted share unit outstanding	15,763,598	—
Convertible preferred share warrant	—	585,022
Total	479,045,006	275,801,124

NOTE 13 – EMPLOYEE BENEFIT PLAN

The Company has a 401(k) savings plan (the "401(k) Plan") that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, participating employees may elect to contribute up to 100% of their eligible compensation, subject to certain limitations. The 401(k) Plan provides for a discretionary employer-matching contribution. The Company made no matching contribution to the 401(k) Plan for the six months ended June 30, 2021 and 2020.

NOTE 14 - SUBSEQUENT EVENTS

In connection with the preparation of the financial statements for the three and six months ended June 30, 2021, the Company has evaluated subsequent events for both conditions existing and not existing on June 30, 2021, and concluded there were no subsequent events to recognize in the financial statements.

On February 22, 2021, CCIV announced that it had entered into a definitive agreement for a merger (the "Merger Agreement") that would result in the Company becoming a wholly owned subsidiary of CCIV. Following the Closing, the Company would effectively comprise all of CCIV's material operations.

On July 22, 2021, CCIV held a special meeting of stockholders to approve the Merger Agreement. Following the Closing on July 23, 2021 CCIV has changed its name to Lucid Group, Inc. and its Class A common stock, par value $0.0001 per share ("Common Stock"), and warrants began trading on The Nasdaq Stock Market LLC under the symbols "LCID" and "LCIDW," respectively.

Immediately prior to the Closing, all of Lucid's preferred shares (the "Lucid Preferred Shares") then issued and outstanding were converted into Lucid's common shares, par value $0.0001 per share (the "Lucid Common Shares") in accordance with the terms of Lucid Group's Memorandum and Articles of Association, such that each converted Lucid Preferred Share was no longer outstanding and ceased to exist, and each holder thereof thereafter ceased to have any rights with respect to such securities. At the date and time that the business combination became effective, each Lucid Common Share then issued and outstanding was automatically cancelled and the holders of Lucid Common Shares received 2.644 shares of Common Stock in exchange for each Lucid Common Share they held at such time, based on the Equity Value (as defined in the Merger Agreement) of $12.3 billion. The Equity Value equals (a) $11.8 billion plus (b) (i) all cash and cash equivalents of Lucid and its subsidiaries less (ii) all indebtedness for borrowed money of Lucid and its subsidiaries, in each case as of two business days prior to the Closing. The holders of the Lucid Common Shares were issued 1,193,226,511 shares of Common Stock at the Closing.

Subsequent to June 30, 2021, the Company entered into new retail lease agreements for various locations. The leases commenced in and after July 2021 and will expire on or before June 2031. Under the lease agreements, the Company will pay base rent from $0.1 million to $0.5 million annually.

Exhibit 99.2

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis provides information that Lucid Group, Inc.'s management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition as of June 30, 2021 and for the three and six months ended June 30, 2021. The discussion should be read together with the consolidated financial statements for the three and six months ended June 30, 2021 and 2020, and the related notes that are included as exhibit 99.1 to this Current Report on Form 8-K/A (this "Report"). This discussion may contain forward-looking statements based upon Lucid' Group Inc.'s current expectations, estimates and projections that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" in Lucid Group, Inc.'s Registration Statement on Form S-1 filed with the Securities and Exchange Commission on August 2, 2021 (the "S-1 Registration Statement"). Unless the context otherwise requires, all references in this section to "Lucid," the "Company," "we," "us," "our," and other similar terms refer to the business of Atieva, Inc. and its consolidated subsidiaries.

Frequently Used Terms

Unless otherwise stated in this Management's Discussion and Analysis of Financial Condition and Results of Operations, or the context otherwise requires, references to:

"*Churchill*" are to Churchill Capital Corp IV, a Delaware corporation and our predecessor company prior to the consummation of the Transactions, which changed its name to Lucid Group, Inc. following the consummation of the Transactions, and its consolidated subsidiaries;

"*Churchill IPO*" are to the initial public offering by Churchill which closed on August 3, 2020;

"*Churchill's Class A common stock*" are, prior to consummation of the Transactions, to Churchill's Class A common stock, par value $0.0001 per share and, following consummation of the Transactions, to the Class A common stock, par value $0.0001 per share of Lucid Group, Inc.;

"*Closing Date*" are to July 23, 2021, the date on which the Transactions were consummated;

"Effective Time" are to the date and time that the Merger becomes effective;

"Equity Value" are to the sum of (a) $11.75 billion plus (b) (i) all cash and cash equivalents of Lucid and its subsidiaries less (ii) all indebtedness for borrowed money of Lucid and its subsidiaries, in each case as of two business days prior to the Closing Date;

"Exchange Ratio" are to the quotient, rounded to the nearest thousandth (0.001), obtained by dividing (i) the Per Share Equity Value by (ii) ten dollars ($10.00);

"*Lucid Common Shares*" are to the common shares, par value $0.0001 per share, of Lucid;

"*Lucid Group*" are to Lucid Group, Inc., a Delaware corporation, and its consolidated subsidiaries;

"*Lucid Series B Preferred Shares*" are to the Series B preferred shares, par value $0.0001 per share, of Lucid;

"*Lucid Series D Preferred Shares*" are to the Series D preferred shares, par value $0.0001 per share, of Lucid;

"*Lucid Series E Preferred Shares*" are to the Series E preferred shares, par value $0.0001 per share, of Lucid;

"*Lucid Total Shares*" are to the sum of (i) the aggregate number of issued and outstanding Lucid shares as of immediately prior to the Effective Time after giving effect to the conversion set forth in Section 3.01 of the merger agreement, (ii) the aggregate number of Lucid shares issuable upon the exercise of all vested Lucid options as of immediately prior to the Effective Time (including after giving effect to any acceleration of any unvested Lucid options in connection with the consummation of the Merger), (iii) the aggregate number of Lucid shares that are subject to vested Lucid RSUs, if any, as of immediately prior to the Effective Time and (iv) the aggregate number of Lucid shares issuable upon the exercise of all outstanding Lucid warrants as of immediately prior to the Effective Time;

"*Merger*" are to the merger of Merger Sub and Lucid, with Lucid surviving such merger as a wholly owned subsidiary of Churchill;

"*Merger Agreement*" are to that certain Agreement and Plan of Merger, dated as of February 22, 2021, by and among Churchill, Lucid and Merger Sub, as the same has been or may be amended, modified, supplemented or waived from time to time;

"*Merger Sub*" are to Air Merger Sub, Inc., a Delaware corporation and a direct, wholly-owned subsidiary of Churchill;

"Per Share Equity Value" are to the quotient, rounded to the nearest cent ($0.01), obtained by dividing (i) the sum of (A) the Equity Value plus (B) the aggregate exercise price of all vested Lucid options as of immediately prior to the Effective Time (including after giving effect to any acceleration of any unvested Lucid options in connection with the consummation of the Merger) plus (C) the aggregate exercise price of all outstanding Lucid warrants as of immediately prior to the Effective Time by (ii) the Lucid Total Shares;

"*PIPE Investment*" are to the private placement pursuant to which Churchill entered into PIPE Subscription Agreements (containing commitments to funding that are subject only to conditions that generally align with the conditions set forth in the Merger Agreement) with certain investors whereby Churchill has agreed to issue and sell to the PIPE Investors $2.5 billion of Churchill's Class A common stock at a purchase price of $15.00 per share;

"*PIPE Investors*" are to the investors participating in the PIPE Investment;

"*PIPE Subscription Agreements*" are to the common stock subscription agreements entered into by and among Churchill, and the investors party thereto, in each case, dated as of February 22, 2021 and entered into in connection with the PIPE Investment;

"*SEC*" are to the United States Securities and Exchange Commission; and

"*Transactions*" are to the Merger, together with the other transactions contemplated by the Merger Agreement and the related agreements.

Overview

We are a technology and automotive company with a mission to inspire the adoption of sustainable transportation by creating the most captivating luxury electric vehicles centered around human experience. Our focus on in-house technological innovation and a "clean sheet" approach to engineering and design have led to the development of our groundbreaking electric vehicle, the Lucid Air, which we expect to go into production in the second half of 2021.

