Sorrento Therapeutics, Inc.
Form 10-K/A
March 27, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2016

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-36150

SORRENTO THERAPEUTICS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	33-0344842
(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification No.)
9380 Judicial Drive,	
San Diego, California	92121

(Address of Principal Executive Offices) (Zip Code)

(858) 210-3700

(Registrant's telephone number, including area code)

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

Title of each class	Name of exchange on which registered
Common Stock, par value $0.0001 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

The aggregate market value of voting stock held by non-affiliates of the registrant is calculated based upon the closing sale price of the common stock on June 30, 2016 (the last trading day of the registrant's second fiscal quarter of 2016), as reported on The NASDAQ Capital Market, was approximately $366.5 million.

At March 9, 2017, the registrant had 50,887,102 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the 2017 Annual Meeting of Stockholders or an amendment to this Annual Report on Form 10-K, to be filed within 120 days of December 31, 2016, are incorporated by reference in Part III.

EXPLANATORY NOTE

This Amendment No. 1 to Annual Report on Form 10-K/A (this "Amendment") is being filed by Sorrento Therapeutics, Inc. (the "Company") to amend the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, which was originally filed with the Securities and Exchange Commission (the "SEC") on March 22, 2017 (the "Annual Report").

The Company is filing this Amendment solely for the purposes of: (1) correcting certain clerical errors to the disclosures included under Part II, Item 9A of the Annual Report, (2) deleting information inadvertently included under Part II, Item 9B of the Annual Report as such information had already been previously disclosed by the Company on Current Reports on Form 8-K filed with the SEC on March 20, 2017 and March 21, 2017, (3) amending certain line items in the Company's Consolidated Statements of Cash Flows included in Part IV, Item 15 of the Annual Report, which were incorrectly stated as a result of inadvertently including a superseded version of the Company's Consolidated Statements of Cash Flows in the initial filing, and (4) correcting certain minor omissions in footnote 11 to the Company's Consolidated Financial Statements included in Part IV, Item 15 of the Annual Report. The amended Consolidated Statements of Cash Flows line items referenced in number (3) above result in an increase in net cash used for operating activities by $36 thousand, as well as corrections to the Supplemental disclosures of non-cash investing and financing activities.

In addition, as required by Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, new certifications pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 by the Company's principal executive officer and principal financial officer are filed herewith as exhibits to this Amendment. This Amendment also contains an amended consent of Mayer Hoffman McCann P.C. Accordingly, Part IV, Item 15 of the Annual Report has been amended and restated in its entirety to include the currently dated certifications and amended consent as exhibits.

Except as described above, no attempt has been made in this Amendment to modify or update the other disclosures in the Annual Report. This Amendment continues to speak as of the date of the Annual Report, and the Company has not updated the disclosures contained therein to reflect any events which occurred at a date subsequent to the filing of the Annual Report. Accordingly, this Amendment should be read in conjunction with the Annual Report.

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PART II

Item 9A. Controls and Procedures.
Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended(the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's regulations, rules and forms and that such information is accumulated and communicated to our management, including our chief executive officer and principal financial and accounting officer, as appropriate, to allow for timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. As required by Rule 13a-15(b) promulgated by the SEC under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and principal financial and accounting officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Form 10-K. Based on the foregoing, our chief executive officer and principal financial and accounting officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this Form 10-K as a result of the material weakness described below.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for our company. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act, as a process designed by, or under the supervision of, a company's principal executive officer and principal financial and accounting officer and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP and includes those policies and procedures that:

(1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the company are being made in accordance with authorizations of management and directors of the company; and
(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in

evaluating the cost-benefit relationship of possible enhancements to controls and procedures.

We conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In March 2017, in connection with the preparation of our 2016 financial statements, we identified certain purchase agreements which contained terms for contingent consideration that were not identified timely and accounted for in our historical financial statements on a timely basis. Further, certain other purchase agreements containing terms for contingent consideration were identified timely, but we failed to adjust the liabilities for changes in fair value at each subsequent reporting period. Accordingly, we did not appropriately account for liabilities for contingent consideration payable and the related adjustments to earnings.

Based on these findings and the criteria discussed above, our management identified a material weakness in our review controls over unusual or non-recurring and significant transactions. Specifically, our controls were not properly designed to provide

reasonable assurance that we (1) timely identify and assess the accounting implications of terms in unusual or non-recurring agreements and (2) reassess the valuation of associated assets or liabilities at the end of each reporting period. Accordingly, our principal executive officer and principal financial officer concluded that, at December 31, 2016, our internal control over financial reporting was not effective at the reasonable assurance level.

The material weakness did not result in a restatement of previously issued annual consolidated financial statements, but it did result in an immaterial restatement of our quarterly financial information included in Note 19 of the Consolidated Financial Statements incorporated in this Form 10-K. Notwithstanding the material weakness in our internal control over financial reporting, based on the additional analyses and procedures performed, we believe the consolidated financial statements included in this Form 10-K, are fairly presented in all material respects, in conformity with accounting principles generally accepted in the United States of America.

The effectiveness of our internal control over financial reporting at December 31, 2016 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Remediation Efforts to Address the Material Weakness

As a result of the material weakness, we have initiated and will continue to implement remediation measures including, but not limited to, improving centralized documentation control, improving the internal communication procedures between senior executive management, accounting personnel, and related business owners, leveraging external accounting experts as appropriate, and strengthening policies and procedures related to the transferring of responsibilities and the handoff of personnel duties. We believe that our remediation measures will ensure that we timely identify terms in agreements that could have material accounting implications, assesses the accounting and disclosures implications of the terms, and accounts for such items in the financial statements appropriately. Any failure to implement these improvements to our internal control over financial reporting may render our future assertions as ineffective and potentially impact our ability to produce reliable financial reports, effectively manage the company or prevent fraud, and could potentially harm our business and our performance.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. As identified above under “Management’s Annual Report on Internal Control Over Financial Reporting,” a material weakness was identified in our internal control over financial reporting as of December 31, 2016. Our plans for remediating such material weakness, which would constitute changes in our internal control over financial reporting prospectively, are also enumerated above.

Item 9B. Other Information.
None.

PART IV

Item 15. Exhibits, Financial Statement Schedules.
(a)(1) Financial Statements

Reference is made to the Index to Consolidated Financial Statements of Sorrento Therapeutics, Inc. appearing on page F-1 of this Form 10-K.

(a)(2) Financial Statement Schedules

Schedule II – Valuation of Qualifying Accounts

All other schedules not listed above have been omitted because of the absence of conditions under which they are required, or because the required information is included in the consolidated financial statements or the notes thereto.

(a)(3) Exhibits

Exhibit No.	Description
2.1*	Agreement and Plan of Merger between Sorrento Therapeutics, Inc. and IgDraSol, Inc. dated September 9, 2013 (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the SEC on September 11, 2013).
2.2*	Agreement of Merger by and among Sorrento Therapeutics, Inc., Catalyst Merger Sub, Inc., Concortis Biosystems, Corp., Zhenwei Miao and Gang Chen dated as of November 11, 2013 (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the SEC on November 14, 2013).
2.3*	Stock Purchase Agreement, dated November 8, 2016, by and among Sorrento Therapeutics, Inc., Scilex Pharmaceuticals Inc., the stockholders of Scilex Pharmaceuticals Inc. party thereto and SPI Shareholders Representative, LLC, as representative of the stockholders of Scilex Pharmaceuticals Inc. party thereto (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the SEC on November 8, 2016).
3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on May 15, 2013).
3.2	Certificate of Amendment of the Restated Certificate of Incorporation of Sorrento Therapeutics, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on August 1, 2013).
3.3	Bylaws (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed with the SEC on October 23, 2009).
3.4	Certificate of Designation of Rights, Preferences and Privileges of Series A Junior Participating Preferred Stock of Sorrento Therapeutics, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on November 12, 2013).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 23, 2009).
4.2	Form of Convertible Promissory Note (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 21, 2013).
4.3	Amended and Restated Rights Agreement, dated as of December 21, 2015 by and between Sorrento Therapeutics, Inc. and Philadelphia Stock Transfer, Inc., as rights agent (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on December 21, 2015).
4.4	

Common Stock Purchase Warrant issued to Cambridge Equities, LP. (incorporated by reference to Exhibit 4.4 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 16, 2015).

4.5 Securities Purchase Agreement, dated as of April 3, 2016, by and among Sorrento Therapeutics, Inc., ABG SRNE Limited and Ally Bridge LB Healthcare Master Fund Limited (incorporated by reference to Exhibit 4.5 to the Registrant's Registration Statement on Form S-3 filed with the SEC on June 29, 2016).

4.6 Securities Purchase Agreement, dated as of April 3, 2016, by and between Sorrento Therapeutics, Inc. and FREJOY Investment Management Co., Ltd. (incorporated by reference to Exhibit 4.6 to the Registrant's Registration Statement on Form S-3 filed with the SEC on June 29, 2016).

4.7 Securities Purchase Agreement, dated as of April 3, 2016, by and between Sorrento Therapeutics, Inc. and Beijing Shijilongxin Investment Co., Ltd. (incorporated by reference to Exhibit 4.7 to the Registrant's Registration Statement on Form S-3 filed with the SEC on June 29, 2016).

4.8 Securities Purchase Agreement, dated as of April 3, 2016, by and between Sorrento Therapeutics, Inc. and Yuhan Corporation (incorporated by reference to Exhibit 4.8 to the Registrant's Registration Statement on Form S-3 filed with the SEC on June 29, 2016).

4.9 Form of Common Stock Purchase Warrant issued to investors pursuant to the Securities Purchase Agreement, dated as of April 3, 2016, by and among Sorrento Therapeutics, Inc., ABG SRNE Limited and Ally Bridge LB Healthcare Master Fund Limited (incorporated by reference to Exhibit 4.9 to the Registrant's Registration Statement on Form S-3 filed with the SEC on June 29, 2016).

Exhibit No.	Description
4.10	Form of Common Stock Purchase Warrant issued to investors pursuant to the Securities Purchase Agreement, dated as of April 3, 2016, by and between Sorrento Therapeutics, Inc. and FREJOY Investment Management Co., Ltd. and Securities Purchase Agreement, dated as of April 3, 2016, by and between Sorrento Therapeutics, Inc. and Beijing Shijilongxin Investment Co., Ltd. (incorporated by reference to Exhibit 4.10 to the Registrant's Registration Statement on Form S-3 filed with the SEC on June 29, 2016).
4.11	Common Stock Purchase Warrant issued to Yuhan Corporation on April 29, 2016 (incorporated by reference to Exhibit 4.11 to the Registrant's Registration Statement on Form S-3 filed with the SEC on June 29, 2016).
4.12	Voting Agreement, dated as of April 29, 2016, by and between Sorrento Therapeutics, Inc. and Yuhan Corporation (incorporated by reference to Exhibit 4.12 to the Registrant's Registration Statement on Form S-3 filed with the SEC on June 29, 2016).
4.13	Registration Rights Agreement, dated November 8, 2016, by and among Sorrento Therapeutics, Inc. and the persons party thereto (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on November 8, 2016).
4.14	Warrant Agreement, dated November 23, 2016, issued to Hercules Capital, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on November 29, 2016).
10.1+	Exclusive License and Development Agreement between Sorrento Therapeutics, Inc. and China Oncology Focus Limited dated October 3, 2014 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q/A filed with the SEC on November 25, 2014).
10.2+	License Agreement, dated January 8, 2010, by and between The Scripps Research Institute and Sorrento Therapeutics, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on May 14, 2010).
10.3±	Form of Stock Option Agreement (incorporated by reference to Exhibit 10.11 to the Registrant's Current Report on Form 8-K/A filed with the SEC on September 22, 2009).
10.4±	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on September 7, 2012).
10.5±	2009 Amended and Restated Stock Incentive Plan, and forms of agreements related thereto (incorporated by reference to Appendix A to the definitive proxy statement filed by Sorrento Therapeutics, Inc. with the Securities and Exchange Commission on May 13, 2016).
10.6±	2009 Equity Incentive Plan, and forms of agreement related thereto (incorporated by reference to Exhibit 10.17 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 25, 2010).
10.7±	Employment Agreement, dated September 21, 2012, by and between Sorrento Therapeutics, Inc. and Henry Ji, Ph.D. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 8, 2012).

10.8±	First Amendment to Employment Agreement dated October 18, 2012, by and between Sorrento Therapeutics, Inc. and Henry Ji, Ph.D. (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 8, 2012).
10.9±	Independent Director Compensation Policy (incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 25, 2013).
10.10	Option Agreement between Sorrento Therapeutics, Inc. and B.G, Negev Technologies and Applications Ltd. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 13, 2013).
10.11*	Lease dated as of February 3, 2015 by and between HCP University Center West LLC and Sorrento Therapeutics, Inc. (incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 16, 2015).

Exhibit No.	Description
10.12+	Exclusive License Agreement dated as of April 21, 2015 by and between NantCell, Inc. and Sorrento Therapeutics, Inc. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 7, 2015).
10.13*	Stock Sale and Purchase Agreement dated as of May 14, 2015 by and between NantPharma, LLC and Sorrento Therapeutics, Inc. (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 7, 2015).
10.14*	Membership Interest Purchase Agreement by and among TNK Therapeutics, Inc., CARgenix Holdings LLC, the Members of CARgenix Holdings LLC, Jaymin Patel as the Members Representative and Sorrento Therapeutics, Inc. dated as of August 7, 2015 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 16, 2015).
10.15	Amendment No. 1 to Membership Interest Purchase Agreement, dated as of March 7, 2016, by and between TNK Therapeutics, Inc. and Jaymin Patel, as the Members' Representative (incorporated by reference to Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 9, 2016).
10.16*	Stock Purchase Agreement by and among TNK Therapeutics, Inc., BDL Products, Inc., the Stockholders of BDL Products, Inc., Richard Junghans, M.D., Ph.D. as the Stockholders' Representative and Sorrento Therapeutics, Inc. dated as of August 7, 2015 (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 16, 2015).
10.17	Amendment No. 1 to Stock Purchase Agreement, dated as of March 7, 2016, by and between TNK Therapeutics, Inc. and Richard P. Junghans, M.D., Ph.D., as the Stockholders' Representative (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 9, 2016).
10.18	Binding Term Sheet with NanoVelcro Circulating Tumor Cell (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 16, 2015).
10.19+	Exclusive License Agreement dated September 25, 2015 by and between LA Cell, Inc. and City of Hope (incorporated by reference to Exhibit 10.26 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 15, 2016).
10.20±	Employment Agreement, dated December 8, 2014, by and between Sorrento Therapeutics, Inc. and George Ng (incorporated by reference to Exhibit 10.28 to the Registrant's Annual Report on Form 10-K/A filed with the SEC on April 29, 2016).
10.21±	Employment Agreement, dated October 16, 2015, by and between Sorrento Therapeutics, Inc. and Jeffrey Su (incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K/A filed with the SEC on April 29, 2016).
10.22±	Employment Agreement between Sorrento Therapeutics, Inc. and Kevin M. Herde dated as of April 5, 2016 (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on May 10, 2016).

10.23 Letter Agreement, dated June 30, 2016, among Chan Soon-Shiong Family Foundation, Cambridge Equities, L.P. and Sorrento Therapeutics, Inc. (incorporated by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 8, 2016).

10.24+ License and Collaboration Agreement, dated July 6, 2016, among Les Laboratoires Servier, SAS, Institut de Recherches Internationales Servier and Sorrento Therapeutics, Inc. (incorporated by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q/A filed with the SEC on January 17, 2017).

10.25 Binding Term Sheet, dated August 15, 2016, among Sorrento Therapeutics, Inc., Scintilla Pharmaceuticals, Inc. and Semnur Pharmaceuticals, Inc. (incorporated by reference to Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 9, 2016).

10.26 Lease Agreement, dated September 12, 2016, between Sorrento Therapeutics, Inc. and HCP Life Science REIT, Inc. (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 9, 2016).

Exhibit No.	Description
10.27	Unit Purchase Agreement dated August 5, 2016, by and among MedoveX Corporation and the purchasers party thereto (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by MedoveX Corporation (File No. 001-36763) with the SEC on August 8, 2016).
10.28	Registration Rights Agreement, dated August 5, 2016, by and among MedoveX Corporation and the investors party thereto (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by MedoveX Corporation (File No. 001-36763) with the SEC on August 8, 2016).
10.29	Promissory Note, dated November 1, 2016, issued by Celularity, Inc. to Sorrento Therapeutics, Inc. (incorporated by reference to Exhibit 10.29 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 22, 2017).
10.30	Binding Term Sheet, dated November 15, 2016, among Sorrento Therapeutics, Inc., TNK Therapeutics, Inc., and Virttu Biologics Limited (incorporated by reference to Exhibit 10.30 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 22, 2017).
10.31**	Loan and Security Agreement, dated November 23, 2016, among Sorrento Therapeutics, Inc., certain of its domestic subsidiaries, and Hercules Capital, Inc. (incorporated by reference to Exhibit 10.31 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 22, 2017).
10.32**	First Amendment to Loan and Security Agreement, dated December 27, 2016, among Sorrento Therapeutics, Inc., certain of its domestic subsidiaries, and Hercules Capital, Inc. (incorporated by reference to Exhibit 10.32 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 22, 2017).
10.33	Amendment No. 2 to Stock Purchase Agreement, dated as of September 14, 2016, by and between TNK Therapeutics, Inc. and Richard P. Junghans, M.D., Ph.D., as the Stockholders' Representative (incorporated by reference to Exhibit 10.33 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 22, 2017).
10.34**	Second Amendment to Loan and Security Agreement, dated March 2, 2017, among Sorrento Therapeutics, Inc., certain of its domestic subsidiaries, and Hercules Capital, Inc. (incorporated by reference to Exhibit 10.34 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 22, 2017).
10.35**	Third Amendment to Loan and Security Agreement, dated March 15, 2017, among Sorrento Therapeutics, Inc., certain of its domestic subsidiaries, and Hercules Capital, Inc. (incorporated by reference to Exhibit 10.35 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 22, 2017).
21.1	List of Subsidiaries (incorporated by reference to Exhibit 21.1 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 22, 2017).

