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

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**FORM 10-Q**

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-52228

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**SORRENTO THERAPEUTICS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**33-0344842**  
(I.R.S. Employer  
Identification Number)

**6042 Cornerstone Ct. West,  
Suite B  
San Diego, California 92121**  
(Address of Principal Executive Offices)

**(858) 210-3700**  
(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated file 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 Exchange Act). Yes  No .

The number of shares of the issuer's common stock, par value \$0.0001 per share, outstanding as of August 12, 2013 was 16,502,186.

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**Sorrento Therapeutics, Inc.**  
(a Development Stage Company)

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**PART I. FINANCIAL INFORMATION**

**Item 1. Consolidated Financial Statements.**

**SORRENTO THERAPEUTICS, INC.  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED BALANCE SHEETS**

	<u>June 30,</u> <u>2013</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2012</u> <u>(Audited)</u>
<b><u>ASSETS</u></b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 5,754,579	\$ 5,091,312
Grants receivable	92,748	79,760
Prepaid expenses and other, net	<u>75,045</u>	<u>80,918</u>
<b>Total current assets</b>	5,922,372	5,251,990
Property and equipment, net	1,449,458	1,480,989
Patent rights, net	88,750	—
Other	<u>328,185</u>	<u>48,625</u>
<b>Total assets</b>	<u>\$ 7,788,765</u>	<u>\$ 6,781,604</u>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 735,727	\$ 439,533
Accrued payroll and related	293,449	77,744
Accrued expenses	162,807	66,896
Current portion of debt	<u>291,962</u>	<u>—</u>
<b>Total current liabilities</b>	1,483,945	584,173
<b>Long-term debt</b>	535,266	—
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Preferred stock, \$0.0001 par value; 100,000,000 shares authorized and no shares issued and outstanding	—	—
Common stock, \$0.0001 par value; 750,000,000 shares authorized and 13,443,020 and 12,004,687 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	1,344	1,200
Additional paid-in capital	23,977,459	17,146,530
Deficit accumulated during the development stage	<u>(18,209,249)</u>	<u>(10,950,299)</u>
<b>Total stockholders' equity</b>	5,769,554	6,197,431
<b>Total liabilities and stockholders' equity</b>	<u>\$ 7,788,765</u>	<u>\$ 6,781,604</u>

See accompanying notes

**SORRENTO THERAPEUTICS, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,		Period from January 25, 2006 (Inception) through June 30, 2013
	2013	2012	2013	2012	
<b>Revenues:</b>					
Grant	\$ 141,598	\$ 217,135	\$ 275,661	\$ 327,284	\$ 1,847,734
Collaboration and reimbursable research and development costs	—	—	—	—	223,453
<b>Total revenues</b>	<b>141,598</b>	<b>217,135</b>	<b>275,661</b>	<b>327,284</b>	<b>2,071,187</b>
<b>Expenses:</b>					
Research and development	2,141,039	917,452	3,539,716	1,716,524	11,743,042
Acquired in-process research and development	1,210,000	—	1,210,000	—	1,210,000
General and administrative	1,507,516	244,557	2,757,197	463,232	7,328,590
<b>Total expenses</b>	<b>4,858,555</b>	<b>1,162,009</b>	<b>7,506,913</b>	<b>2,179,756</b>	<b>20,281,632</b>
Loss from operations	(4,716,957)	(944,874)	(7,231,252)	(1,852,472)	(18,210,445)
Interest expense	(21,762)	—	(31,690)	—	(31,690)
Interest income	2,108	1,756	3,992	3,228	32,886
<b>Net loss</b>	<b>\$ (4,736,611)</b>	<b>\$ (943,118)</b>	<b>\$ (7,258,950)</b>	<b>\$ (1,849,244)</b>	<b>\$ (18,209,249)</b>
Net loss per share – basic and diluted	\$ (0.35)	\$ (0.08)	\$ (0.56)	\$ (0.17)	
Weighted average number of shares during the period – basic and diluted	13,443,018	11,224,997	12,880,804	10,830,363	