The Lucid Air is a luxury electric sedan that redefines both the luxury car segment and the electric vehicle space. Through miniaturization of the key drive-train components, the Lucid Air is designed to deliver compelling performance and interior space with an exterior that is reminiscent of a high-performance sports car. We believe our drivetrain and battery pack technologies are significant differentiators and our battery technology has been driven more than twenty million real-world miles since Lucid's inception. With our 900V+ electrical architecture, we expect that some variants of the Lucid Air will be able to achieve sufficient charge in approximately 20 minutes to travel 300 miles and have travel range in excess of 500 miles on a single charge. The Lucid Air is expected to be available in a variant with over 1,000 horsepower and the ability to travel from zero to 60 miles per hour in less than 2.5 seconds. We are also the supplier of battery technology for the premier EV racing series. We believe the Lucid Air will establish the bar for excellence across future Lucid products and experiences by fusing art and science to capture the potential of electrification.

The Lucid Air will be manufactured in-house at our greenfield purpose-built electric vehicle manufacturing facilities in Casa Grande, Arizona, named Advanced Manufacturing Plant-1 ("*AMP-1*") and Lucid Powertrain Manufacturing Plant ("*LPM-1*"). Upon completion of our facilities, our manufacturing footprint in Casa Grande is expected to exceed 5 million square feet on 495 acres. Our AMP-1 facility is designed with an initial output capacity to produce up to 34,000 vehicles annually. We are on track to start our production of the Lucid Air utilizing our AMP-1 facility in the second half of 2021.

We expect to launch additional vehicles over the coming decade. We have already commenced engineering and design work for Project Gravity, a luxury SUV that is expected to leverage the same platform and many of the technological advancements developed for the Lucid Air. We expect to begin production of Project Gravity at the end of 2023. After the Lucid Air and Project Gravity, we plan to leverage our technological and manufacturing advancements to develop and manufacture progressively more affordable vehicles in higher volumes. We further believe that our battery systems expertise positions us to produce compelling stationary energy storage system ("*ESS*") products. ESS is a technologically adjacent opportunity which can leverage the modular design of our battery packs and our extensive experience with battery pack and battery management systems.

We plan to sell our vehicles directly to consumers through both our retail store or gallery locations, which we refer to as "Studios," and our online purchasing platform as we believe the direct-to-consumer sales model reflects today's changing customer preferences. We believe that our direct-to-consumer sales model, combined with a digitally enhanced luxury experience through our website and a refined in-store experience, creates opportunities to tailor to each customer's purchase and ownership preferences. As of June 30, 2021, we have opened eight retail stores and expect additional stores and service centers to open in North America throughout 2021. We believe in owning our sales and service network in order to control our customers' experience throughout their journey with us. We are also in the process of establishing an in-house service footprint through brick-and-mortar service centers in various geographies and a planned mobile service fleet. In order to deliver excellent in-house and mobile services to our customers, we also plan to have an approved list of vetted and specially trained body shop technicians.

Our revenue to date has been generated primarily from the sales of battery pack systems, supplies and related services. To date, we have not sold any vehicles, and we do not expect to begin commercial sales of our vehicles until the second half of 2021. We incurred net losses of $261.7 million and $117.3 million for the three months ended June 30, 2021 and 2020, and net losses of $1.0 billion and $246.9 million for the six months ended June 30, 2021 and 2020, respectively, and $719.4 million and $277.4 million for the years ended December 31, 2020 and 2019, respectively, and we expect to incur significant net losses for the foreseeable future. We plan to make significant investments in capital expenditures to build and expand our manufacturing, sales and service facilities, hire a commercial sales team, and continue to invest in research and development. We expect that our existing cash and cash equivalents, including the net proceeds from the Transactions and the PIPE Investment, will be sufficient to meet our capital expenditure and working capital requirements for a period of at least twelve months from the date of this Report.

Recent Developments

Closing of Transactions

On the Closing Date, Churchill and Lucid consummated the Transactions. Pursuant to the Merger Agreement, Merger Sub merged with and into Lucid, with Lucid surviving the Merger. Lucid became a wholly owned subsidiary of Churchill and Churchill was immediately renamed "Lucid Group, Inc." Each Lucid Common Share issued and outstanding immediately prior to Closing was automatically surrendered and exchanged for the right to receive a number of shares of Churchill's Class A common stock equal to the Exchange Ratio based on the Equity Value.

We expect the Transactions to be accounted for as a reverse recapitalization in accordance with GAAP. Under this method of accounting, Churchill is expected to be treated as the "acquired" company for financial reporting purposes. Accordingly, for accounting purposes, the financial statements of Lucid Group will represent a continuation of the financial statements of Lucid with the Transactions treated as the equivalent of Lucid issuing shares for the net assets of Churchill, accompanied by a recapitalization. The net assets of Churchill will be stated at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the Transactions will be those of Lucid in future reports of Lucid Group.

In connection with the Transactions, we raised $4.6 billion of gross proceeds including the contribution of $2.1 billion of proceeds from cash held in Churchill's trust account from the Churchill IPO, net of redemption of Churchill's Class A common stock held by Churchill's public stockholders of $0.2 million, and $2.5 billion of proceeds from the PIPE Investment. We estimate the direct and incremental transaction costs in connection with the Transactions incurred prior to, or concurrent with the Closing by Churchill, including the PIPE Investment and the deferred underwriting fees related to the Churchill IPO, and Lucid to be $175.0 million. We intend to use the net proceeds for future capacity expansion, general corporate purposes and to meet our working capital needs.

Lucid’s historical audited annual consolidated financial statements as of and for the years ended December 31, 2020 and 2019, and unaudited interim condensed consolidated financial statements as of June 30, 2021 and for the three and six months ended June 30, 2021 and 2020, and the related respective accompanying notes that are included elsewhere in this Report do not include the effects of the Transactions. Lucid’s historical results and other financial information for all periods discussed and analyzed in this section entitled *“Management’s Discussion and Analysis of Financial Condition and Results of Operations”* also do not include the effects of the Transactions.

Key Factors Affecting Our Performance

We believe that our future success and financial performance depend on a number of factors that present significant opportunities for our business, but also pose risks and challenges, including those discussed below and in the section entitled *“Risk Factors”* in the S-1 Registration Statement.

Design and Technology Leadership

We believe we are positioned to be a leader in the electric vehicle market by unlocking the potential for advanced, high-performance, and long-range electric vehicles to co-exist. The Lucid Air is designed with race-proven battery pack technologies and robust performance together with a sleek exterior design and expansive interior space given our miniaturized key drivetrain components. We anticipate consumer demand for the Lucid Air based on its luxurious design, high-performance technology and sustainability leadership, and the growing acceptance of and demand for electric vehicles as a substitute for gasoline-fueled vehicles. Though not yet commercially available, we have received significant interest in the Lucid Air from potential customers. Through June 30, 2021, we have refundable reservations that reflect potential sales greater than $900.0 million.

Direct-to-Consumer Model

We plan to operate a direct-to-consumer sales and service model, which we believe will allow us to offer a personalized experience for our customers based on their purchase and ownership preferences. We expect to incur significant expenses in our sales and marketing operations as we prepare for commercialization of the Lucid Air, including to open Studios, hire a sales force, invest in marketing and brand awareness, and stand up a service center operation. As of June 30, 2021, we had opened eight Studios in four locations in California, two locations in Florida, one location in New York and one location in Illinois. By the end of 2021, we expect to open additional Studios and service centers in North America. We also intend to hire additional sales, customer service, and service centers personnel. We believe that investing in our direct-to-consumer sales and service model will be critical to deliver and service the Lucid electric vehicles we plan to manufacture and sell.

Establishing Manufacturing Capacity

Achieving commercialization and growth for each generation of electric vehicles requires us to make significant capital expenditures to scale our production capacity and improve our supply chain processes in the United States and internationally. We expect our capital expenditures to increase each year through 2023 as we continue our phased construction of our AMP-1 and LPM-1 facilities and international expansion and then to decrease in the subsequent years. The amount and timing of our future manufacturing capacity requirements, and resulting capital expenditures, will depend on many factors, including the pace and results of our research and development efforts to meet technological development milestones, our ability to develop and launch new electric vehicles, our ability to achieve sales and experience customer demand for our vehicles at the levels we anticipate, our ability to utilize planned capacity in our existing facilities and our ability to enter new markets.