23.1	Consent of Deloitte & Touche LLP (incorporated by reference to Exhibit 23.1 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 22, 2017).
23.2	Consent of Mayer Hoffman McCann P.C. (incorporated by reference to Exhibit 23.2 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 22, 2017).
23.3	Amended consent of Mayer Hoffman McCann P.C.
24	Power of Attorney (included on signature page hereto) (incorporated by reference to Exhibit 24 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 22, 2017).
31.1	Certification of Henry Ji, Ph.D., Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended (incorporated by reference to Exhibit 31.1 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 22, 2017).
31.2	Certification of Kevin Herde, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended (incorporated by reference to Exhibit 31.2 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 22, 2017).
31.3	Certification of Henry Ji, Ph.D., Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended.
31.4	Certification of Kevin Herde, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended.

Exhibit No.	Description
32.1	Certification of Henry Ji, Ph.D., Principal Executive Officer and Kevin Herde, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended (incorporated by reference to Exhibit 32.1 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 22, 2017).
32.2	Certification of Henry Ji, Ph.D., Principal Executive Officer and Kevin Herde, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Non-material schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant hereby undertakes to furnish supplementally copies of any of the omitted schedules and exhibits upon request by the SEC.
** Portions of this exhibit have been omitted and filed separately with the SEC pursuant to a request for confidential treatment.
+ The SEC has granted confidential treatment with respect to certain portions of this exhibit. Omitted portions have been filed separately with the SEC.
± Management contract or compensatory plan.

The following financial statement schedule is filed as part of this Annual Report on Form 10-K:

Schedule Number	Description
II	Valuation and Qualifying Accounts

SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

(in thousands)	Balance at Beginning of Period	Reserves Acquired	Additions	Deductions	Balance at End of Period
Fiscal Year 2016:					
Income tax valuation allowance	39,605	—	41,434	—	81,039
	$ 39,605	$ —	$ 41,434	$ —	$ 81,039
Fiscal Year 2015:					
Income tax valuation allowance	25,350	—	14,255	—	39,605
	$ 25,350	$ —	$ 14,255	$ —	$ 39,605
Fiscal Year 2014:					
Income tax valuation allowance	12,299	—	13,051	—	25,350
	$ 12,299	$ —	$ 13,051	$ —	$ 25,350

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 27, 2017 SORRENTO THERAPEUTICS, INC.

By: /s/ HENRY JI
Director, Chief Executive Officer

& President

Sorrento Therapeutics, Inc.

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Sorrento Therapeutics, Inc. and Subsidiaries

San Diego, California

We have audited the accompanying consolidated balance sheets of Sorrento Therapeutics, Inc. and Subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sorrento Therapeutics, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years ended December 31, 2015 and 2014, in conformity with accounting principles generally accepted in the United States of America.

/s/ Mayer Hoffman McCann P.C.

San Diego, CA

March 14, 2016

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Sorrento Therapeutics, Inc. and Subsidiaries

San Diego, California

We have audited the accompanying consolidated balance sheet of Sorrento Therapeutics, Inc. and subsidiaries (the "Company") as of December 31, 2016, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the year then ended. Our audit also included the financial statement schedule listed in the Index at Item 15. These consolidated financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Sorrento Therapeutics, Inc. and subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

The accompanying consolidated financial statements for the year ended December 31, 2016, have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company's recurring losses from operations and availability of working capital raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 21, 2017 expressed an adverse opinion on the Company's internal control over financial reporting because of a material weakness.

DELOITTE & TOUCHE LLP

San Diego, California

March 21, 2017

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Sorrento Therapeutics, Inc. and Subsidiaries

San Diego, California

We have audited Sorrento Therapeutics, Inc. and subsidiaries' (the "Company's") internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial

statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment: The Company's review controls over unusual or non-recurring and significant transactions were not properly designed to provide reasonable assurance that it (1) timely identifies and assesses the accounting implications of terms in unusual or non-recurring agreements and (2) reassesses the valuation of associated assets or liabilities at the end of each reporting period. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2016, of the Company and this report does not affect our report on such financial statements and financial statement schedule.

In our opinion, because of the effect of the material weakness identified above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2016, of the Company and our report dated March 21, 2017 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule and included an explanatory paragraph regarding substantial doubt about the Company's ability to continue as a going concern.

DELOITTE & TOUCHE LLP

San Diego, California

March 21, 2017

SORRENTO THERAPEUTICS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except for share amounts)

	December 31, 2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	$82,398	$39,038
Marketable securities	1,106	97,366
Grants and accounts receivables, net	1,696	903
Income tax receivable	1,289	1,715
Prepaid expenses and other, net	3,165	1,996
Total current assets	89,654	141,018
Property and equipment, net	12,707	7,246
Intangibles, net	64,766	3,912
Goodwill	41,548	20,626
Investments in common stock	112,008	112,008
Equity method investments	76,994	58,119
Other, net	3,909	590
Total assets	$401,586	$343,519
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$8,282	$1,339
Accrued payroll and related	3,565	2,361
Current portion of deferred compensation	1,012	891
Accrued expenses	4,741	3,927
Current portion of deferred revenue	9,666	—
Derivative liability	—	5,520
Current portion of deferred rent	248	—
Acquisition consideration payable	48,362	12,000
Current portion of debt	209	4,835
Total current liabilities	76,085	30,873
Long-term debt	47,107	4,394
Deferred compensation	—	12
Deferred tax liabilities	53,238	49,341
Deferred revenue	134,376	110,900
Deferred rent and other	4,278	7,061
Total liabilities	315,084	202,581
Commitments and contingencies		
Equity:		
Sorrento Therapeutics, Inc. equity		
Preferred stock, $0.0001 par value; 100,000,000 shares authorized and no shares	—	—

issued or outstanding		
Common stock, $0.0001 par value; 750,000,000 shares authorized and 50,882,856 and 37,771,459 shares issued and outstanding at December 31, 2016 and 2015, respectively	6	4
Additional paid-in capital	303,865	184,898
Accumulated other comprehensive income	(118)	73,579
Accumulated deficit	(174,252)	(113,329)
Treasury stock, 7,568,182 shares and no shares at cost at December 31, 2016, and 2015, respectively	(49,464)	—
Total Sorrento Therapeutics, Inc. stockholders' equity	80,037	145,152
Noncontrolling interests	6,465	(4,214)
Total equity	86,502	140,938
Total liabilities and equity	$401,586	$343,519

See accompanying notes

SORRENTO THERAPEUTICS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2016, 2015 and 2014

(In thousands, except for per share amounts)

	2016	2015	2014
Revenues:			
Grant	$1,033	$1,530	$488
Royalties and licenses	4,017	—	—
Sales and services	3,102	3,060	3,337
Total revenues	8,152	4,590	3,825
Operating costs and expenses:			
Costs of revenues	811	1,950	2,043
Research and development	42,175	31,343	23,983
Acquired in-process research and development	45,000	24,013	209
General and administrative	24,219	20,132	9,987
Intangible amortization	845	1,157	2,345
(Gain) loss on contingent liabilities	(8,121)	—	—
Total costs and operating expenses	104,929	78,595	38,567
Loss from operations	(96,777)	(74,005)	(34,742)
Gain on sale of IgDraSol, net	—	69,274	—
Gain (loss) on derivative liabilities	5,520	(3,360)	—
Gain on marketable securities	27,193	—	—
Gain on trading securities	356	—	—
Gain (loss) on equity investments	435	(4,041)	—
Interest expense	(1,610)	(1,652)	(1,629)
Interest income	272	24	12
Loss on debt extinguishment	(222)	—	—
Loss before income tax expense	(64,833)	(13,760)	(36,359)
Income tax expense (benefit)	(896)	36,314	(1,702)
Net loss	(63,937)	(50,074)	(34,657)
Net loss attributable to noncontrolling interests	(3,014)	(4,263)	—
Net loss attributable to Sorrento	$ (60,923)	$(45,811)	$(34,657)
Net loss per share - basic and diluted per share attributable to Sorrento	$(1.21)	$(1.24)	$(1.30)
Weighted-average shares used during period - basic and diluted per share attributable to Sorrento	50,360	36,909	26,679

See accompanying notes

SORRENTO THERAPEUTICS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the Years Ended December 31, 2016, 2015 and 2014

(In thousands, except for share amounts)

	2016	2015	2014
Net loss attributable to Sorrento	$(60,923)	$(45,811)	$(34,657)
Other comprehensive income:			
Unrealized (loss) gain on marketable securities, net of tax of $(14,294), $14,294, and $0	(73,579)	73,579	—
Foreign currency translations adjustments and other	(118)	—	—
Total other comprehensive income	(73,697)	73,579	—
Comprehensive (loss) income attributable to Sorrento	(134,620)	27,768	(34,657)
Comprehensive income (loss) attributable to noncontrolling interests	—	—	—
Comprehensive (loss) income	$(134,620)	$27,768	$(34,657)

See accompanying notes

SORRENTO THERAPEUTICS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2016, 2015 and 2014

(In thousands, except for share amounts)

	Common Stock		Treasury Stock		Additional Paid-in	Accumulated Other Comprehensive	Accumulated	Noncontrolling	
	Shares	Amount	Shares	Amount	Capital	Income (Loss)	Deficit	Interest	Total
Balance, December 31, 2013	23,028,100	2	—	—	99,668	—	(32,861)	—	66,809
Issuance of common stock for research agreement	25,000	—	—	—	209	—	—	—	209
Issuance of common stock with exercise of options	64,000	—	—	—	304	—	—	—	304
Issuance of common stock warrants in connection with amended loan and security agreement	—	—	—	—	322	—	—	—	322
Issuance of common stock for cash at $5.25 per share, net of issuance costs of $2,126	5,479,750	1	—	—	26,642	—	—	—	26,643
	400,000	—	—	—	3,420	—	—	—	3,420

Issuance of common stock for cash at $9.00 per share, net of issuance costs of $180									
Issuance of common stock warrants for cash at $5.80 per share, net of issuance costs of $20	7,188,062	1	—	—	41,722	—	—	—	41,723
Stock-based compensation	—	—	—	—	3,940	—	—	—	3,940
Net loss	—	—	—	—	—	—	(34,657)	—	(34,657)
Balance, December 31, 2014	36,184,912	4	—	—	176,227	—	(67,518)	—	108,713
Issuance of common stock with exercise of warrants	3,563	—	—	—	—	—	—	—	—
Issuance of common stock with exercise of options	276,712	—	—	—	1,699	—	—	—	1,699
Issuance of common stock upon achievement of milestone	1,306,272	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	6,972	—	—	—	6,972
Change in unrealized gain on marketable securities	—	—	—	—	—	73,579	—	—	73,579
Sale of noncontrolling interest	—	—	—	—	—	—	—	49	49
Net loss	—	—	—	—	—	—	(45,811)	(4,263)	(50,074)
	37,771,459	4	—	—	184,898	73,579	(113,329)	(4,214)	140,938

Balance, December 31, 2015									
Issuance of common stock with exercise of options	204,668	—	—	—	524	—	—	—	527
Issuance of common stock for private placement and investments, net	27,598,235	3	—	—	108,298	—	—	—	108,301
Issuance of common stock upon acquisition of Scilex	754,911	1	—	—	5,368	—	—	13,693	19,061
Cancellation of stock issuance	(15,446,417)	(2)	7,568,182	(49,464)	(1,341)	—	—	—	(50,807)
Stock-based compensation	—	—	—	—	4,741	—	—	—	4,741
Change in unrealized gain on marketable securities	—	—	—	—	—	(73,579)	—	—	(73,579)
Foreign currency translation adjustment	—	—	—	—	—	(118)	—	—	(118)
Hercules warrant	—	—	—	—	1,377	—	—	—	1,377
Net loss	—	—	—	—	—	—	(60,923)	(3,014)	(63,937)
Balance, December 31, 2016	50,882,856	$6	7,568,182	(49,464)	$303,865	$(118)	$(174,252)	$6,465	$86,502

See accompanying notes

SORRENTO THERAPEUTICS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016, 2015 and 2014

(In thousands, except for share amounts)

	2016	2015	2014
Operating activities			
Net loss	$(63,937)	$(50,074)	$(34,657)
Adjustments to reconcile net loss to net cash provided by and (used in) operating activities:			
Depreciation and amortization	2,885	2,370	3,184
Non-cash interest expense	164	392	451
Gain on sale of IgDraSol	—	(69,274)	—
Gain on sale of marketable securities	(27,193)	—	—
Stock-based compensation	4,741	6,972	3,940
Acquired in-process research and development	—	12,000	209
Provision for doubtful accounts	—	5	33
Gain or loss on derivative liability	(5,520)	3,360	—
Gain or loss on equity investments	(435)	4,041	—
Gain on contingent liabilities	(8,121)	—	—
Deferred tax provision	982	33,337	(1,702)
Changes in operating assets and liabilities; net of dispositions:			
Grants and other receivables	(472)	(176)	(371)
Prepaid expenses and other	40	(1,052)	(979)
Deposits and other assets	(448)	(1,715)	—
Accounts payable	3,714	(2,713)	(497)
Deferred revenue	23,534	9,876	—
Deferred rent and other	(2,535)	—	—
Accrued expenses and other liabilities	1,673	10,582	1,625
Net cash used for operating activities	(70,928)	(42,069)	(28,764)
Investing activities			
Purchases of property and equipment	(6,860)	(3,707)	(591)
Proceeds from sale of IgDraSol	—	27,759	—
Investment in SiniWest	(1,000)	—	—
Investment in Cellularity	(5,000)	—	—
Purchase of business, net of cash acquired	(3,842)	—	—
Purchase of MedoveX Investment	(750)	—	—
Investments in common stock	—	(11,500)	(10,000)
Net cash (used in) provided by investing activities	(17,452)	12,552	(10,591)
Financing activities			
Net borrowings under loan and security agreement	—	—	7,500
Proceeds from issuance of common stock, net	107,986	—	71,786

Cash payments for treasury shares	(15,639)	—	—
Proceeds from loan and security agreement, net of fees	48,320	(3,095)	—
Payments of debt principal on retired note	(9,451)	—	—
Net payments of deferred compensation	—	(2,000)	—
Sale of a noncontrolling interest	—	49	—
Proceeds from exercise of stock options	524	1,699	304
Net cash provided by (used in) financing activities	131,740	(3,347)	79,590
Net change in cash and cash equivalents	43,360	(32,864)	40,235
Net effect of exchange rate changes on cash	—	—	—
Cash and cash equivalents at beginning of period	39,038	71,902	31,667
Cash and cash equivalents at end of period	$82,398	$39,038	$71,902
Supplemental disclosures:			
Cash paid during the period for:			
Income taxes	$2	$3,001	$6
Interest paid	$1,342	$1,574	$1,544
Supplemental disclosures of non-cash investing and financing activities:			
Scilex acquisition non-cash consideration	$(45,368)	$—	$—
Investment in ImmuneOncia	$(9,608)	$—	$—
SiniWest non-cash consideration	$(2,832)	$—	$—
Roger Williams Medical Center non-cash consideration	$(3,398)	$—	$—
Common stock received in exchange for license	$—	$(100,000)	$—
Contributions to equity method investments made on Company’s behalf	$—	$(60,000)	$—

Property and equipment costs incurred but not paid	$—	$2,396	$—

See accompanying notes

SORRENTO THERAPEUTICS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Business Activities

Nature of Operations and Basis of Presentation

Sorrento Therapeutics, Inc. (NASDAQ: SRNE), together with its subsidiaries (collectively, the "Company") is a clinical stage biotechnology company focused on delivering clinically meaningful therapies to patients and their families, globally. The Company's primary focus is to transform cancer into a treatable or chronically manageable disease. The Company also has programs assessing the use of its technologies and products in auto-immune, inflammatory, neurodegenerative, infectious diseases and pain indications with high unmet medical needs.

At its core, the Company is an antibody-centric company and leverages its proprietary G-MAB™ library to identify, screen and validate fully human antibodies against high impact oncogenic targets and mutations, immune modulators and intracellular targets. To date, the Company has screened over 100 validated targets and generated a number of fully human antibodies against these targets which are at various stages of preclinical development. These include PD-1, PD-L1, CD38, CD123, CD47, c-MET, VEGFR2, CCR2, OX40, TIGIT and CD137 among others.

The Company's vision is to leverage these antibodies in conjunction with proprietary targeted delivery modalities to generate the next generation of cancer therapeutics. These modalities include proprietary antibody drug conjugates ("ADCs"), bispecific approaches, as well as T-Cell Receptor ("TCR")-like antibodies. With LA Cell, Inc. ("LA Cell"), the Company's joint venture with City of Hope, the Company's objective is to become the global leader in the development of antibodies against intracellular targets such as STAT3, mutant KRAS, MYC, p53 and TAU. Additionally, the Company has acquired and is assessing the regulatory and strategic path forward for its portfolio of late stage biosimilar/biobetter antibodies based on Erbitux®, Remicade®, Xolair®, and Simulect® as these may represent nearer term commercial opportunities.