See accompanying notes

**SORRENTO THERAPEUTICS, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)**

	Common Stock		Additional Paid-in Capital	Stockholder Note Receivable	Deficit Accumulated During the Development Stage	Total
	Shares	Amount				
<b>Balance, January 25, 2006 (Inception)</b>	—	\$ —	\$ —	\$ —	\$ —	\$ —
Issuance of common stock for \$400 cash to founders	4,077,493	408	(8)	—	—	400
Net loss	—	—	—	—	(75,801)	(75,801)
<b>Balance, December 31, 2006</b>	4,077,493	408	(8)	—	(75,801)	(75,401)
Net loss	—	—	—	—	(16,302)	(16,302)
<b>Balance, December 31, 2007</b>	4,077,493	408	(8)	—	(92,103)	(91,703)
Net loss	—	—	—	—	(25,745)	(25,745)
<b>Balance, December 31, 2008</b>	4,077,493	408	(8)	—	(117,848)	(117,448)
Issuance of restricted common stock for \$291 cash to consultants in March	296,155	30	261	—	—	291
Issuance of common stock for \$10 cash and a \$30 note to consultants in March	40,775	102	36	(30)	—	10
Issuance of common stock for cash at \$0.98 per share in June, net of issuance costs of \$25,999	2,360,611	236	2,273,765	—	—	2,274,001
Issuance of common stock for cash at \$1.12 per share in September	1,785,375	179	1,999,821	—	—	2,000,000
Issuance of common stock to former QuikByte stockholders in connection with the Merger	442,958	44	100,342	—	—	100,386
Costs associated with the Merger	—	—	(168,767)	—	—	(168,767)
Stock-based compensation	—	—	54,524	—	—	54,524
Net loss	—	—	—	—	(942,266)	(942,266)
<b>Balance, December 31, 2009</b>	9,003,367	901	4,259,974	(30)	(1,060,114)	3,200,731
Collection of note receivable	—	—	—	30	—	30
Issuance of common stock for cash at \$3.50 per share in December, net of issuance costs of \$159,905	1,028,686	102	3,440,393	—	—	3,440,495
Stock-based compensation	—	—	250,954	—	—	250,954
Net loss	—	—	—	—	(1,808,386)	(1,808,386)
<b>Balance, December 31, 2010</b>	10,032,053	1,003	7,951,321	—	(2,868,500)	5,083,824
Repurchase of common stock	(44,166)	(5)	(38)	—	—	(43)
Issuance of common stock in connection with the exercise of stock options	6,000	1	13,124	—	—	13,125
Issuance of common stock for cash at \$4.00 per share in December, net of issuance costs of \$28,999	500,000	50	1,970,951	—	—	1,971,001
Reduction of stock issuance costs accrued in December 2010	—	—	80,039	—	—	80,039
Stock-based compensation	—	—	298,034	—	—	298,034
Net loss	—	—	—	—	(3,236,491)	(3,236,491)
<b>Balance, December 31, 2011</b>	10,493,887	1,049	10,313,431	—	(6,104,991)	4,209,489
Issuance of common stock in connection with the exercise of stock options	10,800	1	36,091	—	—	36,092
Issuance of common stock for cash at \$4.00 per share in May, net of issuance costs of \$65,969	1,500,000	150	5,933,881	—	—	5,934,031
Stock-based compensation	—	—	863,127	—	—	863,127
Net loss	—	—	—	—	(4,845,308)	(4,845,308)
<b>Balance, December 31, 2012</b>	12,004,687	1,200	17,146,530	—	(10,950,299)	6,197,431
Issuance of common stock in connection with						

the exercise of stock options	2,000	—	7,000	—	—	7,000
Issuance of common stock for cash at \$4.50 per share in March, net of issuance costs of \$64,086	1,426,333	143	6,354,266	—	—	6,354,409
Issuance of common stock in connection with assignment agreement	10,000	1	39,999	—	—	40,000
Stock-based compensation	—	—	429,664	—	—	429,664
Net loss	—	—	—	—	(7,258,950)	(7,258,950)
<b>Balance, June 30, 2013</b>	<u>13,443,020</u>	<u>\$1,344</u>	<u>\$23,977,459</u>	<u>\$ —</u>	<u>\$(18,209,249)</u>	<u>\$ 5,769,554</u>