Technology Innovation

We develop in-house battery and powertrain technology, which requires us to invest a significant amount of capital in research and development. The electric vehicle market is highly competitive and includes both established automotive manufacturers and new entrants. To establish market share and attract customers from competitors, we plan to continue to make substantial investments in research and development for the commercialization and continued enhancements of the Lucid Air, the development of Project Gravity, and future generations of our electric vehicles and other products.

Results of Operations

The following tables set forth our results of operations for the periods presented (in thousands):

	Three Months Ended June 30, 2021				Six Months Ended June 30, 2021			
	2021	2020	$ change	% change	2021	2020	$ change	% change
Revenue	$ 174	$ —	$ 174	NM	$ 487	$ 8	$ 479	NM
Cost of revenue(1)	19	(59)	78	NM	104	(59)	163	NM
Gross profit	155	59	96	163%	383	67	316	472%
Operating expenses:								
Research and development(1)	176,802	97,940	78,862	81%	344,171	207,699	136,472	66%
Selling, general and administrative(1)	72,272	15,539	56,733	365%	203,924	29,784	174,140	585%
Total operating expenses	249,074	113,479	135,595	119%	548,095	237,483	310,612	131%
Loss from operations	(248,919)	(113,420)	(135,499)	119%	(547,712)	(237,416)	(310,296)	131%
Other income (expense), net:								
Change in fair value of forward contracts	(12,382)	(3,203)	(9,179)	287%	(454,546)	(8,719)	(445,827)	NM
Change in fair value of convertible preferred share warrant liability	—	(57)	57	NM	(6,976)	(114)	(6,862)	NM
Interest expense	(30)	(1)	(29)	NM	(35)	(10)	(25)	250%
Other expense	(390)	(632)	242	(38)%	(400)	(709)	309	(44)%
Total other expense, net	(12,802)	(3,893)	(8,909)	229%	(461,957)	(9,552)	(452,405)	NM
Loss before provision for (benefit from) income taxes	(261,721)	(117,313)	(144,408)	123%	(1,009,669)	(246,968)	(762,701)	309%
Provision for (benefit from) income taxes	5	(28)	33	NM	9	(100)	109	NM
Net loss and comprehensive loss	$ (261,726)	$ (117,285)	$ (144,441)	123%	$ (1,009,678)	$ (246,868)	$ (762,810)	309%

NM – non-meaningful

(1) Includes share-based compensation expense as follows (in thousands):

	Three Months Ended June 30, 2021				Six Months Ended June 30, 2021			
	2021	2020	$ change	% change	2021	2020	$ change	% change
Research and development	$ 13,539	$ 552	$ 12,987	NM	$ 26,703	$ 1,393	$ 25,310	NM
Selling, general and administrative	10,910	458	10,452	NM	102,541	588	101,953	NM
Total	$ 24,449	$ 1,010	$ 23,439	NM	$ 129,244	$ 1,981	$ 127,263	NM

NM – non-meaningful

Revenue

To date, we have primarily generated revenue from the sales of battery pack systems, supplies and related services for vehicles to a single customer. We have identified the sale of battery pack systems and the related supplies as a performance obligation to be recognized at the point in time when control is transferred to the customer. While our customer generally has the right to return defective or non-conforming products, product returns have been immaterial in past periods. We do not expect the sales from the battery pack systems for the world's premier electric racing series to be material for the go-forward commercialized business.

Revenue increased by $0.2 million, or over 100%, for the three months ended June 30, 2021. The increase is attributable to an increase in sales of our battery pack systems and supplies for vehicles.

Revenue increased by $0.5 million, or over 100%, for the six months ended June 30, 2021. The increase is attributable to an increase in sales of our battery pack systems and supplies for vehicles.

Cost of Revenue

Cost of revenue related to battery pack systems, supplies and related services for electric vehicles primarily consists of direct parts and materials, shipping and handling costs, headcount related costs, such as salaries and related personnel expenses, including share-based compensation, and estimated warranty expenses related to battery pack systems. Cost of revenue also includes allocated overhead costs including depreciation of manufacturing related equipment and facilities, amortization of capitalized internal-use software, facilities, and information technology costs.

Once we have commenced commercial production of the Lucid Air, we expect to capitalize the cost to manufacture vehicles and expense these capitalized inventory costs when the vehicles are sold within cost of revenue. We have not capitalized any vehicle manufacturing costs to date.

Cost of revenue and gross profit did not significantly fluctuate during the three months ended June 30, 2021 as compared to the same period prior year. Gross margin was over 100% for the three months ended June 30, 2021, and there was no revenue in the same period prior year.

Cost of revenue increased by $0.2 million, or over 100%, for the six months ended June 30, 2021 as compared to the same period prior year. The increase was due to the increase of sales of our battery pack systems and supplies for vehicles. Gross profit increased by $0.3 million, or over 100%, primarily due to an increase in revenue partially offset by an increase in cost of revenue. Gross margin increased by 100% primarily due to an increase in cost of revenue for the six months ended June 30, 2021 compared to the same period prior year.

Operating Expenses

Our operating expenses consist of research and development and selling, general and administrative expenses.

Research and Development

Our research and development efforts have primarily focused on the development of our battery and powertrain technology, the Lucid Air, Project Gravity and future generations of our electric vehicles. Research and development expenses consist primarily of materials, supplies and personnel-related expenses for employees involved in the engineering, designing, and testing of electric vehicles. Personnel-related expenses primarily include salaries, benefits and share-based compensation. Research and development expenses also include professional services fees, allocated facilities costs, such as office and rent expense and depreciation expense, and other engineering, designing, and testing expenses.

Research and development expense increased by $78.9 million, or 81%, for the three months ended June 30, 2021 as compared to the same period prior year. The increase was primarily attributable to increases in personnel-related expenses of $36.1 million due to growth in headcount and share-based compensation expense of $13.0 million recognized in relation to the fourth closing of the Lucid Series E Preferred Shares issuance. Additionally, we incurred increases in office and rent expense of $12.4 million primarily related to additional facilities needed to scale our business, increases in professional service fees of $9.6 million, and increase in materials and supplies expenses of $5.6 million.

Research and development expense increased by $136.5 million, or 66%, for the six months ended June 30, 2021 as compared to the same period prior year. The increase was primarily attributable to increases in personnel-related expenses of $68.8 million due to growth in headcount and share-based compensation expense of $24.9 million recognized in relation to the fourth closing of the Lucid Series E Preferred Shares issuance. Additionally, we incurred increases in office and rent expense of $34.9 million primarily related to additional facilities needed to scale our business and increases in professional service fees of $18.8 million. These increases were offset by a decrease in materials and supplies expenses of $15.5 million as we continued to transition from product development into commercialization.

Selling, General, and Administrative

Selling, general, and administrative expenses consist primarily of personnel-related expenses for employees involved in general corporate, selling and marketing functions, including executive management and administration, legal, human resources, accounting, finance, tax, and information technology. Personnel-related expenses primarily include salaries, benefits and share-based compensation. Selling, general, and administrative expenses also include allocated facilities costs, such as office, rent and depreciation expenses, professional services fees and other general corporate expenses. As we continue to grow as a company, build out our sales force, and commercialize the Lucid Air and planned future generations of our electric vehicles, we expect that our selling, general and administrative costs will increase.

We also expect to incur additional expenses as a result of operating as a public company, including expenses necessary to comply with the rules and regulations applicable to companies listed on a national securities exchange and related to compliance and reporting obligations pursuant to the rules and regulations of the SEC, as well as higher expenses for general and director and officer insurance, investor relations, and professional services.

Selling, general, and administrative expense increased by $56.7 million, or over 100%, for the three months ended June 30, 2021 as compared to the same period prior year. The increase was primarily attributable to increases in personnel-related expenses of $22.8 million due to growth in headcount and other compensation related charges, and share-based compensation expense of $10.5 million recognized in relation to the fourth closing of the Lucid Series E Preferred Shares issuance as we grew our sales force and expanded general and administrative functions needed to scale our business. Additionally, we incurred increases in other allocated overhead costs of $11.6 million primarily related to additional facilities to support the growing operations of our business and increases in professional service fees of $9.7 million.