With each of its programs, the Company aims to tailor its therapies to treat specific stages in the evolution of cancer, from elimination, to equilibrium and escape. In addition, the Company's objective is to focus on tumors that are resistant to current treatments and where the Company can design focused trials based on a genetic signature or biomarker to ensure patients have the best chance of a durable and significant response. The Company has several immuno-oncology programs that are in or near to entering the clinic. These include cellular therapies, an oncolytic virus and a palliative care program targeted to treat intractable cancer pain. Finally, as part of its global aim to provide a wide range of therapeutic products to meet underserved therapeutic markets, the Company has made investments and developed a separate pain focused franchise which the Company believes will serve to provide short term upside to its core thesis.

Through December 31, 2016, the Company had devoted substantially all of its efforts to product development, raising capital and building infrastructure, and had not realized revenues from its planned principal operations.

The accompanying consolidated financial statements include the accounts of the Company's subsidiaries. For consolidated entities where the Company owns or is exposed to less than 100% of the economics, the Company records net income (loss) attributable to noncontrolling interests in its consolidated statements of operations equal to the percentage of the economic or ownership interest retained in such entities by the respective noncontrolling parties. All intercompany balances and transactions have been eliminated in consolidation.

2. Liquidity and Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has incurred substantial net losses and negative operating cash flows for the years ended December 31, 2016, 2015, and 2014 and anticipates that it will continue to do so for the foreseeable future as it continues to identify and invest in advancing product candidates, as well as expanding corporate infrastructure.

As of December 31, 2016, the Company had $50.0 million of long term debt associated with the Loan and Security Agreement, dated November 23, 2016, by and among the Company and certain of its domestic subsidiaries (together with the Company, the "Borrowers") and Hercules Capital, Inc. ("Hercules"), as amended (as so amended, the "Loan Agreement"). The Loan Agreement contains covenants requiring the Company (i) to achieve certain fundraising requirements by certain dates and (ii) to maintain a minimum amount of unrestricted cash prior to achieving the corporate and fundraising milestones. As of December 31, 2016, the Company had $82.4 million of cash and cash equivalents, of which a majority is required to be maintained subject to the minimum

cash requirement of the Loan Agreement. The Company's available cash and financing sources will not be sufficient to meet its current and anticipated cash requirements without additional fundraising. Accordingly, these factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

The Company has plans in place to obtain sufficient additional fundraising to fulfill its operating and capital requirements for the next 12 months and to maintain compliance with the Loan Agreement covenants. The Company's plans include continuing to fund its operating losses and capital funding needs through public or private equity or debt financings, strategic collaborations, licensing arrangements, asset sales, government grants or other arrangements. Although management believes such plans, if executed as planned, should provide the Company sufficient financing to meet its needs, successful completion of such plans is dependent on factors outside of the Company's control. As such, management cannot be certain that that such plans will be effectively implemented within one year after the date that the financial statements are issued.

To the extent the Company is unable to execute on these plans, or is unable to amend the Loan Agreement to maintain compliance with the Loan Agreement covenants, the Company would be in default under the Loan Agreement and the outstanding loan balance may be declared immediately due and payable. Further, the provisions of the Loan Agreement allows for Hercules to exercise a material adverse event clause should the Company incur a material adverse event within the meaning provided by the Loan Agreement, which could include the going concern matters described herein. Should Hercules invoke the material adverse event clause, the outstanding loan balance may be declared immediately due and payable. Although reasonably possible, the Company believes that it is not probable that the material adverse event clause associated with the Loan Agreement will be exercised.

If the Company is unable to raise additional capital in sufficient amounts or on terms acceptable, the Company may have to significantly delay, scale back or discontinue the development or commercialization of one or more of its product candidates. The Company may also seek collaborators for one or more of its current or future product candidates at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available.

The consolidated financial statements do not reflect any adjustments that might be necessary if the Company is unable to continue as a going concern.

Universal Shelf Registration

In November 2014, the Company filed a universal shelf registration statement on Form S-3 (the "Shelf Registration Statement") with the SEC, which was declared effective by the SEC in December 2014. This Shelf Registration Statement provides the Company with the ability to offer up to $250 million of securities, including equity and other securities as described in the registration statement. Included in the 2014 shelf registration is a sales agreement prospectus covering the offering, issuance and sale by the Company of up to a maximum aggregate offering price of $50.0 million of the Company's common stock that may be issued and sold under a sales agreement with MLV & Co. LLC. (the "ATM Facility"). During the twelve months ended December 31, 2016 the Company sold approximately $3.6 million in shares of common stock under the ATM Facility. The Company can offer up to $46.4 million of additional shares of common stock under the ATM Facility, subject to certain limitations.

Pursuant to the Shelf Registration Statement, the Company may offer such securities from time to time and through one or more methods of distribution, subject to market conditions and the Company's capital needs. Specific terms and prices will be determined at the time of each offering under a separate prospectus supplement, which will be filed with the SEC at the time of any offering. However, the Company cannot be sure that such additional funds will be available on reasonable terms, or at all.

2016 Private Investment in Public Entity Financing

On April 3, 2016, the Company entered into a Securities Purchase Agreement (the "ABG Purchase Agreement") with ABG SRNE Limited and Ally Bridge LB Healthcare Master Fund Limited (collectively, "Ally Bridge"), pursuant to which, among other things, the Company agreed to issue and sell to Ally Bridge and other purchasers that may be designated by Ally Bridge (collectively, the "ABG Purchasers"), in a private placement transaction (the "ABG Private Placement"), up to $50.0 million in shares of the Company's common stock ("Common Stock") and warrants to purchase shares of Common Stock. Upon the closing of the ABG Private Placement, the Company issued to the ABG Purchasers (1) an aggregate of 9,009,005 shares (the "ABG Shares") of Common Stock, and (2) warrants to purchase an aggregate of 2,702,700 shares of Common Stock (each, an "ABG Warrant"). Each ABG Warrant had an exercise price of $8.50 per share, was immediately exercisable upon issuance, had a term of three years and was exercisable on a cash or cashless exercise basis.

Under the terms of the ABG Purchase Agreement, the Company was obligated to prepare and file with the SEC, within 30 days of the closing date of the ABG Private Placement, a registration statement to register for resale the ABG Shares and the shares of Common Stock issuable upon exercise of each ABG Warrant (the "ABG Warrant Shares"), and may be required to effect certain registrations to register for resale the ABG Shares and the ABG Warrant Shares in connection with certain "piggy-back" registration rights granted to the ABG Purchasers.

On April 3, 2016, the Company also entered into a Securities Purchase Agreement (collectively, the "Additional Purchase Agreements") with each of Beijing Shijilongxin Investment Co., Ltd. ("Beijing Shijilongxin"), FREJOY Investment Management Co., Ltd. ("Frejoy") and Yuhan Corporation ("Yuhan"), pursuant to which, among other things, the Company agreed to issue and sell, in separate private placement transactions: (1) to Beijing Shijilongxin, 8,108,108 shares of Common Stock, and a warrant to purchase 1,176,471 shares of Common Stock, for an aggregate purchase price of $45.0 million; (2) to Frejoy, 8,108,108 shares of Common Stock, and a warrant to purchase 1,176,471 shares of Common Stock, for an aggregate purchase price of $45.0 million; and (3) to Yuhan, 1,801,802 shares of Common Stock, and a warrant to purchase 235,294 shares of Common Stock, for an aggregate purchase price of $10.0 million. The warrants to be issued pursuant to each of the Additional Purchase Agreements (collectively, the "Additional Warrants" and, together with each ABG Warrant, the "Warrants") had an exercise price of $8.50 per share, were immediately exercisable upon issuance, had a term of three years and were exercisable on a cash or cashless exercise basis.

Under the terms of the Additional Purchase Agreements, each of Beijing Shijilongxin, Frejoy and Yuhan had the right to demand, at any time beginning six months after the closing of the transactions contemplated by the applicable Additional Purchase Agreement, that the Company prepare and file with the SEC a registration statement to register for resale such investor's shares of Common Stock purchased pursuant to the applicable Additional Purchase Agreement and the shares of Common Stock issuable upon exercise of such investor's Additional Warrant. In addition, the Company may be required to effect certain registrations to register for resale such shares in connection with certain "piggy-back" registration rights granted to Beijing Shijilongxin, Frejoy and Yuhan.

On May 2, 2016, the Company closed its private placement of common stock and warrants with Yuhan for gross proceeds of $10.0 million. Yuhan purchased 1,801,802 shares of common stock at $5.55 per share and a warrant to purchase 235,294 shares of common stock. The warrant was exercisable for three years at an exercise price of $8.50 per share.

Between May 31, 2016 and June 7, 2016, the Company closed on the remainder of the $150.0 million financing with the ABG Purchasers, Beijing Shijilongxin, and Frejoy. The ABG Purchasers led the financing and, together with Beijing Shijilongxin and Frejoy, collectively purchased 25,225,221 shares of common stock at $5.55 per share, and warrants to purchase 5,055,642 shares of common stock for total cash consideration of $86.5 million and secured promissory notes (the "Notes") in an aggregate principal amount of $53.5 million.

On December 31, 2016, the Company entered into Warrant and Note Cancellation and Share Forfeiture Agreements (the "Cancellation and Forfeiture Agreements") with certain investors (the "Investors") that held an aggregate of 7,838,259 shares of Common Stock and certain of the Warrants granting the right to purchase an aggregate of 1,137,316 shares of Common Stock. Pursuant to the Cancellation and Forfeiture Agreements, effective December 31, 2016, the Warrants held by the Investors and the Notes, of which $43.5 million was then outstanding, were cancelled and the shares of Common Stock held by the Investors were forfeited and returned to the Company.

If the Company raises additional funds by issuing equity securities, substantial dilution to existing stockholders would result. If the Company raises additional funds by incurring debt financing, the terms of the debt may involve significant cash payment obligations as well as covenants and specific financial ratios that may restrict the Company's ability to operate its business.

3. Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Management believes that these estimates are reasonable; however, actual results may differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Company minimizes its credit risk associated with cash and cash equivalents by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Company has not experienced any losses on such accounts.

Fair Value of Financial Instruments

The Company follows accounting guidance on fair value measurements for financial instruments measured on a recurring basis, as well as for certain assets and liabilities that are initially recorded at their estimated fair values. Fair value is defined as the exit price,

or the amount that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses the following three-level hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs to value its financial instruments:

- Level 1: Observable inputs such as unadjusted quoted prices in active markets for identical instruments.
    - Level 2: Quoted prices for similar instruments that are directly or indirectly observable in the marketplace.
- Level 3: Significant unobservable inputs which are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

Financial instruments measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires it to make judgments and consider factors specific to the asset or liability. The use of different assumptions and/or estimation methodologies may have a material effect on estimated fair values. Accordingly, the fair value estimates disclosed or initial amounts recorded may not be indicative of the amount that the Company or holders of the instruments could realize in a current market exchange.

The carrying amounts of cash equivalents and marketable securities approximate their fair value based upon quoted market prices. Certain of the Company's financial instruments are not measured at fair value on a recurring basis, but are recorded at amounts that approximate their fair value due to their liquid or short-term nature, such as cash, accounts receivable and payable, and other financial instruments in current assets or current liabilities.

Marketable Securities

Marketable securities are designated either as trading or available-for-sale securities and are accounted for at fair value. Marketable securities are classified as short-term or long-term based on the nature of the securities and their availability to meet current operating requirements. Marketable securities that are readily available for use in current operations and are classified as short-term available-for-sale securities are reported as a component of current assets in the accompanying consolidated balance sheets. Marketable securities that are not trading securities and are not considered available for use in current operations are classified as long-term available-for-sale securities and are reported as a component of long-term assets in the accompanying consolidated balance sheets.

Securities that are classified as trading are carried at fair value, with changes to fair value reported as a component of income. Securities that are classified as available-for-sale are carried at fair value, with temporary unrealized gains and losses reported as a component of stockholders' equity until their disposition. The cost of securities sold is based on the specific identification method.

All of the Company's marketable securities are subject to a periodic impairment review. The Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. For the year ended December 31, 2016, no other-than-temporary impairment charges were recorded.

Grants and Accounts Receivable

Grants receivable at December 31, 2016 and 2015 represent amounts due under several federal contracts with the National Institute of Allergy and Infectious Diseases ("NIAID"), a division of the National Institutes of Health ("NIH") (collectively, the "NIH Grants"). The Company considers the grants receivable to be fully collectible; accordingly, no

allowance for doubtful amounts has been established. If amounts become uncollectible, they are charged to operations.

Accounts receivable at December 31, 2016 and 2015 consists of trade receivables from sales and services provided to certain customers, which are generally unsecured and due within 30 days. Estimated credit losses related to trade accounts receivable are recorded as general and administrative expenses and as an allowance for doubtful accounts within grants and accounts receivable, net. The Company reviews reserves and makes adjustments based on historical experience and known collectability issues and disputes. When internal collection efforts on accounts have been exhausted, the accounts are written off by reducing the allowance for doubtful accounts. As of December 31, 2016 and 2015, the allowance for doubtful accounts was $26 thousand and $5 thousand, respectively.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets, which are generally three to five years. Leasehold

improvements are amortized over the lesser of the life of the lease or the life of the asset. Repairs and maintenance are charged to expense as incurred.

Acquisitions and Intangibles

The Company has engaged in business combination activity. The accounting for business combinations requires management to make judgments and estimates of the fair value of assets acquired, including the identification and valuation of intangible assets, as well as liabilities assumed. Such judgments and estimates directly impact the amount of goodwill recognized in connection with each acquisition, as goodwill presents the excess of the purchase price of an acquired business over the fair value of its net tangible and identifiable intangible assets.

Goodwill and Other Long-Lived Assets

Goodwill, which has an indefinite useful life, represents the excess of cost over fair value of net assets acquired. Goodwill is reviewed for impairment at least annually during the fourth quarter, or more frequently if events occur indicating the potential for impairment. During its goodwill impairment review, the Company may assess qualitative factors to determine whether it is more likely than not that the fair value of its reporting unit is less than its carrying amount, including goodwill. The qualitative factors include, but are not limited to, macroeconomic conditions, industry and market considerations, and the overall financial performance of the Company. If, after assessing the totality of these qualitative factors, the Company determines that it is not more likely than not that the fair value of its reporting unit is less than its carrying amount, then no additional assessment is deemed necessary. Otherwise, the Company proceeds to perform the two-step test for goodwill impairment. The first step involves comparing the estimated fair value of the reporting unit with its carrying value, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the Company performs the second step of the goodwill impairment test to determine the amount of loss, which involves comparing the implied fair value of the goodwill to the carrying value of the goodwill. The Company may also elect to bypass the qualitative assessment in a period and elect to proceed to perform the first step of the goodwill impairment test. The Company performed its annual assessment for goodwill impairment in the fourth quarter of 2016, noting no impairment.

The Company evaluates its long-lived and intangible assets with definite lives, such as property and equipment, acquired technology, customer relationships, patent and license rights, for impairment by considering competition by products prescribed for the same indication, the likelihood and estimated future entry of non-generic and generic competition with the same or similar indication and other related factors. The factors that drive the estimate of useful life are often uncertain and are reviewed on a periodic basis or when events occur that warrant review. Recoverability is measured by comparison of the assets' book value to future net undiscounted cash flows that the assets are expected to generate. There have not been any impairment losses of long-lived assets through December 31, 2016.

Acquisition Consideration Payable - Gain on Contingent Liabilities

Acquisition consideration payable relates to the Company's acquisition of businesses and various other assets and is recorded on the Company's consolidated balance sheets at fair value and is re-measured at each balance sheet date until such contingent liabilities have been settled, with changes in fair value recorded as gain on contingent liabilities. The Company estimates the fair value of contingent consideration based on level 3 inputs primarily driven by the probability of achieving certain financing or operating related milestones.

Subsequent to the issuance of its third quarter financial statements, the Company identified an error related to the fair value measurement of the acquisition consideration payable as of December 31, 2015. Consequently, the 2016 gain on contingent liabilities includes a $991 thousand adjustment to the fair value of contingent consideration liability that relates to 2015.

Derivative Liability

Derivative liabilities are recorded on the Company's consolidated balance sheets at their fair value on the date of issuance and are revalued on each balance sheet date until such instruments are exercised or expire, with changes in the fair value between reporting periods recorded as other income or expense. The Company estimates the fair value of derivative liabilities using the Black-Scholes option pricing model.

Investments in Other Entities

The Company holds a portfolio of investments in equity securities that are accounted for under either the equity method or cost method. Investments in entities over which the Company has significant influence but not a controlling interest are accounted for using the equity method, with the Company's share of earnings or losses reported in loss on equity investments.

The Company's cost method investments are included in investments in common stock on the consolidated balance sheets. The Company's equity method investments are included in equity method investments on the consolidated balance sheets.

All investments are reviewed on a regular basis for possible impairment. If an investment's fair value is determined to be less than its net carrying value and the decline is determined to be other-than-temporary, the investment is written down to its fair value. Such an evaluation is judgmental and dependent on specific facts and circumstances. Factors considered in determining whether an other-than-temporary decline in value has occurred include: the magnitude of the impairment and length of time that the market value was below the cost basis; financial condition and business prospects of the investee; the Company's intent and ability to retain the investment for a sufficient period of time to allow for recovery in market value of the investment; issues that raise concerns about the investee's ability to continue as a going concern; any other information that the Company may be aware of related to the investment. The Company does not report the fair value of its equity investments in non-publicly traded companies because it is not practical to do so.