See accompanying notes

**SORRENTO THERAPEUTICS, INC.**  
**(A DEVELOPMENT STAGE COMPANY)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	Six Months Ended June 30,		Period from January 25, 2006 (Inception) through June 30, 2013
	2013	2012	
<b>Operating activities</b>			
Net loss	\$(7,258,950)	\$(1,849,244)	\$ (18,209,249)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	329,312	131,929	808,001
Stock-based compensation	429,664	203,257	1,896,303
Non-cash interest expense	15,755	—	15,755
Changes in operating assets and liabilities:			
Grants receivable	(12,988)	(27,351)	(92,748)
Prepaid expenses and other	(396,549)	16,221	(505,942)
Accounts payable	296,194	51,584	473,140
Accrued expenses and other liabilities	300,390	4,754	525,069
<b>Net cash used for operating activities</b>	<u>(6,297,172)</u>	<u>(1,468,850)</u>	<u>(15,089,671)</u>
<b>Investing activities</b>			
Purchases of property and equipment	(178,198)	(310,653)	(1,899,915)
Purchase of intangible assets	(50,000)	—	(50,000)
Cash acquired in connection with Merger	—	—	104,860
<b>Net cash used for investing activities</b>	<u>(228,198)</u>	<u>(310,653)</u>	<u>(1,845,055)</u>
<b>Financing activities</b>			
Proceeds from issuance of common stock, net of issuance costs	6,354,409	5,934,031	21,805,860
Proceeds from exercise of stock options	7,000	4,200	56,217
Net borrowings under debt agreement	827,228	—	827,228
<b>Net cash provided by financing activities</b>	<u>7,188,637</u>	<u>5,938,231</u>	<u>22,689,305</u>
<b>Net change in cash and cash equivalents</b>	663,267	4,158,728	5,754,579
<b>Cash and cash equivalents at beginning of period</b>	5,091,312	3,466,549	—
<b>Cash and cash equivalents at end of period</b>	<u>\$ 5,754,579</u>	<u>\$ 7,625,277</u>	<u>\$ 5,754,579</u>
<b>Supplemental disclosure:</b>			
Cash paid during the period for:			
Income taxes	\$ 800	\$ 800	\$ 5,600
Interest	\$ 8,782	\$ —	\$ 8,782

**Non-cash investing activities:**

In January 2013, a portion of the Company's purchased patent rights were from the issuance of 10,000 shares of common stock valued at \$40,000.

See accompanying notes

**SORRENTO THERAPEUTICS, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**1. Nature of Operations, Summary of Significant Accounting Policies and Business Activities**

*Nature of Operations and Basis of Presentation*

The Company is a biopharmaceutical company focused on the discovery, acquisition, development and commercialization of proprietary drug therapeutics for addressing significant unmet medical needs in the United States, Europe and additional international markets. The Company's primary therapeutic focus is oncology, but is also developing therapeutic products for other indications, including inflammation, metabolic disorders, and infectious diseases. The Company's proprietary G-MAB® fully-human antibody library platform was designed to facilitate the rapid identification and isolation of highly specific antibody therapeutic product candidates that bind to disease targets appropriate for antibody therapy.

As of June 30, 2013, 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. Accordingly, the Company is considered to be in the development stage.

The accompanying interim consolidated financial statements have been prepared by the Company, without audit, in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information and footnotes necessary for a fair statement of its financial position, results of operations and cash flows in accordance with generally accepted accounting principles in the U.S., or GAAP. The financial statements also include the accounts of the Company's wholly-owned subsidiary, Sorrento Therapeutics, Inc. Hong Kong Limited, or Sorrento Hong Kong, which was registered effective December 4, 2012. Sorrento Hong Kong had no operating activity through June 30, 2013. All inter-company balances and transactions have been eliminated in consolidation.

The balance sheet at December 31, 2012 is derived from the audited consolidated balance sheet at that date which is not presented herein.

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, which are only normal and recurring, necessary for a fair statement of financial position, results of operations and cash flows. These consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012. Operating results for interim periods are not expected to be indicative of operating results for the Company's 2013 fiscal year.

*Reverse Stock Split*

On July 30, 2013, the Company completed a 1-for-25 reverse split of its common stock. All common shares and per common share amounts in the financial statements and footnotes have been adjusted retroactively to reflect the effects of this action.

*Business Activities*

On September 21, 2009, QuikByte Software, Inc., a shell company (QuikByte) acquired Sorrento Therapeutics, Inc., a privately held Delaware corporation (STI), in a reverse merger (the "Merger"). Pursuant to the Merger, all of the issued and outstanding shares of STI common stock were exchanged into an aggregate of 6,775,032 shares of QuikByte common stock and STI became a wholly owned subsidiary of QuikByte. The holders of QuikByte's common stock as of immediately prior to the Merger held an aggregate of 2,228,332 shares of QuikByte's common stock. STI and QuikByte reincorporated in Delaware in December 2009, and on December 4, 2009, STI merged with and into QuikByte, the separate corporate existence of STI ceased and QuikByte continued as the surviving corporation. Contemporaneously, QuikByte Software, Inc. changed its name to Sorrento Therapeutics, Inc. (the "Company"). In connection with the Merger, the Company received cash of \$104,860.

In January 2013, the Company entered into an assignment agreement (the "assignment agreement") with Tien-Li Lee, M.D. and Jane Wu Lee, M.D. as individuals (collectively, the "Lees") pursuant to which the Lees agreed to assign to the Company their right, title and interest throughout the world in and to certain inventions and patents that provide for the production of recombinant intravenous immunoglobulins. See Note 2.