Selling, general, and administrative expense increased by $174.1 million, or over 100%, for the six months ended June 30, 2021 as compared to the same period prior year. The increase was primarily attributable to increases in personnel-related expenses of $32.5 million due to growth in headcount and other compensation related charges, and share-based compensation expense of $102.4 million recognized in relation to the fourth closing of the Lucid Series E Preferred Shares issuance as we grew our sales force and expanded general and administrative functions needed to scale our business. Additionally, we incurred increases in other allocated overhead costs of $22.0 million primarily related to additional facilities to support the growing operations of our business and increases in professional service fees of $13.1 million.

Change in Fair Value of Contingent Forward Contracts

Our contingent forward contracts provided the holder the right to purchase Lucid Series D Preferred Shares and Lucid Series E Preferred Shares in future periods and were subject to remeasurement to fair value at each balance sheet date. Changes in the fair value of our contingent forward contracts were recognized in the consolidated statements of operations and comprehensive loss.

Change in contingent forward contracts liability increased by $9.2 million, or over 100%, for the three months ended June 30, 2021 compared to the same period prior year primarily due to the change in fair value of the Series E contingent forward contracts.

Change in contingent forward contracts liability increased by $445.8 million, or over 100%, for the six months ended June 30, 2021 compared to the same period prior year primarily due to the change in fair value of the Series E contingent forward contracts.

Change in Fair Value of Convertible Preferred Share Warrant Liability

Our convertible preferred share warrant liability related to Lucid Series D Preferred Shares was subject to remeasurement to fair value at each balance sheet date. Changes in the fair value of our convertible preferred share warrant liability were recognized in the consolidated statements of operations and comprehensive loss. We do not expect to have continuing adjustments to the liability for changes in fair value as all of our issued and outstanding convertible preferred share warrants were exercised as of March 2021.

We recorded loss of $7.0 million for the six months ended June 30, 2021 due to the changes in fair value of the convertible preferred share warrant liability related to Lucid Series D Preferred Shares upon the exercise and settlement of all outstanding warrants to purchase Lucid Series D Preferred Shares.

Interest Expense

Interest expense consists primarily of the interest incurred on our capital leases.

Interest expense did not significantly fluctuate during the three and six months ended June 30, 2021 compared to the same period prior year.

Other Expense

Other expense consists primarily of foreign currency gains and losses. Our foreign currency exchange gains and losses relate to transactions and asset and liability balances denominated in currencies other than the U.S. dollar. We expect our foreign currency gains and losses to continue to fluctuate in the future due to changes in foreign currency exchange rates.

Other expense did not significantly fluctuate during the three and six months ended June 30, 2021 compared to the same period prior year.

Provision for (Benefit from) Income Taxes

Our provision for (benefit from) income taxes consists of an estimate for U.S. federal and state income taxes based on enacted rates, as adjusted for allowable credits, deductions, uncertain tax positions, changes in deferred tax assets and liabilities, and changes in the tax law. We maintain a valuation allowance against the full value of our U.S. and state net deferred tax assets because we believe it is more likely than not that the recoverability of these deferred tax assets will not be realized.

The provision for (benefit from) income taxes did not significantly fluctuate during the three and six months ended June 30, 2021 compared to the same period prior year.

Liquidity and Capital Resources

Sources of Liquidity

Since inception, we have financed our operations primarily from the issuances of shares and convertible notes. As of June 30, 2021, we had $592.7 million of cash and cash equivalents and short-term investments.

In connection with the Transactions, we raised $4.6 billion of gross proceeds including the contribution of $2.1 billion of proceeds from cash held in Churchill's trust account from the Churchill IPO, net of redemption of Churchill's Class A common stock held by Churchill's public stockholders of $0.2 million, and $2.5 billion of proceeds from the PIPE Investment. We estimate the direct and incremental transaction costs in connection with the Transactions incurred prior to, or concurrent with the Closing by Churchill, including the PIPE Investment and the deferred underwriting fees related to the Churchill IPO, and Lucid to be $175 million. We intend to use the net proceeds for future capacity expansion, general corporate purposes and to meet our working capital needs.

As an early stage growth company in the pre-commercialization stage of development, we have incurred substantial net losses since inception. We expect to continue to incur net losses in accordance with our operating plan as we continue to expand our research and development activities to complete the development of vehicles, establish our consumer base and scale our operations to meet anticipated demand. We anticipate our cumulative spend on capital expenditures of at least $6.0 billion over the next four years to support our commercialization and growth as we continue our phased construction of our AMP-1, LPM-1 and international manufacturing facilities, purchase infrastructure for our vehicle production and launch our retail Studios to support our direct-to-consumer model. As of December 31, 2020, our non-cancellable commitments, as disclosed in "— Contractual Obligations and Commitments," do not include any commitments related to these capital expenditures as we do not have any commitments related to these capital expenditures that we cannot cancel without a significant penalty. In addition to our capital expenditures, we expect our operating expenses to increase as we hire a commercial sales and service team and continue to invest in research and development. We expect these investments to be a key driver of our long-term growth and competitiveness, but will negatively impact our free cash flow. We have based these estimates on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently anticipate. We believe that our cash on hand following the consummation of the Transactions, including the proceeds from the PIPE Investment, will be sufficient to meet our capital expenditure and working capital requirements for a period of at least twelve months from the date of this Report. We expect to require additional capital to finance our operations, which may include seeking additional capital through equity offerings or debt financings. The amount and timing of our future funding and our commercialization requirements, if any, will depend on many factors, including the pace and results of our research and development efforts and our commercialization efforts. We may be unable to obtain any such additional financing on reasonable terms or at all. Our ability to access capital when needed is not assured and, if capital is not available to us when, and in the amounts needed, we could be required to delay, scale back or abandon some or all of our development programs and other operations, which could materially harm our business, prospects, financial condition and operating results.

The expenditures associated with the development and commercial launch of our vehicles, the anticipated increase in manufacturing capacity, and the international expansion of our business operations are subject to significant risks and uncertainties, many of which are beyond our control, which may affect the timing and magnitude of these anticipated expenditures. These risk and uncertainties are described in more detail in the S-1 Registration Statement in the sections entitled *"Risk Factors"* and *"Cautionary Note Regarding Forward-Looking Statements."*

Historical Cash Flows

The following table summarizes our cash flows for the periods presented (in thousands):

	Six Months Ended June 30,	
	2021	2020
Cash used in operating activities	$ (453,804)	$ (208,242)
Cash used in investing activities	(206,514)	(251,090)
Cash provided by financing activities	612,105	400,233
Net decrease in cash, cash equivalents, and restricted cash	$ (48,213)	$ (59,099)

Cash Used in Operating Activities

Our cash flows used in operating activities to date have been primarily comprised of costs related to research and development, payroll and other general and administrative activities. As we continue to ramp up hiring ahead of starting commercial operations, we expect our cash used in operating activities to increase significantly before it starts to generate any material cash flows from our business.

Net cash used in operating activities of $453.8 million for the six months ended June 30, 2021 primarily consisted of $1.0 billion of net loss, adjusted for $618.8 million of non-cash charges and a decrease in net operating assets and liabilities of $62.9 million. The non-cash charges primarily included the fair value of contingent forward contracts and warrant liabilities of $461.5 million, convertible preferred share related expense of $129.2 million, non-cash operating lease cost of $13.5 million, and depreciation and amortization, including amortization of insurance premium and losses on disposals of property and equipment of $14.5 million. The decrease in net operating assets of $44.9 million is primarily due to $27.2 million increase in purchase of inventory and $11.2 million increase in prepaid expenses. The decrease in operating liabilities of $18.1 million is primarily due to $11.0 million decrease in financed insurance premium, $4.5 million decrease in other current liabilities and accrued liabilities, $11.9 million decrease in accounts payable, $7.7 million decrease in operating lease liability, partially offset by $8.0 million increase in accrued compensation.

Net cash used in operating activities of $208.2 million for the six months ended June 30, 2020 primarily consisted of $246.9 million of net loss, adjusted for $14.2 million of non-cash charges and an increase in net operating assets and liabilities of $24.4 million. The non-cash charges primarily included the fair value of contingent forward contracts and warrant liabilities of $8.8 million, depreciation and amortization, including loss on disposal of property and equipment, of $3.4 million, and changes in share-based compensation of $2.0 million. The increase in net operating assets and liabilities primarily related to increases in operating liabilities of $22.1 million and increases in operating assets of $2.2 million.