Research and Development Costs and Collaborations

All research and development costs are charged to expense as incurred. Such costs primarily consist of lab supplies, contract services, stock-based compensation expense, salaries and related benefits.

Acquired In-Process Research and Development Expense

The Company has acquired and may continue to acquire the rights to develop and commercialize new drug candidates. The up-front payments to acquire a new drug compound, as well as future milestone payments, may be immediately expensed as acquired in-process research and development provided that the drug has not achieved regulatory approval for marketing and, absent obtaining such approval, have no alternative future use. Prior to November 8, 2016, all acquired IPR&D was expensed immediately. The acquired in-process research and development related to the business combination of Scilex Pharmaceuticals Inc. ("Scilex") for which certain products are under development and expected to be commercialized in the near future was capitalized and recorded within "Intangibles, net" on the accompanying consolidated balance sheet. Capitalized IPR&D will be reviewed annually for impairment or more frequently as changes in circumstance or the occurrence of events suggest that the remaining value may not be recoverable.

Income Taxes

The provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740 "Income Taxes," addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC Topic 740-10, the Company may 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 taxing authorities, based on the technical merits of the position. The Company has determined that it has uncertain tax positions.

The Company accounts for income taxes using the asset and liability method to compute the differences between the tax basis of assets and liabilities and the related financial amounts, using currently enacted tax rates.

The Company has deferred tax assets, which are subject to periodic recoverability assessments. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that more likely than not will be realized. As of December 31, 2016, the Company maintained a full valuation allowance against its deferred tax assets, with the exception of an amount equal to its deferred tax liabilities, which can be expected to reverse over a definite life.

Revenue Recognition

The Company's revenues are generated primarily from license fees, various NIH grant awards, and from the sale of customized reagents and the provision of contract development services. The revenue from the NIH grant awards is based upon subcontractor and internal costs incurred that are specifically covered by the grant, and where applicable, a facilities and administrative rate that provides funding for overhead expenses. These revenues are recognized when expenses have been incurred by subcontractors or when the Company incurs internal expenses that are related to the grant.

License fees for the licensing of product rights are recorded as deferred revenue upon receipt of cash and recognized as revenue on a straight-line basis over the license period.

Revenues from sales are generated from the sale of customized reagents which include industrial standard cytotoxins, linkers, and linker-toxins used for preparing ADCs. Contract development services include providing synthetic expertise to customers' synthesis by delivering proprietary cytotoxins, linkers and linker-toxins and ADC service using industry standard toxin and antibodies

provided by customers. Revenue is recognized when, (i) persuasive evidence of an arrangement exists, (ii) the product has been shipped or the services have been rendered, (iii) the price is fixed or determinable, and (iv) collectability is reasonably assured.

The Company is obligated to accept from customers the return of products sold that are damaged or do not meet certain specifications. The Company may authorize the return of products sold in accordance with the terms of its sales contracts, and estimates allowances for such amounts at the time of sale. The Company has not experienced any sales returns.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC Topic 718 “Compensation – Stock Compensation,” which establishes accounting for equity instruments exchanged for employee services. Under such provisions, stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense, under the straight-line method, over the employee’s requisite service period (generally the vesting period of the equity grant).

The Company accounts for equity instruments, including restricted stock or stock options, issued to non-employees in accordance with authoritative guidance for equity based payments to non-employees. Stock options issued to non-employees are accounted for at their estimated fair value determined using the Black-Scholes option-pricing model. The fair value of options and restricted stock granted to non-employees is re-measured over the vesting period, and the resulting changes in fair value are recognized as expense in the period of the change in proportion to the services rendered to date.

Comprehensive (Loss) Income

Comprehensive (loss) income is primarily comprised of net income (loss) and adjustments for the change in unrealized gains and losses on the Company’s investments in available-for-sale marketable securities, net of taxes. The Company displays comprehensive (loss) income and its components in its consolidated statements of comprehensive (loss) income.

Net Loss per Share

Basic net loss per share is computed by dividing net loss for the period by the weighted average number of common shares outstanding during the period. Diluted net loss per share reflects the additional dilution from potential issuances of common stock, such as stock issuable pursuant to the exercise of stock options or the exercise of outstanding warrants. The treasury stock method and if-converted method are used to calculate the potential dilutive effect of these common stock equivalents. Potentially dilutive shares are excluded from the computation of diluted net loss per share when their effect is anti-dilutive. In periods where a net loss is presented, all potentially dilutive securities are anti-dilutive and are excluded from the computation of diluted net loss per share.

During 2016, 2015 and 2014, the Company had securities outstanding which could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net loss per share, as their effect would have been anti-dilutive.

These outstanding securities consist of the following:

	Years Ended December 31,		
	2016	2015	2014
Outstanding options	4,332,876	2,960,816	2,235,000
Outstanding warrants	7,740,340	1,972,630	1,980,630

Segment Information

The Company is engaged primarily in the discovery and development of innovative therapies focused on oncology and the treatment of chronic cancer pain as well as immunology and infectious diseases based on its platform technologies. Accordingly, the Company has determined that it operates in one operating segment. During the quarter ended December 31, 2016, the Company acquired a majority stake in Scilex Pharmaceuticals, Inc. (“Scilex”) a developer of specialty pharmaceutical products for the treatment of chronic pain. The operating activities of Scilex are considered to be qualitatively and economically similar to the operating activities of the Company. The consolidated results of operations of Scilex were not material to the Company’s reported results for the year ended December 31, 2016.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new

standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. ASU No. 2014-09 was originally effective for annual reporting periods beginning after December 15, 2016, and interim periods thereafter. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delayed the effective date of the new standard for annual reporting periods beginning after December 15, 2017, and interim periods thereafter. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. The standard allows for either a full retrospective or modified retrospective method of adoption. The Company is finalizing its assessment of the impact of the adoption including the election for either full retrospective or modified retrospective method of adoption; however, currently, the Company does not expect the adoption will have a material impact on its financial position and results of operations. The Company currently anticipates adopting this standard on its effective date, January 1, 2018. The Company has not experienced significant issues in its implementation process and it does not anticipate significant changes to its accounting policies.

In August 2014, FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern. The ASU provides guidance regarding management's responsibility to evaluate whether there exists substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. ASU No. 2014-15 is effective for annual reporting periods ended after December 15, 2015, and interim periods thereafter. The Company adopted this standard in the current year. The impact of the adoption of the standard is included in Footnote 2 to these financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810)—Amendments to the Consolidation Analysis. The ASU affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities, (2) eliminates the presumption that a general partner should consolidate a limited partnership, (3) affects the consolidation analysis of reporting entities that are involved with VIEs, and (4) provides a scope exception for certain entities. ASU No. 2015-02 was effective for interim and annual reporting periods beginning after December 15, 2015. The adoption of this standard did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments--Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. Changes to the current guidance primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. ASU No. 2016-01 is effective for fiscal years and interim periods beginning after December 15, 2017, and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted except for the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, Leases. ASU No. 2016-2 is aimed at making leasing activities more transparent and comparable, and requires substantially all leases be recognized by lessees on their balance sheet as a right-of-use asset and corresponding lease liability, including leases currently accounted for as operating leases. ASU No. 2016-2 is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU No. 2016-2 will have on its consolidated financial position, results of operations and cash flows.

In March 2016, the FASB issued ASU No. 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments, which clarifies the steps required when assessing whether the economic characteristics and risks of call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts based on a four-step decision process. ASU No. 2016-06 is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU No. 2016-07, Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting, requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for the equity method and eliminates the requirement for retroactive adjustment of the investment as a result of an increase in the level of ownership interest or degree of influence. ASU No. 2016-07 is effective for financial statements issued for fiscal years and interim periods within those fiscal years beginning after December 15, 2016. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU includes various provisions to simplify the accounting for share-based payments with the goal of reducing the cost and complexity of accounting for share-based payments. The amendments may significantly impact net income, earnings per share and the statement of cash flows as well as present implementation and administration challenges for companies with significant share-based payment activities. ASU No. 2016-09 is effective for public companies for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The ASU also requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. The ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early application will be permitted for all organizations for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of ASU No. 2016-13 will have on its consolidated financial position, results of operations and cash flows.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, to improve financial reporting in regards to how certain transactions are classified in the statement of cash flows. The ASU requires that (1) debt extinguishment costs be classified as cash outflows for financing activities and provides additional classification guidance for the statement of cash flows, (2) the classification of cash receipts and payments that have aspects of more than one class of cash flows to be determined by applying specific guidance under generally accepted accounting principles, and (3) each separately identifiable source or use within the cash receipts and payments be classified on the basis of their nature in financing, investing or operating activities. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not believe the adoption of ASU No. 2016-15 will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

4. Acquisitions

Acquisition of Scilex Pharmaceuticals Inc.

On November 8, 2016, the Company entered into a stock purchase agreement with a majority of the stockholders of Scilex to acquire approximately 72% of the outstanding capital stock of Scilex. Scilex focuses on the development and commercialization of specialty pharmaceutical products for the treatment of pain; its lead product, ZTlido™, is a branded lidocaine patch formulation being developed for the treatment of chronic pain. ZTlido™ (lidocaine patch 1.8%) will be manufactured by a contract manufacturer. On November 8, 2016, in connection with the closing of this transaction, the Company acquired approximately 72% of the outstanding capital stock of Scilex for approximately $4.8 million in shares of the Company and contingent consideration of up to approximately $42.9 million payable in

shares of the Company, subject to the achievement of certain regulatory approvals related to new drug applications, and noncontrolling interest of approximately $14.0 million. At November 8, 2016, the contingent consideration was valued at $40.0 million, resulting in a total purchase consideration of approximately $44.8 million. The fair value of the contingent consideration is recorded as a current liability and will be adjusted as events and circumstances arise. The remainder of the outstanding capital stock of Scilex represents a noncontrolling interest of which approximately 23% continues to be held by ITOCHU CHEMICAL FRONTIER CORPORATION (“Itochu”) following the acquisition.

The consolidated and combined financial statements include the results of operations from this transaction, which have been accounted for as a business combination, and require, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The valuation of the acquired assets and liabilities resulted in the recognition of identifiable assets of approximately $62.5 million comprised mainly of in-process research and development of $25.2 million, patents of $36.0 million, and goodwill of $18.1 million. Various factors contributed to the establishment of goodwill, including an assembled workforce.

The consolidated results of operations of Scilex were not material to the Company’s reported results for the year ended December 31, 2016.

Acquired In-process Research and Development of Cargenix

In August 2015, the Company and TNK Therapeutics, Inc., its subsidiary ("TNK") entered into a Membership Interest Purchase Agreement (the "Membership Interest Purchase Agreement") with CARgenix Holdings LLC ("CARgenix") and the members of CARgenix (the "Members") pursuant to which the Members sold all of their membership interests in CARgenix to TNK for: (1) a cash payment of $100.00, and (2) $6.0 million in shares of TNK Class A common stock ("TNK Class A Stock"), subject to adjustment in certain circumstances, to be issued to the Members upon a financing resulting in gross proceeds (individually or in the aggregate) to TNK of at least $50.0 million (a "Qualified Financing"). In accordance with an amendment to the Membership Interest Purchase Agreement entered into in March 2016, in the event a Qualified Financing did not occur by September 15, 2016 or TNK did not complete an initial public offering of shares of its capital stock by October 15, 2016, in lieu of receiving shares of TNK pursuant to the acquisition, the Members would receive an aggregate of 309,917 shares of the Company's common stock, subject to adjustment in certain circumstances. TNK did not complete a Qualified Financing by the amended financing deadline and the Company issued 309,917 shares of its common stock to the Members on October 7, 2016.

Acquired In-process Research and Development of BDL

In August 2015, the Company and TNK entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with BDL Products, Inc. ("BDL") and the stockholders of BDL ("Stockholders") pursuant to which the Stockholders sold all of their shares of capital stock in BDL to TNK for: (1) a cash payment of $100.00, and (2) $6.0 million in shares of TNK Class A Stock, subject to adjustment in certain circumstances, to be issued to the Stockholders upon a Qualified Financing. In accordance with subsequent amendments to the Stock Purchase Agreement, in the event a Qualified Financing does not occur by October 15, 2017 or TNK does not complete an initial public offering of shares of its capital stock by September 15, 2017, in lieu of receiving shares of TNK pursuant to the acquisition, the Stockholders shall receive an aggregate of 309,917 shares of the Company's common stock, subject to adjustment in certain circumstances.

5. Fair Value Measurements

Fair value measurement is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy is established, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.

Level 3—Unobservable inputs based on the Company's own assumptions.

The following table presents the Company’s financial assets and liabilities that are measured at fair value on a recurring basis. (in thousands):

	Fair Value Measurements at December 31, 2016			
	Balance	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and Cash Equivalents	$82,398	$82,398	$ —	$ —
Marketable securities	$1,106	$831	$ —	$ 275
Total assets	$83,504	$83,504	$ —	$ —
Liabilities:				
Acquisition consideration payable	$48,362	$—	$ —	$ 48,362
Total liabilities	$48,362	$—	$ —	$ 48,362

	Fair Value Measurements at December 31, 2015			
	Balance	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Marketable securities	$97,366	$97,366	$ —	$ —
Total assets	$97,366	$97,366	$ —	$ —
Liabilities:				
Derivative liability	$5,520	$—	$ —	$ 5,520
Total liabilities	$5,520	$—	$ —	$ 5,520

The Company's financial assets and liabilities carried at fair value are comprised of cash and cash equivalents, acquisition consideration payable and derivative instruments. Cash and cash equivalents consist of money market accounts and bank deposits which are highly liquid and readily tradable. These investments are valued using inputs observable in active markets for identical securities. Marketable securities are valued using inputs observable in active markets for identical securities. The Company recorded contingent consideration as part of its acquisitions of Shanghai Three Alliance Biotech Co. LTD (“Shanghai Three”), Roger Williams Medical Center (“RWMC”), Concortis, Inc., (“Concortis”), BDL, CARgenix, and Scilex. The fair value of the contingent consideration measured at fair value on a recurring basis using significant unobservable inputs (Level 3). Contingent consideration is measured using the income approach and discounting to present value the contingent payments expected to be made based on assessment of the probability that the company would be required to make such future payment.

In August 2015, the Company recorded $12 million of contingent consideration related to the asset acquisitions of CARgenix and BDL. In October 2016 the $6 million contingent liability associated with the CARgenix acquisition was settled. During the year, the Company recorded a $2.3 million gain associated with the re-measurement to fair value of the contingent consideration associated with the CARgenix contingent consideration. The contingent liability associated with the BDL acquisition was $6 million as of the beginning of the year and was re-measured based on fair value in the current year, resulting in a $2.7 million gain recognized in earnings. The gains recognized in earnings are recorded in the consolidated statement of operations as gain or loss on contingent liabilities.

The following table includes a summary of the contingent consideration liabilities associated with acquisitions entered into during the year ended December 31, 2016. The contingent consideration is measured at fair value using significant unobservable inputs (Level 3) during the twelve months ended December 31, 2016:

(in thousands)	2016
Fair Value at Beginning of Year	—
Contingent consideration – current year acquisitions	46,826
Remeasurement of Fair Value – current year acquisitions	(1,775)
Payment of current year contingent consideration	—

Balance at End of Year	$45,052

The following table includes a summary of the derivative liabilities measured at fair value using significant unobservable inputs (Level 3) during the twelve months ended December 31, 2016.

(in thousands)	2016
Fair Value at Beginning of Year	$5,520
Additions	—
Expiration of derivative liability	(5,520)
Payments	—
Balance at End of Year	$—

The following table presents quantitative information about the inputs and valuation methodologies used for the Company’s fair value measurements classified in Level 3 of the fair value hierarchy at December 31, 2016:

	Fair Value at 12/31/16 (in thousands)	Valuation Methodology	Significant Unobservable Input	Weighted Average (range, if applicable)
BDL Contingent Consideration	$ 3,311	Multiple outcome discounted cash flow	Discount Rate Percent probabilities assigned to scenarios	15.71% 50%
Scilex Contingent Consideration	$40,000	Multiple outcome discounted cash flow	Discount Rate Probability of Regulatory Milestone	2.28% 95%
Concortis Contingent Consideration	$ 596	Multiple outcome discounted cash flow	Discount Rate Percent probabilities assigned to scenarios	12.21% 20%
Shanghai Three Contingent Consideration	$1,782	Multiple outcome discounted cash flow	Discount Rate Percent probabilities assigned to scenarios	12.21% 50%
RWMC Contingent Consideration	$2,673	Multiple outcome discounted cash flow	Discount Rate, Percent probabilities assigned to scenarios	12.21% 50%

The principal significant unobservable inputs used in the valuations of the contingent considerations are the discount rates and probabilities assigned to scenario outcomes. An increase in the discount rate or regulatory milestone will cause a decrease in the fair value of the contingent consideration. Conversely, a decrease in the discount rate will cause an increase in the fair value of the contingent consideration. An increase in the probabilities assigned to certain scenarios will cause the fair value of contingent consideration to increase. Conversely, a decrease in the probabilities assigned to certain scenarios will cause the fair value of contingent considerations to decrease.