Cash Used in Investing Activities

We continue to experience negative cash flows from investing activities as we expand our business and continue to build our infrastructure. Cash flows from investing activities primarily relate to capital expenditures to support our growth.

Net cash used in investing activities of $206.5 million for the six months ended June 30, 2021 was primarily attributable to capital expenditures.

Net cash used in investing activities of $251.1 million for the six months ended June 30, 2020 was entirely attributable to capital expenditures.

Cash Provided by Financing Activities

Through June 30, 2021, we financed our operations primarily through the sale of equity securities and convertible notes.

Net cash provided by financing activities of $612.1 million during the six months ended June 30, 2021 was primarily attributable to $600.0 million of proceeds from the issuance of Lucid Series E Preferred Shares, $11.0 million proceeds from short-term insurance financing note and $5.3 million of proceeds from the exercises of share options, $3.0 million of proceeds from the issuance of Lucid Series D Preferred Shares, partially offset by $3.0 million cash paid for the repurchase of Lucid Series B Preferred Shares and $2.7 million cash paid for the short-term insurance financing note.

Net cash provided by financing activities of $400.2 million during the six months ended June 30, 2020 was primarily attributable to $400.0 million of proceeds from the issuance of Lucid Series D Preferred Shares.

Contractual Obligations and Commitments

The following table summarizes our contractual obligations as of December 31, 2020:

		Payments Due by Periods			
	Total	< 1 year	1 – 3 years	3 – 5 year	> 5 years
			(in thousands)		
Operating lease obligations	$ 253,796	$ 25,490	$ 56,470	$ 55,681	$ 116,155
Non-cancellable purchase commitment	506,000	101,200	404,800	—	—
Total commitments	$ 759,796	$ 126,690	$ 461,270	$ 55,681	$ 116,155

Operating lease obligations — Operating leases include nine lease agreements we entered into from January 2020 to December 31, 2020 for retail locations in Arizona, California, Florida, New York, and Virginia, with lease expiration dates ranging from March 2025 through December 2032. Base rent for these leases ranges from $0.1 million to $0.4 million per annum, with certain leases having 3% annual base rent escalation clauses during the lease terms. As of December 31, 2020, the remaining operating lease commitments were $253.8 million. These commitments are reflected in the table above.

Non-cancellable purchase commitments — As of December 31, 2020, we are committed to purchase battery cells from a provider over the next three years for a total estimated minimum of $506.0 million. Battery cell costs may fluctuate from time to time under the purchase commitment based on, among other things, supply and demand, costs of raw materials, and purchase volume. The table above does not include contracts that are not enforceable and legally binding and that do not specify all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions, and the approximate timing of the actions under the contracts. The table does not include obligations under agreements that we can cancel without a significant penalty.

At June 30, 2021, there were no material changes in our contractual obligations as reported in the audited financial statements for the years ended December 31, 2020.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet activities or have any arrangements or relationships with unconsolidated entities, such as variable interest, special purpose, and structured finance entities.

Qualitative and Quantitative Disclosures about Market Risk

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates.

Interest Rate Risk

We are exposed to market risk for changes in interest rates applicable to our cash and cash equivalents, restricted cash, and short-term investments. We had cash, cash equivalents and restricted cash totaling $592.2 million and short-term investments totaling $0.5 million as of June 30, 2021. Our cash and cash equivalents and short-term investments were invested primarily in money market funds and certificates of deposits. Our investment policy is focused on the preservation of capital and supporting our liquidity needs. Under the policy, we invest in highly rated securities, issued by the U.S. government or liquid money market funds. We do not invest in financial instruments for trading or speculative purposes, nor do we use leveraged financial instruments. We utilize external investment managers who adhere to the guidelines of our investment policy. A hypothetical 10% change in interest rates would not have had a material impact on the value of our cash, cash equivalents or short-term investments as of June 30, 2021.

Seasonality

Automotive sales typically tend to decline over the winter season though we do not expect seasonality to have a significant impact on our results of operations in the near term until we scale our business.

Critical Accounting Policies and Estimates

Our consolidated financial statements and the related notes thereto included elsewhere in this Report are prepared in accordance with GAAP. The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts and related disclosures in our financial statements and accompanying notes. We base our estimates on historical experience and on various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions due to the inherent uncertainty involved in making those estimates and any such differences may be material.

We believe that the following accounting policies involve a high degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of our operations. See Note 2 to our consolidated financial statements included elsewhere in this Report for a description of our other significant accounting policies.

Share-Based Compensation

We have granted share-based awards consisting primarily of Lucid Options, as incentive and non-statutory stock options, and Lucid RSUs, as restricted stock units, to employees, members of our board of directors, and non-employees.

Lucid Options

Lucid Options generally vest over four years, and the majority of which vest at a rate of 25% on the first anniversary of the grant date, with the remainder vesting ratably each month over the next three years. Lucid Options generally expire 10 years from the date of grant and are exercisable when the options vest. Share-based compensation expense for Lucid Options is generally recognized on a straight-line basis over the requisite service period based on the estimated fair value of the awards on the date of grant. We estimate the fair value of stock options granted using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model requires certain subjective inputs and assumptions, including the fair value of our underlying common shares, expected common share price volatility, expected dividend yield of our common shares, risk-free interest rates, and the expected option term. The assumptions used in the Black-Scholes option-pricing model are estimated as follows:

Fair value of common shares — The fair value of our common shares is estimated because our common shares are not yet publicly traded. Our board of directors considers numerous objective and subjective factors to determine the fair value of our common shares as discussed below in the subsection entitled "— *Common Share Valuation*."

Expected Volatility — The volatility rate was determined by using an average of historical volatilities of selected industry peers deemed to be comparable to our business corresponding to the expected option term as we do not have sufficient history of trading in our common shares.

Dividend Yield — The expected dividend yield is zero as we have never declared or paid cash dividends and have no current plans to do so in the foreseeable future.

Risk Free Interest Rate — The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for zero-coupon U.S. Treasury notes with maturities corresponding to the expected option term.

Expected Option Term — The expected option term represents the period that the Lucid Options are expected to be outstanding and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior.

We continue to use judgment in evaluating the expected volatility over the expected option term and the expected option term utilized in our stock-based compensation expense calculation on a prospective basis. As we continue to accumulate additional data related to our common stock, we may refine our estimates of the expected volatility over the expected option term, which could materially impact our future stock- based compensation expense.

The following table summarizes the weighted-average assumptions used in estimating the fair value of share options granted during each of the periods presented:

	Six Months Ended June 30,	
	2021	**2020**
Weighted average volatility	41.9%	42.7%
Expected term (in years)	5.9	6.0
Risk-free interest rate	0.6%	1.1%
Expected dividends	—	—

Lucid RSUs

Lucid RSUs are subject to both service-based and performance-based vesting conditions. The service-based vesting condition for these awards is typically satisfied equally over four years with a cliff vesting period of one year and continued vesting in equal quarterly installments thereafter. The performance-based vesting condition was satisfied upon the Closing. These qualifying liquidity events were not deemed probable until consummated, and therefore, share-based compensation related to these RSUs remained unrecognized prior to the consummation of the Transactions.

We estimate the fair value of the Lucid RSUs based on the estimated fair value of Lucid's underlying common shares as of the date of the grant. Share-based compensation for Lucid RSUs is generally recognized on a graded vesting basis over the requisite service period once the performance condition is satisfied.

Upon the Closing, we began recording stock-based compensation expense during the three months ended September 30, 2021 based on the grant-date fair value of the RSUs using the graded vesting attribution method.

CEO RSU Award

In March 2021, our board of directors approved the grant of 11,293,177 RSUs to Peter Rawlinson as Lucid's CEO under the 2021 Plan (the "*CEO RSU Award*") to encourage Mr. Rawlinson to focus on the long-term success of Lucid. Upon the Closing, the Lucid RSUs underlying the CEO RSU Award were cancelled and exchanged into Lucid Group RSUs under the Incentive Plan as adjusted by the Exchange Ratio. The CEO RSU Award is comprised of 5,232,507 RSUs subject to performance and service conditions (the "*CEO Time-Based RSUs*") and 6,060,670 RSUs subject to performance and market conditions (the "*CEO Performance RSUs*"), as described further below. Upon the consummation of the Transactions, the 5,232,507 CEO Time-Based RSUs and 6,060,670 CEO Performance RSUs were cancelled and exchanged for 13,834,748 and 16,024,411 Lucid Group RSUs, respectively, for shares of Class A common stock with the same terms and vesting conditions except for the number of shares, which is adjusted by the Exchange Ratio of 2.644. Upon the Closing, we began recording stock-based compensation expense during the three months ended September 30, 2021 based on the grant-date fair value of the RSUs using the graded vesting attribution method.

CEO Time-Based RSUs — The performance condition was satisfied upon the Closing. The service conditions will be satisfied in 16 equal quarterly installments on March 5, June 5, September 5, and December 5 beginning on the first quarterly installment date that is at least two months after the Closing, which will be December 5, 2021, provided that Mr. Rawlinson remains in continuous service through each vesting date.

The grant date fair value of the CEO Time-Based RSUs was estimated to be $284.0 million and will be recognized using a graded vesting attribution method over the service period for each tranche. The grant date fair value of the CEO Time-Based RSUs was based on the estimated fair value of Lucid's underlying common shares as of the date of the grant. No share-based compensation expense has been recognized to date in the historical consolidated financial statements of Lucid for these CEO Time-Based RSUs, as the achievement of the performance condition could not be deemed probable until the Closing occurred.

CEO Performance RSUs — The performance condition was satisfied upon the Closing. The market conditions will be satisfied based upon the achievement of certain market capitalization goals of Lucid Group (each, as depicted in table below, a "*Lucid Group Market Capitalization Target*") and the continued employment of Mr. Rawlinson at each vesting date during the five-year period beginning after the Closing ("*Performance Period*"). The CEO Performance RSUs will vest only if Lucid Group achieves the Lucid Group Market Capitalization Targets specified in the table below, which if achieved, would allow Lucid Group's other stockholders to benefit from the increases in our market capitalization.

Each Lucid Group Market Capitalization Target is calculated by multiplying (i) a volume weighted average trading price of Class A common stock measured over any rolling six calendar month period by (ii) the average total number outstanding shares of Class A common stock reported on a public filing with the SEC for the two most recently completed quarterly reporting periods. This measurement period was designed to reward Mr. Rawlinson only if a sustained growth in Lucid Group's market capitalization is achieved. The market conditions will be satisfied in five tranches, as follows:

Tranche	Lucid Group Market Capitalization Target	Number of Lucid RSUs Eligible to Vest	Number of Lucid Group RSUs Eligible to Vest*
1	$ 23,500,000,000	1,317,537	3,483,568
2	$ 35,250,000,000	1,317,537	3,483,568
3	$ 47,000,000,000	1,317,537	3,483,568
4	$ 58,750,000,000	1,317,537	3,483,568
5	$ 70,500,000,000	790,522	2,090,140

* *as adjusted based upon the Exchange Ratio of 2.644*

The Lucid Group Market Capitalization Targets will be adjusted to reflect any stock splits, stock dividends, combinations, reorganizations, reclassifications, or similar event under the Incentive Plan. If the Lucid Group Market Capitalization Targets are not satisfied during the Performance Period, the portion of the CEO Performance RSUs subject to such Lucid Group Market Capitalization Target will not vest.

The grant date fair value of the CEO Performance RSUs was estimated to be $272.1 million and will be recognized using a graded vesting attribution method over the estimated derived service periods for the five tranches of 0.72 years, 0.79 years, 1.72 years, 2.18 years and 2.51 years, respectively. The grant date fair value and the derived service period for each tranche of the CEO Performance RSUs was determined using a Monte Carlo simulation method, which incorporates the possibility that the Lucid Group Market Capitalization Targets may not be satisfied. The Monte Carlo simulation is affected by a number of variables, including the fair value of our underlying common shares, the expected common share price volatility over the expected term, the expected dividend yield of our common shares over the expected term, the risk-free interest rates over the expected term and the expected term of the RSUs.

	Six Months Ended June 30, 2021
Weighted average volatility	60.0%
Expected term (in years)	5.0
Risk-free interest rate	0.9%
Expected dividends	—

The derived service periods for the five tranches were determined based on the median vesting time for the simulations that achieved the vesting hurdle. Share-based compensation expense associated with each of the five tranches under the CEO Performance RSUs will be recognized over the earlier of (i) the derived service periods of each tranche and (ii) the date on which the market condition is satisfied, using the graded vesting attribution method.

If the Lucid Group Market Capitalization Targets are met sooner than the derived service period, the share-based compensation expense will be adjusted to reflect the cumulative expense associated with the vested award. The share-based compensation expense will be recognized over the requisite service period that Mr. Rawlinson remains employed, regardless of whether the Lucid Group Market Capitalization Targets are achieved. No share-based compensation expense has been recognized to date in the historical consolidated financial statements for Lucid for these CEO Performance RSUs as the achievement of the performance condition was not deemed probable until the Closing occurred.

Tax Withholding — During the first year following the Closing, we expect that Lucid Group will settle tax withholding obligations in connection with any vesting of the CEO RSU Award through "net settlement," i.e., by remitting cash to satisfy the tax withholding obligation and withholding a number of the vested shares on each vesting date. The amount of the tax withholding due on each vesting and net settlement date will be based on the fair value of the Class A common stock on such vesting and net settlement date. Depending on the fair value of the Class A common stock and the number of RSUs vesting on any applicable vesting and net settlement date, such net settlement could require Lucid Group to expend substantial cash funds to satisfy tax withholding.

The following tables illustrate the use of cash funds that Lucid Group may be required to remit to satisfy tax withholding obligations in connection with any potential vesting and net settlement of the CEO RSU Award during the first year after the Closing, assuming an aggregate tax withholding rate of 51.03% and various per-share prices of Class A common stock, which are assumed to be constant throughout the year. The tax withholding information is presented for illustrative purposes only and represents management's estimates based on information available as of the date of this Report. The tax withholding information requires numerous assumptions, including with respect to tax withholding rates, outstanding shares of Class A common stock and the per-share values of Class A common stock on applicable vesting dates. If the actual facts are different than our assumptions, Lucid Group's use of cash to satisfy tax withholding obligations in connection with any potential vesting and net settlement of the CEO RSU Award, and as a result Lucid Group's future operating results and financial condition, could differ materially from these estimates.

CEO Time-Based RSUs Tax Withholding — The illustrative tax withholding for the CEO Time-Based RSUs provided below assumes various per-share prices of Class A common stock that may be experienced upon any vesting and net settlement of the first four quarterly installments of the CEO Time-Based RSUs which could occur during the first year following the consummation of the Transactions. The illustrative tax withholding is calculated by multiplying (i) the number of CEO Time-Based RSUs (as cancelled and exchanged into Lucid Group RSUs) that could vest and net settle during the first year following the consummation of the Transactions by (ii) the respective target stock price and by (iii) the assumed 51.03% tax withholding rate. The actual per-share price of Class A common stock at the vesting and net settlement date may differ from the target stock prices illustrated below, which could result in material differences in the actual cash remitted to satisfy tax withholding obligations.

Vested Lucid Group Awards (in 1st Year)	Target Stock Price	Illustrative Shares Withheld for Taxes	Illustrative Tax Withholding
	(in thousands, except share and per share data)		
3,458,688	$ 10.00	1,764,968	$ 17,650
3,458,688	15.00	1,764,968	26,475
3,458,688	20.00	1,764,968	35,299
3,458,688	25.00	1,764,968	44,124
3,458,688	30.00	1,764,968	52,949
3,458,688	35.00	1,764,968	61,774
3,458,688	40.00	1,764,968	70,599

CEO Performance RSUs Tax Withholding — The illustrative tax withholding for the CEO Performance RSUs provided below assumes various target per-share prices of Class A common stock that may be experienced upon any vesting and net settlement of the CEO Performance RSUs which could occur during the first year following the consummation of the Transactions. The target stock prices for each Lucid Group Market Capitalization Target threshold have been derived using the total number of shares of Class A common stock outstanding upon the consummation of the Transactions. The illustrative tax withholding is calculated for each target stock price by multiplying (i) the number of CEO Performance RSUs (as cancelled and exchanged into Lucid Group RSUs) that could vest and net settle at each Lucid Group Market Capitalization Target threshold by (ii) the respective target stock price for each Lucid Group Market Capitalization Target threshold and by (iii) the assumed 51.03% tax rate. The actual per-share price of Class A common stock at the vesting and net settlement date may differ from the target stock price illustrated below, which could result in material differences in the actual cash remitted to satisfy tax withholding obligations.