Fair Value of Other Financial Instruments

The carrying value and fair value of the company’s notes receivable and debt obligations are as follows (in thousands):

	December 31, 2016	
	Carrying Value	Fair Value

Debt Obligations:		
Term Loan	47,316	47,316
	$47,316	$47,316

6. Marketable Securities

Marketable securities consisted of the following as of December 31, 2016 (in thousands):

	December 31, 2016			
	Cost	Gross Unrealized Gains (Losses)	Gross Realized Gains (Losses)	Fair Value
Trading securities:				
MedoveX common shares and warrants	$ 750	$ 356	$ —	$ 1,106

	December 31, 2015			
	Cost	Gross Unrealized Gains (Losses)	Gross Realized Gains (Losses)	Fair Value
Avaliable-for-sale securities:				
NantKwest common shares and warrants	$ 10,000	$ 87,366	$ —	$ 97,366

Available-for-sale Securities

On July 27, 2015, NantKwest, Inc. (“NantKwest”) completed its initial public offering (“IPO”). Prior to the IPO the Company’s investment in NantKwest was accounted for using the cost method and the total investment of $10.0 million was classified as part of investments in common stock on the Company’s consolidated balance sheets. The common shares were subject to restrictions in a lock-up agreement through December 27, 2015 as well as limitations under Rule 144 of the Securities Act of 1933, as amended. As these were short term restrictions, the Company did not apply a marketability discount. At December 31, 2015, the Company recorded an unrealized gain of $73.6 million, representing the difference between the $10.0 million cost basis and the estimated fair value net of tax, as accumulated other comprehensive income in the stockholder's equity section of the Company’s consolidated balance sheet and as a change in unrealized gains and losses on marketable securities in the Company’s consolidated statements of comprehensive income (loss). The Company’s investment in NantKwest was revalued on each balance sheet date. The fair value of the Company’s holdings in NantKwest at December 31, 2015 is a Level 1 measurement.

In July 2016, the Company completed the transactions contemplated by a letter agreement (the “Letter Agreement”) with the Chan Soon-Shiong Family Foundation (“Foundation”) and Cambridge Equities, LP (“Cambridge”). Pursuant to the terms of the Letter Agreement, among other things, (i) the Company agreed to sell to Foundation, and Foundation agreed to purchase from the Company, an aggregate of 5,618,326 shares of common stock of NantKwest held by the Company (representing all shares of NantKwest held by the Company), (ii) Foundation agreed to sell to the Company, and the Company agreed to purchase all reported shares held by Foundation and Cambridge, constituting an aggregate of 7,878,098 shares of Common Stock, (iii) Cambridge agreed to forfeit its right to purchase 500,000 shares of Common Stock issuable pursuant to a warrant to purchase 1,724,138 shares of Common Stock issued by the Company, and (iv) the Company agreed to pay to Foundation an aggregate of approximately $15.6 million. Effective upon closing, the Company repurchased the 7,878,098 shares of Common Stock. The Company recognized a gain of $27.2 million on the sale of the NantKwest stock in its consolidated statement of operations for the twelve months ended December 31, 2016 as a result of the transaction.

Trading Securities

On August 5, 2016, the Company entered into a Unit Purchase Agreement (the "Unit Purchase Agreement") with MedoveX Corporation ("MedoveX"). Pursuant to the terms of the Unit Purchase Agreement, the Company purchased three Units for $750 thousand. Each Unit had a purchase price of $250 thousand and consisted of (i) 208,333 shares of MedoveX common stock (the "MedoveX Common Stock"), and (ii) a warrant to purchase 104,167 shares of MedoveX Common Stock (the "MedoveX Warrant"). The MedoveX Warrant has an initial exercise price of $1.52 per share, subject to adjustment, and is initially exercisable six months following the date of issuance for a period of five years from the date of issuance. In addition, the Company entered into a Registration Rights Agreement with MedoveX pursuant to which MedoveX was required to file a registration statement registering for resale all shares of MedoveX Common Stock and shares of MedoveX Common Stock issuable pursuant to the MedoveX Warrant issued as part of the Units. The Company recorded a gain on trading securities of $356 thousand, representing the difference between the $750 thousand cost basis and the estimated fair value as of December 31, 2016, in the Company's consolidated statements of operations. The Company's investment in MedoveX will be revalued on each balance sheet date. The fair value of the Company's holding in MedoveX Common Stock at December 31, 2016 is a Level 1 measurement. The fair value of the Company's holdings in the MedoveX Warrant was estimated using the Black-Scholes option-pricing method. The risk-free rate was derived from the U.S. Treasury yield curve, matching the MedoveX Warrant's term, in effect at the measurement date. The volatility factor was determined based on MedoveX's historical stock prices. The warrant valuation is a Level 3 measurement.

The following table includes a summary of the warrant measured at fair value using significant unobservable inputs (Level 3) during the twelve months ended December 31, 2016 (in thousands):

	Total
Beginning balance at December 31, 2015	$—
Addition of warrant	291
Change in fair value of warrant	(16)
Ending balance at December 31, 2016	$275

7. Property and Equipment

Property and equipment consisted of the following as of December 31, 2016 and 2015 (in thousands):

	December 31,	
	2016	2015
Furniture and fixtures	458	282
Office equipment	326	128
Machinery and lab equipment	13,220	7,519
Leasehold improvements	3,625	2,034
	17,630	9,963
Less accumulated depreciation	(4,922)	(2,717)
	$12,707	$7,246

Depreciation expense for the years ended December 31, 2016, 2015 and 2014 was $1,951 thousand, $1,134 thousand and $754 thousand, respectively.

8. Investments in Common Stock

As of December 31, 2016 and 2015, the aggregate carrying amount of the Company's cost-method investments in non-publicly traded companies was $112.0 million and included an ownership interest in NantCell, Inc. ("NantCell"), NantBioScience, Inc. ("NantBioScience"), Globavir Biosciences, Inc., Brink Biologics, Inc., and Coneksis, Inc. The Company's cost-method investments are assessed for impairment quarterly. The Company has determined that it is not practicable to estimate the fair value of its cost-method investments on a regular basis and does not reassess the fair value of cost-method investments if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investments. No impairment losses were recorded during the years

ended December 31, 2016, 2015 and 2014.

9. Equity Method Investments

NANTibody

In April 2015, the Company and NantCell, a wholly-owned subsidiary of NantWorks, Inc. (“NantWorks”), a private company owned by Dr. Patrick Soon-Shiong, established a new entity called Immunotherapy NANTibody, LLC (“NANTibody”) as a stand-alone biotechnology company with $100.0 million initial joint funding. NantCell owns 60% of the equity interest of NANTibody and agreed to contribute $60.0 million to NANTibody. The Company owns 40% of NANTibody and in July 2015, the Company had NantPharma, LLC (“NantPharma”) contribute its portion of the initial joint funding of $40.0 million to NANTibody from the proceeds of the sale of IgDraSol, Inc. (“IgDraSol”). NANTibody will focus on accelerating the development of multiple immuno-oncology mAbs for the treatment of cancer, including but not limited to anti-PD-1, anti-PD-L1, anti-CTLA4 mAbs, and other immune-check point antibodies as well as ADCs and bispecific antibodies.

The Company is accounting for its interest in NANTibody as an equity method investment, due to the significant influence the Company has over the operations of NANTibody through its board representation and 40% voting interest. The Company’s investment in NANTibody is reported in equity method investments on its consolidated balance sheets and its share of NANTibody’s loss is recorded in loss on equity investments on its consolidated statement of operations. As of December 31, 2016, the carrying value of the Company’s investment in NANTibody was approximately $40 million.

NANTibody recorded net loss of $95 thousand for the period from its inception in April 2015 through September 30, 2015 and net income of $592 thousand for its year-to-date period September 30, 2016. As of September 30, 2016, NANTibody had $100.7 million in current assets and $242 thousand in current liabilities and no noncurrent assets or noncurrent liabilities.

The financial statements of NANTibody are not received sufficiently timely for the Company to record its portion of earnings or loss in the current financial statements and therefore the Company reports its portion of earnings or loss on a quarter lag.

NantStem

In July 2015, the Company and NantBioScience, a wholly-owned subsidiary of NantWorks, established a new entity called NantCancerStemCell, LLC ("NantStem") as a stand-alone biotechnology company with $100.0 million initial joint funding. As initially organized, NantBioScience was obligated to make a $60.0 million cash contribution to NantStem for a 60% equity interest in NantStem, and the Company was obligated to make a $40.0 million cash contribution to NantStem for a 40% equity interest in NantStem. Fifty percent of these contributions were funded in July 2015 and the remaining amounts were to be made by no later than September 30, 2015. The Company had NantPharma contribute its portion of the initial joint funding of $20.0 million to NantStem from the proceeds of the sale of IgDraSol. Pursuant to a Side Letter dated October 13, 2015, the NantStem joint venture agreement was amended to relieve the Company of the obligation to contribute the second $20.0 million payment, and its ownership interest in NantStem was reduced to 20%. NantBioScience's funding obligations were unchanged. The Side Letter was negotiated at the same time the Company issued a call option on shares of NantKwest that it owned to Cambridge, a related party to NantBioScience.

In the fourth quarter of 2015, the Company determined it had an other-than-temporary decline in the value of NantStem and recognized a loss of $4.0 million in loss on equity investments on its consolidated statement of operations for the year ended December 31, 2015. There was no loss related to other-than-temporary impairment recognized for the equity investment for the year ended December 31, 2016.

The Company is accounting for its interest in NantStem as an equity method investment, due to the significant influence the Company has over the operations of NantStem through its board representation and 20% voting interest. The Company's investment in NantStem is reported in equity method investments on its consolidated balance sheets and its share of NantStem's loss is recorded in loss on equity investments on its consolidated statement of operations. As of December 31, 2016, the carrying value of the Company's investment in NantStem was approximately $18.5 million.

NantStem recorded net loss of $15 thousand for the period from its inception in July 2015 through September 30, 2015 net income of $1.7 million for its year-to-date period ended September 30, 2016. As of September 30, 2016, NantStem had $81.7 million in current assets and no current liabilities and no noncurrent assets or noncurrent liabilities.

The financial statements of NantStem are not received sufficiently timely for the Company to record its portion of earnings or loss in the current financial statements and therefore the Company reports its portion of earnings or loss on a quarter lag.

Yuhan Agreement

In March 2016, the Company and Yuhan Corporation, a South Korea company ("Yuhan"), entered into an agreement to form a joint venture company called ImmuneOncia Therapeutics, LLC ("ImmuneOncia") to develop and commercialize a number of immune checkpoint antibodies against undisclosed targets for both hematological malignancies and solid tumors. Under the terms of the joint venture agreement, Yuhan contributed an initial investment of $10.0 million to ImmuneOncia, and the Company granted ImmuneOncia an exclusive license to one of its immune checkpoint antibodies for specified countries while retaining the rights for the U.S., European and Japanese markets, as well as global rights for ImmuneOncia to two additional antibodies that will be selected by ImmuneOncia from a group of

pre-specified antibodies from the Company's immuno-oncology antibody portfolio. Yuhan owns 51% of ImmuneOncia, while the Company owns 49%.

In April 2016, Yuhan purchased $10.0 million of shares of Common Stock, and warrants as part of the Company's private placement offering.

The Company is accounting for its interest in Yuhan as an equity method investment, due to the significant influence the Company has over the operations of Yuhan through its board representation and 49% voting interest while not sharing joint control with Yuhan. The Company's investment in ImmuneOncia is reported in equity method investments on its consolidated balance sheets and its share of Yuhan's loss is recorded in loss on equity investments on its consolidated statement of operations. As of December 31, 2016, the carrying value of the Company's investment in Yuhan was approximately $9.5 million.

Celularity Transaction

On November 1, 2016, the Company loaned $5.0 million to Celularity, Inc., a research and development company ("Celularity"), pursuant to a promissory note issued by Celularity to the Company (the "Celularity Note") in connection with the entry into a nonbinding term sheet by the Company, TNK and Celularity. Pursuant to the terms of the Celularity Note, the loan will be due and

payable in full on the earlier of November 1, 2017 and the occurrence of an event of default under the Celularity Note (the "Maturity Date"). The Celularity Note also provides that, in certain circumstances, the Company shall loan Celularity up to an additional $5.0 million over the next 12 months. In the event that Celularity meets certain minimum financing conditions prior to the Maturity Date, all outstanding amounts under the Celularity Note shall be forgiven and converted to equity.

The Company is accounting for its interest in Celularity as an equity method investment, due to the significant influence the Company has over the operations of Celularity through its minimum 30% voting interest. The Company's investment in Celularity is reported in equity method investments on the consolidated balance sheets and its share of Celularity's income or loss is recorded in income (loss) on equity investments on the consolidated statement of operations. The financial statements of Celularity are not received sufficiently timely for the Company to record its portion of earnings or loss in the current financial statements and therefore the Company reports its portion of earnings or loss on a quarter lag. As of December 31, 2016, the carrying value of the Company's investment in Celularity was approximately $5.0 million.

Shanghai Three

The Company is accounting for its interest in Shanghai Three-Alliance Biotech Co. LTD ("Shanghai Three"), a China based company, as an equity method investment, due to the significant influence the Company has over the operations of Shanghai Three through its 25% voting interest. The Company's investment in Shanghai Three is reported in equity method investments on the consolidated balance sheets and its share of Shanghai Three's income or loss is recorded in income (loss) on equity investments on the consolidated statement of operations. The financial statements of Shanghai Three are not received sufficiently timely for the Company to record its portion of earnings or loss in the current financial statements and therefore the Company reports its portion of earnings or loss on a quarter lag. As of December 31, 2016, the carrying value of the Company's investment in Shanghai Three was approximately $2.8 million.

Shanghai Three incurred no operating expenses for the three and nine months ended September 30, 2016. As of September 30, 2016, Shanghai Three had approximately $0.5 million in current assets, $5.1 million in noncurrent assets, $3.0 million in current liabilities, and $2.0 million in noncurrent liabilities.

3SBio Term Sheet

In June 2016, the Company and TNK entered into a binding term sheet with Shenyang Sunshine Pharmaceutical Company Ltd ("3SBio"), a China based company, to form a joint venture to develop and commercialize proprietary immunotherapies, including those developed from, including or using TNK's CAR-T technology targeting carcinoembryonic antigen ("CEA") positive cancers. Due diligence and negotiations between 3SBio and the Company for the definitive agreement(s) are currently ongoing.

Under the terms of the agreement 3SBio will contribute an initial investment of $10.0 million to the joint venture and TNK will grant the joint venture an exclusive license to the CEA CAR-T technology and two additional CARs for cellular therapy for the Greater China market, including Mainland China, Hong Kong and Macau. 3SBio will own 51% of the joint venture while TNK will own 49%. As of December 31, 2016, funding and operations of the joint venture had not yet begun, as a result no investment has been recorded as of December 31, 2016.

In June 2016, 3SBio purchased $10.0 million of Common Stock and warrants as part of the Company's private placement offering.

10. Goodwill and Intangible Assets

As of December 31, 2016 and 2015, the Company had goodwill of $41,548 thousand and $20,626 thousand, respectively. The Company performed a qualitative test for goodwill impairment as of December 31, 2016. Based upon the results of the qualitative testing the Company concluded that it is more-likely-than-not that the fair values of the Company's goodwill was in excess of its carrying value and therefore performing the first step of the two-step impairment test was unnecessary. No goodwill impairment was recognized for the years ended December 31, 2016 and 2015.

The following is a summary of changes in the Company's recorded goodwill during the year ended December 31, 2016 (in thousands):

	Amount
Balance at December 31, 2015	$20,626
Goodwill attributable to acquisition of Scilex and other	20,922
Balance as December 31, 2016	$41,548

The Company's intangible assets, excluding goodwill, include acquired license and patent rights, core technologies, customer relationships and acquired in-process research and development. Amortization for the intangible assets that have finite useful lives is generally recorded on a straight-line basis over their useful lives. A summary of the Company's identifiable intangible assets as of December 31, is as follows (in thousands):

	December 31, 2016		
	Gross Carrying Amount	Accumulated Amortization	Intangibles, net
Customer relationships	$1,585	$ 801	$ 784
Acquired technology	3,410	533	2,877
Acquired in-process research and development	25,404	—	25,404
Patent rights	36,120	419	35,701
Total intangible assets	$66,519	$ 1,753	$ 64,766

	December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Intangibles, net
Customer relationships	$1,320	$ 536	$ 784
Acquired technology	3,410	358	3,052
Patent rights	90	14	76
Total intangible assets	$4,820	$ 908	$ 3,912

As of December 31, 2016, the remaining weighted average life for identifiable intangible assets is 15 years.

Patent rights are stated at cost and amortized on a straight-line basis over the estimated useful lives of the assets, determined to be approximately fifteen years or nineteen years from the date of transfer of the rights to the Company. Amortization expense for the years ended December 31, 2016 and 2015 was $405 thousand and $5 thousand, respectively, which has been included in intangibles amortization.

Acquired technology is stated at cost and amortized on a straight-line basis over the estimated useful lives of the assets, determined to be approximately nineteen years from the date of acquisition of the technology in December 2013. Amortization expense for the years ended December 31, 2016 and 2015 was $176 thousand and $176 thousand,

respectively, which has been included in intangibles amortization.

Customer relationships are stated at cost and amortized on a straight-line basis over the estimated useful lives of the assets and are generally determined to be approximately five years from the date of acquisition. Amortization expense for the years ended December 31, 2016 and 2015 was $264 thousand and $264 thousand, respectively, which has been included in intangibles amortization.

Acquired in-process research and development is stated at cost and may be immediately expensed if there is no alternative future use. Otherwise, the acquired in-process research and development is reviewed annually for impairment or more frequently as changes in circumstance or the occurrence of events suggest that the remaining value may not be recoverable.

Estimated future amortization expense related to intangible assets at December 31, 2016 is as follows (in thousands):

Years Ending December 31,	Amount
2017	$2,886
2018	4,138
2019	4,303
2020	4,303
2021	4,303
Thereafter	44,833
Total	$64,766

11. Significant Agreements and Contracts

License Agreement with Les Laboratoires Servier

On July 11, 2016, the Company announced a license and collaboration agreement with Les Laboratoires Servier, SAS, a corporation incorporated under the laws of France, and Institut de Recherches Internationales Servier, a company duly organized and existing under the laws of France (individually and collectively, "Servier") for the development, manufacture and commercialization of products using the Company's fully human immuno-oncology anti-PD-1 mAb STI-A1110 and will provide support for Sevier's initial development efforts. Pursuant to the financial terms of the agreement, the Company received a non-refundable up-front payment of $27.4 million in July of 2016, which has been recorded as deferred revenue in the Company's consolidated balance sheet and may also receive various payments based on commercial sales milestones related to annual sales levels. The Company will recognize the upfront payment over the expected period of performance of three years. During the twelve months ended December 31, 2016, the Company recognized $3.8 million in license fee revenue pursuant to the agreement.

License Agreement with Mabtech Limited

In August 2015, the Company entered into an exclusive licensing agreement to develop and commercialize multiple prespecified biosimilar and biobetter antibodies from Mabtech Limited. Under the terms of the agreement, the Company will develop and market these four mAbs for the North American, European and Japanese markets. The Company made an initial license payment of $10.0 million and in February 2016, paid an additional $10.0 million license payment, both of which were recognized as acquired in-process research and development expense in the consolidated statements of operations as the Company determined there was no alternative future use for the license.

In June 2016, the Company agreed to accelerate and pay a $30.0 million milestone license payment which has been recognized as acquired in-process research and development expense in the consolidated statements of operations, in exchange for the purchase by Mabtech Limited and one or more of its affiliates in June 2016, of $20.0 million of Common Stock and warrants. The amended agreement includes additional milestone payments totaling $150.0 million payable following the completion of the technology transfer from Mabtech Limited.

Immunotherapy Research Collaboration Agreement with Roger Williams Medical Center

In April 2016, the Company entered into an immunotherapy research collaboration agreement with Roger Williams Medical Center to provide certain clinical trial, research and manufacturing services. Under the terms of the agreement, Roger Williams Medical Center will perform pre-clinical and clinical research related to the development

and delivery of CAR-T immunotherapies. In exchange, the Company granted Roger Williams Medical Center $6.0 million in shares of TNK Class A Stock, subject to adjustment in certain circumstances, to be issued upon a financing resulting in gross proceeds (individually or in the aggregate) to TNK of at least $20.0 million. The Company determined the fair value of this obligation was $3.4 million as of the April of 2016 agreement effective date, and the amount was recognized as prepaid expense and other and acquisition consideration payable in the consolidated balance sheet. The Company will recognize the upfront payment over the expected performance period of five years. During the twelve months ended December 31, 2016, the Company recognized approximately $0.5 million in pre-clinical research and development expense pursuant to the agreement.

License Agreement with NantCell

In April 2015, the Company and NantCell entered into a license agreement. Under the terms of the agreement the Company granted an exclusive license to NantCell covering patent rights, know-how, and materials related to certain antibodies, ADCs and two CAR-TNK products. NantCell agreed to pay a royalty not to exceed five percent (5%) to the Company on any net sales of products (as defined) from the assets licensed by the Company to NantCell. In addition to the future royalties payable under this agreement,

NantCell paid an upfront payment of $10.0 million to the Company and issued 10 million shares of NantCell common stock to the Company valued at $100.0 million based on a recent equity sale of NantCell common stock to a third party. As of December 31, 2016, the Company had not yet provided all of the items noted in the agreement and therefore has recorded the entire upfront payment and value of the equity interest received as deferred revenue. The Company will recognize the upfront payment and the value of the equity interest received over the expected license period of approximately ten years on a straight line basis. The Company's ownership interest in NantCell does not provide the Company with control or the ability to exercise significant influence; therefore the $100.0 million investment is carried at cost in the consolidated balance sheets and evaluated for other-than-temporary impairment on a quarterly basis.

License Agreement with The Scripps Research Institute

In January 2010, the Company entered into a license agreement (the "TSRI License") with The Scripps Research Institute ("TSRI"). Under the TSRI License, TSRI granted the Company an exclusive, worldwide license to certain TSRI patent rights and materials based on quorum sensing for the prevention and treatment of Staphylococcus aureus ("Staph") infections, including Methicillin-resistant Staph. In consideration for the license, the Company: (i) issued TSRI a warrant for the purchase of common stock, (ii) agreed to pay TSRI a certain annual royalty commencing in the first year after certain patent filing milestones are achieved, (iii) agreed to pay a royalty on any sales of licensed products by the Company or its affiliates and a royalty for any revenues generated by the Company through its sublicense of patent rights and materials licensed from TSRI under the TSRI License. The TSRI License requires the Company to indemnify TSRI for certain breaches of the agreement and other matters customary for license agreements. The parties may terminate the TSRI License at any time by mutual agreement. In addition, the Company may terminate the TSRI License by giving 60 days' notice to TSRI and TSRI may terminate the TSRI License immediately in the event of certain breaches of the agreement by the Company or upon the Company's failure to undertake certain activities in furtherance of commercial development goals. Unless terminated earlier by either or both parties, the term of the TSRI License will continue until the final expiration of all claims covered by the patent rights licensed under the agreement. For the years ended December 31, 2016, 2015 and 2014, the Company recorded $106 thousand, $123 thousand and $142 thousand in patent prosecution and maintenance costs associated with the TSRI License, respectively. All such costs have been included in general and administrative expenses.

NIH Grants

In June 2014, the NIAID awarded the Company a Phase II Small Business Technology Transfer ("STTR") grant (the "Staph Grant III Award") to support the advanced preclinical development of human bispecific antibody therapeutics to prevent and treat Staphylococcus aureus ("S. aureus" or "Staph") infections, including methicillin-resistant S. aureus ("MRSA"). The project period for the Staph Grant III Award covered a two-year period which commenced in June 2014, with total funds available of approximately $1.0 million per year for up to 2 years. During the years ended December 31, 2016 and 2015, the Company recorded $699 thousand and $884 thousand of revenue associated with the Staph Grant III Award, respectively.

In June 2014, the NIAID awarded the Company a Phase I STTR grant (the "Phase I STTR Grant Award") entitled "Anti-Pseudomonas Immunotherapy and Targeted Drug Delivery." The Phase I STTR Grant Award was to support the preclinical development of novel anti-Pseudomonas aeruginosa mAb immunotherapy or an antibody-mediated targeted antibiotic delivery vehicle. Each modality may be an effective and safe stand-alone therapy and/or a component of a "cocktail" therapeutic option for prevention and treatment of P. aeruginosa infections. The project period for the Phase I STTR Grant Award covered a two-year period which commenced in July 2014, with total funds available of approximately $300 thousand per year for up to 2 years. During the years ended December 31, 2016 and

2015, the Company recorded $256 thousand and $302 thousand of revenue associated with the Phase I STTR Grant Award, respectively.

In July 2014, the National Cancer Institute (“NCI”), a division of the NIH, awarded the Company a Phase I STTR grant, entitled “Targeting of Myc-Max Dimerization for the Treatment of Cancer” (the “Phase I Myc Grant Award”). The Phase I Myc Grant Award was to support the preclinical development of the Myc inhibitor, which interferes with the protein-protein interaction (“PPI”) between Myc and its obligatory dimerization partner, Max, preventing sequence-specific binding to DNA and subsequent initiation of oncogenic transformation. The project period for the Phase I Myc Grant Award covered a one-year period which commenced in August 2014, with total funds available of approximately $225 thousand. During the years ended December 31, 2016 and 2015, the Company recorded $0 and $139 thousand of revenue associated with the Phase I Myc Grant Award, respectively.

In August 2014, the National Heart, Lung, and Blood Institute (“NHBLI”), a division of the NIH, awarded the Company a Phase I Small Business Innovation Research (“SBIR”) grant entitled “Human Anti-WISP-1 Antibodies for Treatment of Idiopathic Pulmonary Fbrosis” (the “Phase I WISP1 Grant Award”). The Phase I WISP1 Grant Award was to advance the Company’s immunotherapy targeting WNT-1 Inducible Signaling Protein-1(“WISP1”) for the treatment of Idiopathic Pulmonary Fibrosis (“IPF”). WISP1 is a protein that has been shown to be upregulated in IPF, linked to key growth factors, cellular proliferation, hyperplasia and is correlated with late stage cancers. IPF is a fatal disease which results in progressive loss of lung function due to fibrosis of the

lungs. The project period for the Phase I WISP1 Grant Award covered a one-year period which commenced in August 2014, with total funds available of approximately $225 thousand. During the years ended December 31, 2016 and 2015, the Company recorded $51 thousand and $156 thousand of revenue associated with the Phase I WISP1 Grant Award, respectively.

Binding Term Sheet Regarding Acquisition of Semnur Pharmaceuticals, Inc.

On August 15, 2016, the Company, Scintilla Pharmaceuticals, Inc. ("Scintilla") and Semnur Pharmaceuticals, Inc. ("Semnur") entered into a binding term sheet (the "Semnur Binding Term Sheet") setting forth the terms and conditions by which Scintilla will, through a subsidiary, purchase all of the issued and outstanding equity of Semnur (the "Semnur Acquisition"). The Semnur Binding Term Sheet provides that, contingent upon the execution of a definitive agreement between the parties (the "Definitive Agreement") and subject to certain conditions, Scintilla will, at the closing of the Semnur Acquisition (the "Semnur Closing"), make an initial payment of $60.0 million (the "Initial Consideration") to the equityholders of Semnur in exchange for all of the issued and outstanding equity of Semnur. The Initial Consideration will consist of $40.0 million in cash and $20.0 million in shares of the Company's common stock (the "Semnur Stock Consideration"). The Semnur Binding Term Sheet also provides that the number of shares of the Company's common stock comprising the Semnur Stock Consideration will be calculated based on the volume weighted average closing price of the Company's common stock for the 30 consecutive trading days ending on the date that is three days prior to the execution of the Definitive Agreement. $6.0 million of the Semnur Stock Consideration will be placed into escrow, a portion of which will be held for a period of up to six or 12 months to secure certain obligations of Semnur and its equityholders in connection with the Semnur Acquisition. At the Semnur Closing, the Company will enter into a registration rights agreement with certain of Semnur's equityholders, pursuant to which the Company will agree to seek the registration for resale of the shares of the Company's common stock comprising the Semnur Stock Consideration.

In addition to the Initial Consideration, Scintilla may pay additional consideration of up to $140.0 million to Semnur's equityholders upon Scintilla's completion of certain clinical studies and trials, receipt of certain regulatory approvals and the achievement of certain sales targets following the Semnur Closing.

Under the Semnur Binding Term Sheet, either party may terminate the Semnur Binding Term Sheet (a "Termination").

As of December 31, 2016, the Semnur Acquisition had not closed. The final terms of the Semnur Acquisition are subject to the negotiation and finalization of the Definitive Agreement and any other agreements relating to the Semnur Acquisition, and the material terms of the Semnur Acquisition are expected to differ from those set forth in the Semnur Binding Term Sheet. In addition, the Semnur Closing will be subject to various customary and other closing conditions.

A member of the Company's board of directors is Semnur's Chief Executive Officer and a member of its Board of Directors and currently owns approximately 5.5% of Semnur's total outstanding capital stock.

Binding Term Sheet Regarding Acquisition of Virttu Biologics Limited

On November 15, 2016, the Company, TNK and Virttu Biologics Limited ("Virttu") entered into a binding term sheet (the "Virttu Binding Term Sheet") setting forth the terms and conditions by which TNK will purchase all of the issued and outstanding equity of Virttu (the "Virttu Acquisition"). Subject to certain conditions, at the closing of the Virttu Acquisition (the "Virttu Closing"), the Company will issue to the equityholders of Virttu an aggregate of $5.0 million of shares of the Company's common stock (the "Closing Shares"). The number of Closing Shares issuable shall be determined based on the closing price of the Company's common stock on the date of the Virttu Closing. Further, upon the occurrence of the closing of the next third party equity financing of TNK in which TNK receives at least $50.0

million in proceeds (a “Financing”), TNK will issue to the equityholders of Virttu an aggregate of $20.0 million of shares of the same class and series of capital stock of TNK as is issued in such Financing, based upon the valuation of TNK achieved in such Financing (the “TNK Financing Shares”). If a Financing has not occurred within twelve months of the Virttu Closing (the “Financing Due Date”), the equityholders of Virttu will be issued an aggregate of $20.0 million of shares of the Company’s common stock in lieu of the TNK Financing Shares (the “Sorrento Financing Shares”). The number of Sorrento Financing Shares issuable shall be determined based on the closing price of the Company’s common stock on the Financing Due Date. In the event that the TNK Financing Shares are issued, 20% of the TNK Financing Shares will be placed into escrow until the Financing Due Date to secure the indemnification obligations of Virttu and its equityholders for breaches of their representations, warranties or covenants under the definitive agreements governing the Virttu Acquisition. The Closing Shares and the TNK Financing Shares or the Sorrento Financing Shares will be issued to the Virttu equityholders on a pro rata basis based on each such equityholder’s equity interest in Virttu as of the Virttu Closing.

As of December 31, 2016, the Virttu Acquisition had not closed. The final terms of the Virttu Acquisition are subject to the negotiation and finalization of the definitive agreements relating to the Virttu Acquisition and the material terms of the Virttu Acquisition may differ from those set forth in the Virttu Binding Term Sheet. In addition, the Virttu Closing will be subject to various customary and other closing conditions.

12. Loan and Security Agreement

In September 2013, the Company entered into a $5.0 million loan and security agreement with two banks pursuant to which: (i) the lenders provided the Company a term loan which was funded at closing, (ii) the Company repaid its then outstanding equipment loan balance of $762, and (iii) the lenders received a warrant to purchase an aggregate 31,250 shares of the Company's common stock at an exercise price of $8.00 per share exercisable for seven years from the date of issuance. The value of the warrants, totaling $215 thousand, was recorded as debt discount and additional paid-in capital.

In March 2014, the Company entered into an amended and restated loan and security agreement, increasing the September 2013 facility to $12.5 million from $5.0 million, with the same two banks. Such loan was funded at closing and was secured by a lien covering substantially all of the Company's assets, excluding intellectual property, which is subject to a negative pledge. In October 2014, the Company entered into a second amendment to its amended and restated loan and security agreement to extend the interest only payments on the outstanding amount of the loan from October 1, 2014 to May 1, 2015, after which equal monthly payments of principal and interest are due until the loan maturity date of September 30, 2017. The amended and restated loan interest rate is 7.95% per annum, and the Lenders received additional warrants to purchase an aggregate of 34,642 shares of the Company's common stock at an exercise price of $12.99 per share, exercisable for seven years from the date of issuance. The value of the warrants, totaling $322, was recorded as debt discount and additional paid-in capital.

On the November 22, 2016, the Company paid off all obligations owing under, and terminated, the amended and restated loan and security agreement, as amended (the "Terminated Loan Agreement"). In connection with the repayment and discharge of indebtedness, the Company was required to pay pre-payment fees of approximately $49 thousand, as required by the terms of the Terminated Loan Agreement. The secured interests under the Terminated Loan Agreement were terminated in connection with the Company's discharge of indebtedness.

On November 23, 2016, the Company and certain of its domestic subsidiaries (together with the Company, the "Borrowers") entered into a Loan and Security Agreement (the "Loan Agreement") with Hercules Capital, Inc. ("Hercules"), as a lender and agent for several banks and other financial institutions or entities from time to time party to the Loan Agreement (collectively, the "Lenders") for a term loan of up to $75.0 million, subject to funding in multiple tranches (the "Term Loan"). The proceeds of the Term Loan will be used for general corporate purposes and coincided with the repayment of the outstanding debt financing arrangement with Oxford Finance LLC and Silicon Valley Bank.

The first tranche of $50.0 million was funded upon execution of the Loan Agreement on November 23, 2016. Under the terms of the Loan Agreement, the Borrowers may, but are not obligated to, request to draw on two additional tranches. The second tranche of up to $10.0 million is available until September 30, 2017, subject to the Borrowers achieving certain fundraising and corporate milestones and satisfying customary conditions. The third tranche of up to $15.0 million is available until June 30, 2018, subject to approval by Hercules' Investment Committee. The Term Loan will mature on December 1, 2020.

The Loan Agreement contains customary affirmative and restrictive covenants and representations and warranties, including financial reporting obligations and limitations on dividends, indebtedness, liens (including a negative pledge on intellectual property and other assets), collateral, investments, distributions, transfers, mergers or acquisitions, taxes, corporate changes, deposit accounts, and subsidiaries. Additionally, the Loan Agreement contains covenants requiring the Borrowers (i) to achieve certain fundraising requirements by certain dates and (ii) to maintain a

minimum amount of unrestricted cash prior to achieving its corporate and fundraising milestones. The breach of such covenants, in addition to certain other covenants, would result in the occurrence of an event of default. The Loan Agreement also contains other customary provisions, such as expense reimbursement, non-disclosure obligations, as well as indemnification rights for the benefit of the Lenders. Upon the occurrence of an event of default and following any applicable cure periods, if any, a default interest rate of an additional 5.00% may be applied to the outstanding loan balances, and the Lenders may declare all outstanding obligations immediately due and payable and take such other actions as set forth in the Loan Agreement.