Tranche	Lucid Group Award	Target Market Capitalization	Target Stock Price	Illustrative Shares Withheld for Taxes	Illustrative Tax Withholding
		(in thousands, except share and per share data)			
1	3,483,568	$ 23,500,000	$ 14.52	1,777,665	$ 25,076
2	3,483,568	32,250,000	19.92	1,777,665	34,412
3	3,483,568	47,000,000	29.04	1,777,665	50,151
4	3,483,568	58,750,000	36.30	1,777,665	62,689
5	2,090,140	70,500,000	43.56	1,066,598	45,136

Common Share Valuation

The fair value of our common shares has historically been determined by the Lucid board of directors with the assistance of management and third-party valuation services providers. In the absence of a public trading market for our common shares, on each grant date, we develop an estimate of the fair value of our common shares based on the information known on the date of grant, upon a review of any recent events and their potential impact on the estimated fair value per common share, and in part on input from third-party valuations.

Our common share valuations were determined in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation. The assumptions used to determine the estimated fair value of our common shares are based on numerous objective and subjective factors, combined with management's judgment, including:

- independent third-party valuations of our common shares;
- the prices at which we sold our common and convertible preferred shares to outside investors in arms-length transactions;
- the rights, preferences and privileges of our convertible preferred shares relative to those of our common shares;
- our results of operations, financial position, and capital resources;
- the history and nature of our business, the progress of our research and development efforts, our stage of development, business strategy, and outlook;
- external market conditions affecting the automotive and electric vehicles industry, competitive environment, and other trends within the industry;
- the likelihood of achieving a liquidity event, such as an initial public offering or a sale of our company given prevailing market conditions;
- the lack of marketability of our common shares and the fact that the option grants involve illiquid securities in a private company;
- equity market conditions affecting comparable public companies; and
- general U.S. and global market conditions, including general economic outlook including economic growth, inflation and unemployment, interest rate environment, and global economic trends.

In determining the fair value of our common shares, we established the enterprise value of the Lucid business using the market approach and the income approach. Under the income approach, forecasted cash flows are discounted to the present value at a risk-adjusted discount rate. The valuation analyses determine discrete free cash flows over multiple years based on forecasted financial information provided by our management and a terminal value for the residual period beyond the discrete forecast, which are discounted at a rate of return that accounts for both the time value of money and investment risk factors. Under the market approach, a group of guideline publicly traded companies with similar financial and operating characteristics to Lucid are selected, and valuation multiples based on the guideline public companies' financial information and market data are calculated. Based on the observed valuation multiples, an appropriate multiple was selected to apply to our historical and forecasted revenue results.

In performing a valuation analysis of Lucid's equity value and our preferred shares, common shares, tranche rights and warrants, we used the probability weighted expected return method ("*PWERM*") framework. The PWERM framework is a scenario-based methodology that estimates the fair value of common shares based upon an analysis of future values for Lucid, assuming various outcomes. The common share value is based on the probability-weighted present value of expected future investment returns considering each of the possible outcomes available as well as the rights of each class of shares. The future value of the common shares under each outcome is discounted back to the valuation date at an appropriate risk-adjusted discount rate and probability weighted to arrive at an indication of value for the common shares.

We considered three scenarios in the PWERM framework: option pricing method ("OPM") scenario, as- converted SPAC scenario, and as-converted IPO scenario. Under the OPM scenario, we used the OPM to allocate the equity value to respective classes of securities. The OPM, which models each class of equity securities as a call option with a unique claim on Lucid's assets, treats Lucid common shares and convertible preferred shares as call options on an equity value with exercise prices based on the liquidation preference of our convertible preferred shares. The common shares are modeled as a call option with a claim on the equity value at an exercise price equal to the remaining value immediately after Lucid's convertible preferred shares are liquidated. The OPM scenario assumes that investors will convert in an IPO or high value sale if the value appreciates sufficiently, but also captures the value of the downside protection from the preferred liquidation preferences if Lucid does not grow as much as planned. Under the OPM scenario, we considered 40% probability that an IPO or high value sale will be completed in June 2022.

The as-converted scenarios presume a high-value exit scenario in which all Lucid convertible preferred shares convert into Lucid common shares based upon their conversion terms and differences in the rights and preferences of the share of Lucid convertible preferred shares are ignored. Under the as-converted scenarios, we considered 40% probability that a merger with a SPAC will be completed in June 2021 and 20% probability that an IPO will be completed in June 2022.

In determining the fair value of our common shares subsequent to the announcement of the Transactions, the Company used a market approach based on the $15.00 per share purchase price of Churchill's Class A common stock pursuant to the PIPE Investment and the closing prices of the publicly traded Churchill's Class A common stock as of the grant date, each multiplied by the Exchange Ratio, which has been determined in accordance with the Merger Agreement and assumes Lucid had $547.6 million in net cash as of two business days prior to the Closing Date.

In all scenarios, a discount for lack of marketability ("*DLOM*") was applied to arrive at a fair value of common shares. A DLOM was meant to account for the lack of marketability of shares that was not publicly traded.

Application of these approaches and methodologies involves the use of estimates, judgments and assumptions that are highly complex and subjective, such as those regarding our expected future revenue, expenses and future cash flows, discount rates, market multiples, the selection of comparable public companies and the probability of and timing associated with possible future events. Changes in any or all of these estimates and assumptions or the relationships between those assumptions impact our valuations as of each valuation date and may have a material impact on the valuation of our common shares. Following the Closing, our Board will determine the fair value of each share of underlying common stock based on the closing price of Class A common stock as reported on the date of grant.

Fair Value of Contingent Forward Contract

We account for the contingent forward contract to purchase Lucid Series E Preferred Shares as a derivative liability because the contingent forward contract may require us to issue additional shares at a future date. The contingent forward contract is recorded at fair value upon issuance and is subject to remeasurement to fair value at each period end, with any fair value adjustments recognized as a component within other income (expense), net in our consolidated statements of operations and comprehensive loss.

In February 2021, Ayar agreed to be obligated to purchase up to 75,918,392 Lucid Series E Preferred Shares at approximately $7.90 per share, subject to other existing preferred shareholders being provided a right of first refusal to purchase up to 8,977,769 Lucid Series E Preferred Shares at approximately $7.90 per share. We and Ayar also agreed to allow Lucid, subject to Ayar's approval, to provide members of our board of directors, employees, consultants, and others a right of first refusal to purchase a portion of the Lucid Series E Preferred Shares that Ayar would otherwise be required to purchase. Ayar remained obligated to purchase any amount of the Lucid Series E Preferred Shares that were offered but not purchased by the other parties such that the issuance of the Lucid Series E Preferred Shares would meet the total target of 75,918,392 shares at approximately $7.90 per share.

In February 2021, Ayar purchased 50,612,262 Lucid Series E Preferred Shares at approximately $7.90 per share. In March 2021, we offered members of our board of directors, employees, and service providers the right to purchase 2,248,391 Lucid Series E Preferred Shares at approximately $7.90 per share, of which 1,977,371 shares were purchased in April 2021, including 202,449 shares purchased by our CEO and 627,347 shares purchased by members of our board of directors. In April 2021, certain of our existing preferred shareholders purchased 8,977,769 Lucid Series E Preferred Shares at approximately $7.90 per share, and the remaining 14,350,990 Lucid Series E Preferred Shares were purchased at approximately $7.90 per share to settle the remaining contingent forward contract in April 2021.