In connection with the Loan Agreement, the Company issued Hercules a warrant, dated November 23, 2016 (the "Warrant"), to purchase up to 460,123 shares of Common Stock, at an initial exercise price of $4.89, subject to adjustment as provided in the Warrant. The Warrant is initially exercisable for 306,748 shares of common stock of the Company, and may automatically become exercisable for additional shares of common stock on such dates (if any) based upon the funding amounts of Tranche II or Tranche III of the Term Loan that may be extended to the Borrowers. The Warrant will terminate, if not earlier exercised, on the earlier of November 23, 2023 and the closing of certain merger or other transactions in which the consideration is cash, stock of a publicly-traded acquirer or a combination thereof.

Long-term debt and unamortized discount balances are as follows (in thousands):

Face value of loan	$50,000
Fair value of warrant	(1,377)
Capitalized debt issuance costs	(1,619)
Accretion of debt issuance costs and other	69
Accretion of debt discount	34
Balance at December 31, 2016	$47,107

Future minimum payments under the loan and security agreement are as follows (in thousands):

Year Ending December 31,	
2017	4,914
2018	13,675
2019	22,548
2020	25,411
Total future minimum payments	66,548
Unamortized interest	(16,445)
Debt discount	(1,377)
Capitalized debt issuance costs	(1,619)
Total minimum payment	47,107
Current portion	—
Long-term debt	$47,107

The Company, the Borrowers and the Lenders entered into an amendment to the Loan Agreement in March 2017. See Note 20 for additional details.

13. Stockholders' Equity

The Company recorded $4.7 million, $7.0 million, and $3.9 million of compensation expense related to equity awards for the years ended December, 31, 2016, 2015, and 2014, respectively.

Stock Incentive Plans

2009 Non-Employee Director Grants

In September 2009, prior to the adoption of the 2009 Stock Incentive Plan (the "2009 Plan"), the Company's board of directors approved the reservation and issuance of 8,000 nonstatutory stock options to the Company's non-employee directors. The outstanding options vested on the one year anniversary of the vesting commencement date in October

2010, and are exercisable for up to 10 years from the grant date. No further shares may be granted under this plan and, as of December 31, 2016, 3,200 options with a weighted-average exercise price of $1.12 were outstanding.

2009 Stock Incentive Plan

In October 2009, the Company's stockholders approved the 2009 Plan. In May 2016, the Company's stockholders approved, among other items, the amendment and restatement of the 2009 Plan to increase the number of common stock authorized to be issued pursuant to the Stock Plan to 6,260,000. Such shares of the Company's common stock are reserved for issuance to employees, non-employee directors and consultants of the Company. The 2009 Plan provides for the grant of incentive stock options, non-incentive stock options, stock appreciation rights, restricted stock awards, unrestricted stock awards, restricted stock unit awards and performance awards to eligible recipients. Recipients of stock options shall be eligible to purchase shares of the Company's common stock at an exercise price equal to no less than the estimated fair market value of such stock on the date of grant. The maximum term of options granted under the Stock Plan is ten years. There are various vesting schedules; however, employee option grants generally vest 25% on the first anniversary of the original vesting commencement date, with the balance vesting monthly over the remaining three years. The vesting schedules for grants to non-employee directors and consultants will be determined by the Company's Compensation Committee. Stock options are generally not exercisable prior to the applicable vesting date, unless otherwise accelerated under the terms of the applicable stock plan agreement.

The following table summarizes stock option activity as of December 31, 2016, 2015 and 2014, and the changes for the years then ended (in thousands, except for share amounts):

	Options Outstanding	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2013	1,044,100	$ 6.52	$ 1,860
Options Granted	1,577,000	$ 3.38	
Options Canceled	(325,300)	$ 11.38	
Options Exercised	(64,000)	$ 4.76	
Outstanding at December 31, 2014	2,231,800	$ 6.34	$ 8,323
Options Granted	1,378,600	$ 12.03	
Options Canceled	(376,072)	$ 6.84	
Options Exercised	(276,712)	$ 6.14	
Outstanding at December 31, 2015	2,957,616	$ 8.95	$ 4,506
Options Granted	2,034,050	$ 6.34	
Options Canceled	(544,098)	$ 8.77	
Options Exercised	(114,692)	$ 4.71	
Outstanding at December 31, 2016	4,332,876	$ 7.86	$ 427

The aggregate intrinsic value of options exercised during the years ended December 31, 2016, 2015 and 2014 were $194 thousand, $2,411 thousand and $230 thousand, respectively. The Company uses the Black-Scholes valuation model to calculate the fair value of stock options. The fair value of employee stock options was estimated at the grant date using the following assumptions:

	Years Ended December 31,		
	2016	2015	2014
Weighted-average grant date fair value	$5.86	$12.03	$3.38
Dividend yield	—	—	—
Volatility	75 %	75 %	76 %
Risk-free interest rate	1.49%	1.67 %	1.87%
Expected life of options	6.1 years	6.1 years	6.1 years

The assumed dividend yield was based on the Company’s expectation of not paying dividends in the foreseeable future. Due to the Company’s limited historical data, the estimated volatility incorporates the historical and implied volatility of comparable companies whose share prices are publicly available. The risk-free interest rate assumption was based on the U.S. Treasury’s rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. The weighted average expected life of options was estimated using the

average of the contractual term and the weighted average vesting term of the options.

The total employee and director stock-based compensation recorded as operating expenses was $4,354 thousand, $5,198 thousand and $2,796 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

The total unrecognized compensation cost related to unvested employee and director stock option grants as of December 31, 2016 was $10,192 thousand and the weighted average period over which these grants are expected to vest is 2.6 years.

The Company records equity instruments issued to non-employees as expense at their fair value over the related service period as determined in accordance with the authoritative guidance and periodically revalues the equity instruments as they vest. Stock-based compensation expense related to non-employee consultants recorded as operating expenses was $387 thousand, $1,481 thousand, and $678 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

Common Stock Reserved for Future Issuance

Common stock reserved for future issuance consists of the following at December 31, 2016:

Common stock warrants outstanding under the underwriters agreement	182,600
Common stock warrants outstanding under the loan and security agreement	65,892
Common stock warrants outstanding under the Cambridge securities agreement	1,224,138
Common stock warrants outstanding under the Hercules securities agreement	306,748
Common stock warrants outstanding under private placements	4,153,620
Common stock options outstanding under the Non-Employee Director Plan	3,200
Authorized for future grant or issuance under the 2009 Stock Incentive Plan	1,414,226
Issuable under BDL acquisition agreement	309,916
Issuable under assignment agreement based upon achievement of certain milestones	80,000
	7,740,340

2015 Stock Option Plans

In May 2015, the Company's subsidiary, TNK, adopted the TNK 2015 Stock Option Plan and reserved 10.0 million shares of TNK class A common stock and awarded 3.6 million options to certain Company personnel, directors and consultants under such plan. In November 2015, TNK awarded 0.5 million options to certain Company personnel. Stock options granted under this plan typically vest a portion immediately upon grant and the remaining options over two to four years or monthly over four years from the grant date and have a contractual term of ten years. As of December 31, 2016, 3.0 million options were outstanding.

In May 2015, TNK granted a warrant to the Company's CEO to purchase 9.5 million shares of TNK class B common stock which have 10 to 1 voting rights. Warrant shares totaling 4.0 million are exercisable evenly over forty months and the remaining warrant shares are exercisable if certain defined events occur within four years from date of issuance at an initial exercise price of $0.01 per share. The exercise price of the warrant is subject to customary adjustment provisions for stock splits, stock dividends, recapitalizations and the like.

In May 2015, the Company's subsidiary, LA Cell, adopted the LA Cell 2015 Stock Option Plan and reserved 10.0 million shares of LA Cell class A common stock and awarded 2.9 million options to certain Company personnel, directors and consultants under such plan. Stock options granted under this plan typically vest a portion immediately upon grant and the remaining options over two to four years or monthly over four years from the grant date and have a contractual term of ten years. As of December 31, 2016, 2.1 million options were outstanding.

In May 2015, LA Cell granted a warrant to the Company's CEO to purchase 9.5 million shares of LA Cell class B common stock which have 10 to 1 voting rights. Warrant shares totaling 4.0 million are exercisable evenly over forty months and the remaining warrant shares are exercisable if certain defined events occur within four years from date of issuance at an initial exercise price of $0.01 per share. The exercise price of the warrant is subject to customary adjustment provisions for stock splits, stock dividends, recapitalizations and the like.

In October 2015, the Company's subsidiary, Concortis Biosystems, Corp., ("CBC"), adopted the CBC 2015 Stock Option Plan and reserved 10.0 million shares of CBC class A common stock and awarded 1.8 million options to certain Company personnel, directors and consultants under such plan. Stock options granted under this plan typically vest a portion immediately upon grant and the remaining options over two to four years or monthly over four years from the

grant date and have a contractual term of ten years. As of December 31, 2016, 1.8 million options were outstanding.

In October 2015, CBC granted a warrant to the Company's CEO to purchase 9.5 million shares of CBC class B common stock which have 10 to 1 voting rights. Warrant shares totaling 4.0 million are exercisable evenly over forty months and the remaining warrant shares are exercisable if certain defined events occur within four years from date of issuance at an initial exercise price of $0.25 per share. The exercise price of the warrant is subject to customary adjustment provisions for stock splits, stock dividends, recapitalizations and the like.

In October 2015, the Company's subsidiary, Scintilla, adopted the Scintilla 2015 Stock Option Plan and reserved 10.0 million shares of Scintilla class A common stock and awarded 2.1 million options to certain Company personnel, directors and consultants under such plan. Stock options granted under this plan typically vest a portion immediately upon grant and the remaining options over two to four years or monthly over four years from the grant date and have a contractual term of ten years. As of December 31, 2016, 1.0 million options were outstanding.

In October 2015, Scintilla granted a warrant to the Company's CEO to purchase 9.5 million shares of Scintilla class B common stock which have 10 to 1 voting rights. Warrant shares totaling 4.0 million are exercisable evenly over forty months and the remaining warrant shares are exercisable if certain defined events occur within four years from date of issuance at an initial exercise price of $0.01 per share. The exercise price of the warrant is subject to customary adjustment provisions for stock splits, stock dividends, recapitalizations and the like.

In October 2015, the Company's subsidiary, Sorrento Biologics, Inc. ("Biologics"), adopted the Biologics 2015 Stock Option Plan and reserved 10.0 million shares of Biologics class A common stock and awarded 2.6 million options to certain Company personnel, directors and consultants under such plan. Stock options granted under this plan typically vest a portion immediately upon grant and the remaining options over two to four years or monthly over four years from the grant date and have a contractual term of ten years. As of December 31, 2016, 1.4 million options were outstanding.

In October 2015, Biologics granted a warrant to the Company's CEO to purchase 9.5 million shares of Biologics class B common stock which have 10 to 1 voting rights. Warrant shares totaling 4.0 million are exercisable evenly over forty months and the remaining warrant shares are exercisable if certain defined events occur within four years from date of issuance at an initial exercise price of $0.01 per share. The exercise price of the warrant is subject to customary adjustment provisions for stock splits, stock dividends, recapitalizations and the like.

The total director stock-based compensation recorded as operating expenses by the Company for TNK, LA Cell, CBC, Scintilla and Biologics for the year ended December 31, 2016 and 2015 was $166 thousand and $140 thousand, respectively. Total unrecognized stock-based compensation expense related to unvested director stock option and warrant grants for these entities as of December 31, 2016 was $367 thousand, and the weighted-average period over which these grants are expected to vest is approximately 3.5 years. The Company records equity instruments issued to non-employees as expense at their fair value over the related service period as determined in accordance with the authoritative guidance and periodically revalues the equity instruments as they vest. Stock based compensation expense related to non-employee consultants recorded as operating expenses by the Company for TNK, LA Cell, CBC, Scintilla and Biologics for the year ended December 31, 2016 and 2015 was $189 thousand and $97 thousand, respectively.

The weighted-average assumptions used in the Black-Scholes option and warrant pricing model used by TNK, LA Cell, CBC, Scintilla and Biologics to determine the fair value of stock option grants for directors and non-employee consultants were as follows: expected dividend yield – 0%, risk-free interest rate – 1.39% to 2.24%, expected volatility – 76% to 77%, and expected term of 4.0 to 6.1 years.

2014 Stock Option Plan

In May 2014, the Company's subsidiary, Ark Animal Health, Inc. ("Ark"), adopted the Ark 2014 Stock Option Plan and reserved and awarded 600,000 options to certain directors and consultants under such plan. Stock options granted under such plan typically vest a portion immediately upon grant and the remaining options over one year from the grant date and will have a contractual term of ten years. As of December 31, 2016, 322,000 options were outstanding.

The total director and consultant stock-based compensation recorded as operating expenses by the Company for Ark for the years ended December 31, 2016 and 2015 was $0 and $56 thousand, respectively. No unrecognized stock-based compensation expense related to unvested stock option grants existed as of December 31, 2016.

The weighted-average assumptions used in the Black-Scholes option pricing model used by Ark to determine the fair value of stock option grants for the year ended December 31, 2015 were: expected dividend yield – 0%, risk-free interest rate – 1.94% to 2.27%, expected volatility – 75% to 78%, and expected term of 6.08 to 10 years, and for the year

ended December 31, 2014 were: expected dividend yield – 0%, risk-free interest rate – 1.94% to 2.60%, expected volatility – 75% to 78%, and expected term of 6.08 to 10 years.

14. Derivative Liability

On October 13, 2015, the Company wrote a call option to Cambridge, on up to 2.0 million shares of NantKwest common stock held by the Company (the "Option Agreement"). As of December 31, 2015, the Company held approximately 5.6 million shares of common stock of NantKwest, par value $.0001 per share, which was classified as available-for-sale and reported in its consolidated financial statements as marketable securities. The Option Agreement gave Cambridge the right to purchase up to 2.0 million shares at a price of $15.295 per share from time to time in the first quarter of 2016. There was no contractual option premium associated with this Option Agreement. The Option Agreement was a derivative as defined in ASC Topic 815 and was recognized at fair value every reporting period the Option Agreement is in effect, with changes in fair value recognized in current operations. For the year ended

December 31, 2015, the Company recorded a loss of $3.4 million on the derivative liability. As of December 31, 2015, a derivative liability of $5.5 million was recorded on the Company's consolidated balance sheets. The fair value of the Company's derivative liability at December 31, 2015 was a Level 3 measurement.

The call option expired unexercised on March 31, 2016 and the Company recorded a gain of $5.5 million upon the cancellation of the derivative liability.

As of December 31, 2016, no derivative liability was recorded on the Company's consolidated balance sheets.

15. Commitments and Contingencies

Litigation

In the normal course of business, the Company may be named as a defendant in one or more lawsuits. The Company is not a party to any outstanding material litigation and management is currently not aware of any legal proceedings that, individually or in the aggregate, are deemed to be material to the Company's financial condition or results of operations.

On April 25, 2016, Wildcat Liquid Alpha, LLC ("WLA") filed a complaint in the Court of Chancery of the State of Delaware seeking an order compelling the Company to provide WLA with certain documents, books and records for inspection and copying pursuant to an April 11, 2016 demand made by WLA (the "Inspection Demand Action"). As of December 31, 2016, the Company was unable to determine whether any loss would occur with respect to the Inspection Demand Action or to estimate the range of such potential loss; therefore, no amount of loss was accrued by the Company in the financial statements for the year ended December 31, 2016.

On May 13, 2016, WLA filed a derivative action in the Court of Chancery of the State of Delaware (the "WLA Action" and, together with the Inspection Demand Action, the "Actions") against each of the members of the Board at the time, Henry Ji, William S. Marth, Kim D. Janda, Jaisim Shah, David H. Deming, and Douglas Ebersole (the "Prior Board") and against the Company as nominal defendant. After the members of the Prior Board and the Company moved to dismiss, on August 12, 2016, WLA filed an amended complaint containing both direct and derivative claims against each of the members of the Prior Board and against the Company as nominal defendant, alleging, among other things: (1) breach of fiduciary duty with respect to the formation of, and certain options and warrants issued by, certain of the Company's subsidiaries to Dr. Ji and members of the Prior Board (the "Subsidiary Options Claim"); (2) breach of fiduciary duty with respect to the Company's prior announcement that it had entered into a voting agreement with Yuhan Corporation ("Yuhan") in connection with a transaction through which it purchased $10 million of shares of the Company's common stock and warrants (the "Yuhan Agreement Claim"); (3) waste of corporate assets regarding the foregoing; (4) unjust enrichment regarding the foregoing; and (5) violation of 8 Del. C. § 160 based on the Yuhan voting agreement. The Company believes that the WLA Action is without merit, and will vigorously defend itself against the action. As of December 31, 2016, the Company was unable to determine whether any loss would occur with respect to the WLA Action or to estimate the range of such potential loss; therefore, no amount of loss was accrued by the Company in the financial statements for the year ended December 31, 2016.

On March 17, 2017, the Company, the members of the Prior Board and WLA entered into a confidential settlement agreement and release (the "Settlement Agreement") pursuant to which, among other things, each party agreed to forever release and not to sue the other party with respect to the claims asserted in the Actions and WLA agreed to

dismiss the Actions within ten business days following the execution of the Settlement Agreement. See Note 20 for additional details.

On September 8, 2016, Yvonne Williams filed an action both derivatively and on behalf of a purported class of stockholders in the Court of Chancery of the State of Delaware against each of the members of the Prior Board; George Ng, the Company's Executive Vice President, Chief Administrative Officer, and Chief Legal Officer; Jeffrey Su, the Company's Executive Vice President & Chief Operating Officer; and the Company as nominal defendant, alleging: (1) breach of fiduciary duty with respect to the Subsidiary Options Claim; and (2) breach of fiduciary duty with respect to the Yuhan Agreement Claim (the "Williams Action"). The Company believes that the Williams Action is without merit, and will vigorously defend itself against the action. The Company is unable to determine whether any loss will occur with respect to the Williams Action or to estimate the range of such potential loss; therefore, no amount of loss has been accrued by the Company as of the date of filing of this Form 10-K. Furthermore, there is no guarantee that the Company will prevail in this suit or receive any damages or other relief if it does prevail.

On June 26, 2015, Immunomedics, Inc. ("Immunomedics") filed a complaint in the United States District Court for the District of New Jersey (the "Immunomedics Action") against the Board of Directors of Roger Williams Medical Center, Dr. Richard P. Junghans, Dr. Steven C. Katz, the Office of the Board of Advisors of Tufts University School of Medicine, and one or more individuals or entities to be identified later. This complaint (the "Initial Complaint") alleged, among other things: (1) breach of

contract; (2) breach of covenant of good faith and fair dealing; (3) tortious interference with prospective economic gain; (4) tortious interference with contracts; (5) misappropriation; (6) conversion; (7) bailment; (8) negligence; (9) vicarious liability; and (10) patent infringement. Overall, the allegations in the Initial Complaint were generally directed to an alleged material transfer agreement dated December 2008 and Immunomedics' alleged request for the return of certain alleged research material, as well as the alleged improper use and conversion of such research materials outside the scope of the material transfer agreement.

On October 22, 2015, Immunomedics filed an amended complaint (the "First Amended Complaint"), which, among other things, no longer named the Board of Directors of Roger Williams Medical Center and The Office of the Board of Advisors of Tufts University School of Medicine as defendants. Roger Williams Medical Center and Tufts Medical Center were added as new defendants. On January 14, 2016, Immunomedics filed a second amended complaint (the "Second Amended Complaint"), which, among other things, no longer named Tufts Medical Center as a defendant. In addition, the Second Amended Complaint contained allegations directed to two additional alleged material transfer agreements dated September 1993 and May 2010, respectively, and also added an allegation of unjust enrichment. The Second Amended Complaint also no longer asserted claims for (1) breach of covenant of good faith and fair dealing; (2) misappropriation; (3) bailment; (4) negligence; and (5) vicarious liability.

On October 12, 2016, Immunomedics filed a third amended complaint (the "Third Amended Complaint"), which added the Company, TNK, BDL and CARgenix as defendants. TNK is a subsidiary of the Company and purchased BDL and CARgenix in August 2015. The Third Amended Complaint includes, among other things, allegations against the Company, TNK, BDL and CARgenix regarding (1) conversion; (2) tortious interference; and (3) unjust enrichment. On December 2, 2016, the Company, TNK, BDL, and CARgenix filed a motion to dismiss Immunomedics's complaint against them for lack of personal jurisdiction. On January 25, 2017, the District of New Jersey granted this motion, and the Company, TNK, BDL and CARgenix were dismissed as defendants from the case. The Immunomedics Action remains pending in the District of New Jersey against defendants Roger Williams Medical Center, Dr. Junghans, and Dr. Katz. A trial date has not yet been set. The Company believes that the Immunomedics Action is without merit, and will vigorously defend itself against this and any further actions. However, should Immunomedics prevail against the Company, Roger Williams Medical Center or other defendants, certain patent rights optioned, owned and/or licensed by the Company could be at risk of invalidity or enforceability, or the litigation could otherwise adversely impact the Company's ownership or other rights in certain intellectual property. At this point in time, the Company is unable to determine whether any loss will occur with respect to the Immunomedics Action or to estimate the range of such potential loss; therefore, no amount of loss has been accrued by the Company as of the date of filing of this Form 10-K.

Operating Leases

The Company currently leases in San Diego, California approximately 43,000 square feet of corporate office and laboratory space, approximately 6,350 square feet of laboratory and office space at a second location and approximately 1,405 square feet of office space at a third location. The Company also previously leased approximately 1,800 square feet of office space in Cary, North Carolina, under a lease which expired in March 2016 and was not renewed. The Company's lease agreements in San Diego, as amended, for its corporate office and laboratory space, its second laboratory and office space and its third office space, expire in December 2026, November 2025 and September 2020, respectively. The Company also leases 25,381 square feet of office and laboratory space in Suzhou, China, which lease expires in June 2018.

Additionally, the Company will enter into a new lease in San Diego, California for approximately 76,700 square feet of additional corporate office and laboratory space as well as approximately 36,400 square feet for offices, facilities for cGMP fill and finish and storage space at a new location beginning in 2017.

For all leased properties the Company has provided a total security deposit of $1,482 thousand to secure its obligations under the various leases, which has been included in prepaid and other assets.

Minimum future non-cancelable annual operating lease obligations are as follows for the years ending December 31 (in thousands):

2017	$4,763
2018	4,944
2019	4,795
2020	4,909
2021	4,996
Thereafter	22,553
	$46,960

Rental expense paid for the years ended December 31, 2016, 2015 and 2014 under the above leases totaled $2,054 thousand, $1,630 thousand and $513 thousand, respectively.

16. Income Taxes

The components of the provision expense (benefit) were as follows for the years ended December 31, 2016, 2015 and 2014 (in thousands):

	2016	2015	2014
Current:			
Federal	$(1,785)	$2,500	$—
State	(600)	621	—
	(2,385)	3,121	—
Deferred:			
Federal	3,554	32,378	(1,324)
State	(2,065)	815	(378)
Totals	$(896)	$36,314	$(1,702)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The components of the Company’s net deferred tax liabilities and related valuation allowance are as follows as of December 31, 2016 and 2015 (in thousands):

	2016	2015
Deferred tax assets:		
Amortization of intangibles	$32,032	$12,130
Deferred revenue	44,754	39,594
Derivative liability	—	1,267
Tax credit carryforwards	5,693	2,737
Net operating loss carryforwards and credits	6,237	1,247
Stock based compensation	3,898	2,493
Accrued expenses and other	1,558	636
Total deferred tax assets	94,172	60,104
Less valuation allowance	(81,039)	(39,605)
Total deferred tax assets	13,133	20,499
Deferred tax liabilities:		
Amortization of intangibles	(25,433)	—
Depreciation	(1,530)	(900)
Investment in common stock	(39,408)	(35,995)

Marketable securities	—	(32,945)
Other	—	—
Net deferred tax liabilities	$(53,238)	$(49,341)

The reconciliation between U.S. federal income taxes at the statutory rate and the Company's provision for income taxes are as follows for the years ended December 31 (in thousands):

	2016	2015
Income tax expense (benefit) at federal statutory rate	$(23,357)	(4,740)
State, net of federal tax benefit	(1,522)	$(367)
Other permanent differences	2,882	34
Incentive stock compensation	767	708
IgDraSol transaction	—	2,055
Other	120	(71)
Return to provision adjustment	(16)	—
Acquired in-process research and development	(2,360)	2,263
Change in State rate	(172)	(62)
Research tax credits	(2,318)	(3,141)
Uncertain tax positions	(1,836)	1,836
Prior year true-ups and carrybacks	4,133	—
Change in valuation allowance	22,783	37,799
Income tax provision	$(896)	$36,314

The Company has evaluated the available evidence supporting the realization of its gross deferred tax assets, including the amount and timing of future taxable income, and has determined that it is more likely than not that the deferred tax assets will not be realized. Due to such uncertainties surrounding the realization of the domestic deferred tax assets, the Company maintains a valuation allowance of $81,039 thousand against its deferred tax assets as of December 31, 2016. Realization of the deferred tax assets will be primarily dependent upon the Company's ability to generate sufficient taxable income prior to the expiration of its net operating losses.

As of December 31, 2016, the Company had net operating loss carryforward of approximately $13.2 million and $39.2 million for federal and state income tax purposes, respectively. These may be used to offset future taxable income and will begin to expire in varying amounts in 2034 for federal income tax purposes and 2029 to 2036 for state income tax purposes. The Company also has research and development credits of approximately $4.5 million and $2.8 million for federal and state income taxes purposes, respectively. The federal credits may be used to offset future taxable income and will begin to expire in varying amounts in 2029 to 2036. The state credits may be used to offset future taxable income, such credits carryforward indefinitely.

The Company is subject to taxation in the U.S. and California jurisdictions and potentially, foreign jurisdictions outside the U.S., in conjunction with its transactions and activities. Currently, no historical years are under examination. The Company's tax years starting in December 31, 2007 through December 31, 2016 are open and subject to examination by the U.S. and state taxing authorities due to the carryforward of utilized net operating losses and research and development credits.

The Company adopted the provisions of ASC Topic 740 regarding uncertain tax positions on January 1, 2009. Under ASC Topic 740, the impact of an uncertain income tax position taken on a tax return must be recognized at the largest amount that is cumulatively "more likely than not" to be sustained upon audit by relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained.

A reconciliation of the beginning and ending amount of unrecognized tax expense (benefits) is as follows (in thousands):

	Amount
Unrecognized tax benefits balance at December 31, 2015	$ 1,836
Increase related to current year tax positions	444
Increase related to prior year tax positions	109
Settlements	—
Lapse in statute of limitations	—
Unrecognized tax benefits balance at December 31, 2016	$ 2,389

Included in the balance of unrecognized tax benefits at December 31, 2016, are $40 thousand that, if recognized, would affect the effective tax rate.

The Company's policy is to recognize interest and penalties related to income tax matters in income tax expense. No interest has been recognized as of and for the period ended December 31, 2016.

The Company believes that no material amount of the liabilities for uncertain tax positions will expire within 12 months of December 31, 2016.

17. Related Party Agreements and Other

During the year ended December 31, 2015, the Company entered into a joint venture called Immunotherapy NANTibody, LLC, with NantCell, a wholly-owned subsidiary of NantWorks. In July 2015, the Company contributed its portion of the initial joint funding of $40.0 million to the NANTibody joint venture. The Company and NantCell have also entered into a license agreement pursuant to which the Company received a $10.0 million upfront license payment and $100.0 million of vested NantCell common stock.

During the year ended December 31, 2015, the Company entered into a joint venture called NantCancerStemCell, LLC, with NantBioScience, a wholly-owned subsidiary of NantWorks. In connection with negotiated changes to the structure of NantStem the Company issued a call option on shares of NantKwest that it owned to Cambridge, a related party to the Company and to NantBioScience. In April 2015, the Company purchased 1.0 million shares of NantBioScience common stock for $10.0 million.

In June 2016, the Company agreed to accelerate and pay a $30.0 million milestone license payment which has been recognized as acquired in-process research and development expense as of September 30, 2016, in exchange for the purchase by Mabtech Limited and one or more of its affiliates in June 2016, of $20.0 million of Common Stock and warrants.

In March 2016, the Company and Yuhan entered into an agreement to form a joint venture company called ImmuneOncia Therapeutics, LLC, to develop and commercialize a number of immune checkpoint antibodies against undisclosed targets for both hematological malignancies and solid tumors. As of December 31, 2016, the carrying value of the Company's investment in ImmuneOncia Therapeutics, LLC was approximately $9.5 million. During the three months ended June 30, 2016, Yuhan purchased $10.0 million of Common Stock and warrants.

In June 2016, the Company and TNK entered into a joint venture agreement with 3SBio to develop and commercialize proprietary immunotherapies, including those developed from, including or using TNK's CAR-T technology targeting CEA positive cancers. In June 2016, 3SBio purchased $10.0 million of Common Stock and warrants.

In May 2015, the Company entered into a stock sale and purchase agreement with NantPharma, a private company owned by NantWorks pursuant to which the Company sold its equity interests in IgDraSol, its wholly-owned subsidiary and holder of the rights to Cynviloq for an upfront payment of $90.05 million and potential regulatory and sales milestones of up to $1.2 billion.

In December 2014, the Company entered into a securities purchase agreement (the "Purchase Agreement") with Cambridge Equities, an affiliated entity of Dr. Patrick Soon-Shiong (the "Investor") pursuant to which the Company agreed to issue and sell to the Investor an aggregate of approximately 7.2 million shares of the Company's common stock at a price of $5.80 per share for an aggregate purchase price of $41.7 million. In connection with the Purchase Agreement, the Investor received a warrant to purchase approximately 1.7 million shares of the Company's common stock. The warrant is exercisable for a period of three years from the date of issuance at an initial exercise price of

$5.80 per share.

In December 2014, the Company entered into a joint development and license agreement with Conkwest Inc., which has changed its name to NantKwest, Inc., and of which Dr. Patrick Soon-Shiong is a majority owner. In addition, the Company purchased approximately 5.6 million shares of NantKwest, Inc. common stock for $10.0 million.

18. 401(k) Plan

The Company maintains a defined contribution 401(k) plan available to eligible employees. Employee contributions are voluntary and are determined on an individual basis, limited to the maximum amount allowable under federal tax regulations. The Company made matching contributions to the 401(k) plan totaling $424 thousand, $237 thousand and $57 thousand, for the years ended December 31, 2016, 2015 and 2014, respectively.

19. Quarterly Financial Data (Unaudited)

The following table sets forth selected quarterly data for the years presented, in thousands, except per share data.

2016	Quarter Ended December 31,	Quarter Ended September 30,	Quarter Ended June 30,	Quarter Ended March 31,	Year Ended December 31,
Revenues	$4,019	$ 2,243	$902	$988	$8,152
Operating costs and expenses	$21,823	$ 14,491	$45,613	$23,002	$104,929
Net income (loss) attributable to Sorrento	$(17,859)	$ 15,891	$(43,305)	$(15,650)	$(60,923)
Net income (loss) per share - basic and diluted	$(0.30)	$ 0.24	$(0.93)	$(0.41)	$(1.21)
Weighted-average shares - basic	58,634	66,193	46,498	37,965	50,360
Weighted-average shares - diluted	58,634	66,527	46,498	37,965	50,360

2015	Quarter Ended December 31,	Quarter Ended September 30,	Quarter Ended June 30,	Quarter Ended March 31,	Year Ended December 31,
Revenues	$1,337	$ 1,103	$1,173	$977	$4,590
Operating costs and expenses	$18,997	$ 36,738	$11,706	$11,154	$78,595
Net loss attributable to Sorrento	$(26,599)	$ (2,079)	$(10,958)	$(10,438)	$(50,074)
Net loss per share - basic and diluted	$(0.62)	$ (0.03)	$(0.30)	$(0.29)	$(1.24)
Weighted-average shares	37,770	37,328	36,315	36,206	36,909

The quarters ended March 31, June 30, and September 2016 have been restated to correct the effects of an immaterial error in the interim periods related to the re-measurement of acquisition consideration payable.

As a result of the restatement, an adjustment of $2.7 million to gain on contingent liabilities has been reflected in operating costs and expenses in the above table for the three months ended March 31, 2016. As a result of the adjustment, operating costs and expenses decreased from $25.7 million to $23.0 million, net loss decreased from $18.4 million to $15.7 million, and net loss per share decreased from ($0.48) to ($0.41) for the quarter ended March 31, 2016. The adjustment includes the effects of a $991 thousand adjustment related to the prior year as discussed in footnote 3.

As a result of the restatement, an adjustment of $1.7 million to gain on contingent liabilities and $0.1 million of research and development expenses have been reflected in operating costs and expenses in the above table for the three months ended June 30, 2016. As a result of the adjustment, operating costs and expenses decreased from $47.3 million to $45.6 million, Net loss decreased from $44.9 million to $43.3 million, and net loss per share decreased from ($0.97) to ($0.93) for the quarter ended June 30, 2016.

As a result of the restatement, an adjustment of $1.7 million of a gain on contingent liabilities and $0.2 million of research and development expenses have been reflected in operating costs and expenses in the above table for the three months ended September 30, 2016. As a result of the adjustment, operating costs and expenses decreased from $16.0 million to $14.5 million, Net income increased from $14.4 million to $15.9 million, and net loss per share increased from $0.22 to $0.24 for the quarter ended September 30, 2016.

20. Subsequent Events

On March 15, 2017, the Company, the Borrowers and Hercules entered into an amendment to the Loan Agreement (the “Amendment”). The Amendment: (1) adjusted the minimum amount of unrestricted cash that the Company must maintain, (2) changed the date by which the Company must achieve a fundraising milestone, (3) modified the second and third tranches of additional funds available under the Term Loan such that $25.0 million is available until June 30, 2018, subject to approval by Hercules’ Investment Committee, and (4) amended the end of term charge.

On March 17, 2017, the Company, the members of the Prior Board and WLA entered into a confidential settlement agreement and release (the “Settlement Agreement”) pursuant to which, among other things, each party agreed to forever release and not to sue the other party with respect to the claims asserted in the Actions and WLA agreed to dismiss the Actions within ten business days following the execution of the Settlement Agreement. The Company also agreed (1) to terminate all options and warrants currently outstanding in Company subsidiaries that have been granted to Dr. Ji and any other director of the Company, (2) to grant WLA the right to designate a representative to attend all meetings of the Company’s board of directors in a nonvoting observer capacity, and (3) to act in good faith to attempt to add two additional independent directors to the Company’s board of directors. In addition, WLA agreed to comply with a two-year standstill period, during which WLA is prohibited from engaging in certain actions relating to controlling or influencing the management of the Company.