We determined the right and obligation to participate in the Lucid Series E Preferred Shares financing to be a freestanding derivative liability in the form of a contingent forward contract to be measured at fair value and recorded the initial valuation of $2,167.3 million in February 2021 as a deemed dividend. We also determined that the Lucid Series E Preferred Shares offered in March 2021 to members of our board of directors, employees, consultants, and others that provided services to Lucid the right to purchase 2,248,391 Lucid Series E Preferred Shares at approximately $7.90 per share should be recognized as share-based compensation as of the offer date. We recognized share-based compensation expense of $20.7 million and $123.6 million during the three and six months ended June 30, 2021 related to such grants. Each grant also resulted in a reduction to the total shares subject to the contingent forward contract with Ayar.

The contingent forward contract liability was subsequently remeasured to fair value at period end with changes in fair value adjustments recognized as a component within other income (expense), net in our consolidated statements of operations and comprehensive loss. We recognized a loss of $12.4 million and $454.5 million related to the fair value remeasurements during the three and six months ended June 30, 2021, respectively, and the fourth closing was fully settled as of June 30, 2021.

The fair value of the contingent forward contract liability for the Lucid Series E Preferred Shares issued in February 2021 and April 2021 was determined based on the forward payoff, which was determined as the difference between the estimated Lucid Series E Preferred Shares fair value and the $7.90 per share purchase price.

In September 2018, we granted Ayar the right to purchase Lucid Series D Preferred Shares in future periods, in connection with the execution of the Securities Purchase Agreement. Ayar's right to purchase the Lucid Series D Preferred Shares was exercisable in multiple tranches, with the first tranche of $200.0 million contingent upon the approval of Ayar's equity investment into Lucid by Committee on Foreign Investment in the United States and the second and third tranches of $400.0 million each were issuable upon Lucid achieving certain milestones. We determined Ayar's right to participate in future Lucid Series D Preferred Shares financing to be a freestanding derivative liability in the form of contingent forward contracts to be measured at fair value and recorded the initial valuation of $18.6 million as a debt discount to the convertible notes issued in September 2018.

The PWERM framework was used to estimate the fair value of the contingent forward contract at the date that the Securities Purchase Agreement was executed and subsequently as of June 30, 2021. In our valuation model, we considered the probability of investment, the purchase price per share, number of shares, the value of the contingent Lucid Series D Preferred Shares as of the valuation date, present value factor based on the risk-free rate of 0.1% and the time from the valuation date to the date of the investment, and the Lucid Series D Preferred Shares value as of each investment date using the PWERM framework. We used OPM to allocate the equity value in scenarios when the milestones were achieved during 2020.

We revalue the contingent forward contract reporting period utilizing models that are sensitive to changes in the unobservable inputs such as changes in the estimated probability of achievement of milestones or fair value of our shares. Changes in the fair value of these instruments can result from changes to one or multiple inputs, including adjustments to the assumed interest rate (coupon rate), yield (market rate), effective interest rate, discount rate and dividend yield as well as changes in the amount and timing of the anticipated achievement of milestones. Assumed interest rate (coupon rate) and yield (market rate) are based on the noncumulative dividend rate of 8% of the Lucid Series D Preferred Shares original issuance price. The discount rate represented a measure of the credit risk associated with settling the financial instrument. The expected dividend yield is assumed to be zero as we have never paid dividends and do not have current plans to pay any dividends on our common shares. Significant judgment is employed in determining these assumptions as of the date that the Securities Purchase Agreement was executed transaction date and for each subsequent period.

Changes in fair value of our contingent forward contracts are recognized as a component of other income (expense), net in our consolidated statements of operations and comprehensive loss. We classify the fair value of the contingent forward contract as a liability within our consolidated balance sheet until settlement.

Convertible Preferred Share Warrant Liability

We account for warrants to purchase shares of Lucid Series D Preferred Shares as liabilities at their estimated fair value because these warrants may obligate us to transfer assets to the holders at a future date under certain circumstances, such as a merger, acquisition, reorganization, sale of all or substantially all of our assets, each a change of control event. The warrants are recorded at fair value upon issuance and are subject to remeasurement to fair value at each period end, with any fair value adjustments recognized as a component within other income (expense), net in our consolidated statements of operations and comprehensive loss.

We used a Black-Scholes model to calculate the fair value of its redeemable convertible preferred stock warrant liability using the following inputs:

	December 31, 2020
Volatility	50.00%
Expected term (in years)	0.5 - 1.5
Risk-free rate	0.09 – 0.12%
Expected dividend rate	0.00%

The estimated fair value of the convertible preferred stock warrant liability is calculated using other key assumptions including the probability and value of the next equity financing, enterprise value, and discount for lack of marketability.

In February 2021, all outstanding warrants to purchase shares of Lucid Series D Preferred Shares were exercised. Upon final settlement, we recorded a loss of $7.0 million in the consolidated statements of operations for the six months ended June 30, 2021 related to the fair value remeasurement upon exercise and converted the warrant into Lucid Series D Preferred Shares. We recorded a $0.1 million loss related to fair value remeasurements of the warrants for the three and six months ended June 30, 2020.

Income Taxes

We utilize the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are recorded based on the estimated future tax effects of temporary differences between the financial reporting and tax bases of existing assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax expense or benefit is the result of changes in the deferred tax asset and liability. We recognize the effect on deferred income taxes of a change in tax rates in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the net amount that we believe is more-likely-than-not to be realized.

We make estimates, assumptions and judgments to determine our provision for Lucid's income taxes, deferred tax assets and liabilities, and any valuation allowance recorded against deferred tax assets. We consider all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income, and ongoing tax planning strategies in assessing the need for a valuation allowance. We assess the likelihood that our deferred tax assets will be recovered from future taxable income, and to the extent it believes that recovery is not likely, it establishes a valuation allowance.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. Interest and penalties related to unrecognized tax benefits which, as of the date of this Report, have not been material, are recognized within provision for income taxes.

Recently Adopted Accounting Pronouncements

See Note 2 to our consolidated financial statements included elsewhere in this Report for more information regarding recently issued accounting pronouncements.

Internal Control Over Financial Reporting

In connection with the preparation of our consolidated financial statements as of and for the fiscal years ended December 31, 2020 and 2019, we identified material weaknesses in our internal control over financial reporting. See the subsection entitled "*Risk Factors — We have identified material weaknesses in our internal control over financial reporting. If we are unable to remediate these material weaknesses, or if we identify additional material weaknesses in the future or otherwise fail to develop and maintain an effective system of internal control over financial reporting, we may not be able to accurately or timely report our financial condition or results of operations, which may adversely affect investor confidence in us and the value of our common stock*" in the S-1 Registration Statement.

Implications of being an Emerging Growth Company

Section 102(b)(1) of the Jumpstart Our Business Startups Act of 2021 (the "JOBS Act") exempts "emerging growth companies" as defined in Section 2(A) of the Securities Act of 1933, as amended, from being required to comply with new or revised financial accounting standards until private companies are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can choose not to take advantage of the extended transition period and comply with the requirements that apply to non-emerging growth companies, and any such election to not take advantage of the extended transition period is irrevocable. Lucid Group is an "emerging growth company" and has elected to take advantage of the benefits of this extended transition period.

Lucid Group will use this extended transition period for complying with new or revised accounting standards that have different effective dates for public business entities and non-public business entities until the earlier of the date Lucid Group (a) is no longer an emerging growth company or (b) affirmatively and irrevocably opts out of the extended transition period provided in the JOBS Act. The extended transition period exemptions afforded by Lucid Group's emerging growth company status may make it difficult or impossible to compare Lucid Group's financial results with the financial results of another public company that is either not an emerging growth company or is an emerging growth company that has chosen not to take advantage of this exemption because of the potential differences in accounting standards used. Refer to Note 2 to our consolidated financial statements included elsewhere in this Report for the recent accounting pronouncements.

Lucid Group will remain an "emerging growth company" under the JOBS Act until the earliest of (a) the last day of Lucid Group's first fiscal year following the fifth anniversary of the Churchill IPO, (b) the last date of Lucid Group's fiscal year in which Lucid Group has total annual gross revenue of at least $1.07 billion, (c) the last date of Lucid Group's fiscal year in which Lucid Group is deemed to be a "large accelerated filer" under the rules of the SEC with at least $700.0 million of outstanding securities held by non-affiliates or (d) the date on which Lucid Group has issued more than $1.0 billion in non- convertible debt securities during the previous three years. We expect that Lucid Group will cease to be an emerging growth company as of December 31, 2021.