On March 7, 2013, the Company entered into various agreements with IgDraSol, Inc. ("IgDraSol") a private company focused on the development of oncologic agents for the treatment of metastatic breast cancer, or MBC, non-small cell lung cancer, or NSCLC, and other cancers, as follows: (i) an exclusive option agreement, (ii) an asset purchase agreement pursuant to which the Company agreed to purchase all documentation, equipment, information and other know-how related to micellar nanoparticle technology encompassing Tocosol® and related technologies, and (iii) an initial services agreement, pursuant to which, IgDraSol is to provide certain product development and technology services related to the Company's antibody platform. See Note 2.



### ***Liquidity and Going Concern***

The accompanying consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will continue to operate as a going concern and which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. As reflected in the accompanying consolidated financial statements, the Company has incurred operating losses since its inception in 2006, and as of June 30, 2013, had an accumulated deficit of \$18,209,249. At June 30, 2013, the Company had working capital of \$4,438,427.

The Company anticipates that it will continue to incur net losses into the foreseeable future as it: (i) continues to identify and advance a number of potential drug candidates into preclinical development activities, (ii) acquires IgDraSol and continues to fund its operations, and (iii) expands its corporate infrastructure, including the costs associated with being a public company. Without additional funding, management believes that the Company will not have sufficient funds to meet its obligations beyond October 2013. These conditions give rise to substantial doubt as to the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company plans to continue to fund its losses from operations and capital funding needs through public or private equity or debt financings, strategic collaborations, licensing arrangements, asset sales, government grants or other arrangements. The Company filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission ("SEC"), which was declared effective by the SEC in July 2013. The Shelf Registration Statement provides the Company the ability to offer up to \$100 million of securities, including equity and other securities as described in the registration statement. Pursuant to 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. If the Company is unable to secure adequate additional funding, the Company may be forced to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible, and/or suspend or curtail planned programs. In addition, if the Company does not meet its payment obligations to third parties as they come due, it may be subject to litigation claims. Even if the Company is successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. Any of these actions could materially harm the Company's business, results of operations, and future prospects.

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.

### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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. Such adjustments could include, for example, appropriate estimates for Company bonus plans normally determined or settled at year-end.

### ***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's financial instruments consist of cash and cash equivalents, grants receivable, prepaid expenses and other assets, accounts payable and accrued expenses. Fair value estimates of these instruments are made at a specific point in time, based on relevant market information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. As of June 30, 2013 and December 31, 2012, the carrying amount of cash and cash equivalents, grants receivable, prepaid expenses and other assets, accounts payable and accrued liabilities are generally considered to be representative of their respective fair values because of the short-term nature of those instruments.

### ***Grants Receivable***

Grants receivable at June 30, 2013 and December 31, 2012 represent amounts due under several federal contracts with the National Institute of Allergy and Infectious Diseases, or 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.

### ***Property and Equipment***

Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets. Such lives vary from three to five years. Leasehold improvements are amortized over the lesser of the life of the lease or the life of the asset.

### ***Patent Rights***

Patent rights are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, determined to be approximately nineteen years from the date of transfer of the rights to the Company in April 2013. The Company had no patent rights as of December 31, 2012. Amortization expense for the three and six months ended June 30, 2013 was \$1,250, which has been included in general and administrative expenses.

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

The Company evaluates its long-lived assets with definite lives, such as property and equipment and patent rights, for impairment when events or changes in circumstances indicate the carrying value of the assets may not be recoverable. 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 June 30, 2013.

### ***Income Taxes***

The provisions of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 740-10, Uncertainty in Income Taxes, address 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 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 no 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. The Company evaluates the recoverability of the deferred tax assets annually.

### ***Revenue Recognition***

The Company’s revenues are generated from the NIH and U.S. Treasury grant awards and a feasibility study agreement, or the Collaboration Agreement, that the Company entered into with a third party in July 2010. The revenue from the NIH and U.S. Treasury grant awards are 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.

The revenue from the Collaboration Agreement is derived from the completion of certain development services and the reimbursement of certain development costs incurred to provide such development services. Revenue from upfront, nonrefundable service fees are recognized when earned, as evidenced by written acknowledgement from the collaborator, or other persuasive evidence that all service deliverables have been achieved, provided that the service deliverables are substantive and their achievability was not reasonably assured at the inception of the Collaboration Agreement. Any amounts received prior to satisfying the Company’s revenue recognition criteria are recorded as deferred revenue.

### ***Research and Development Costs and Collaborations***

Research and development costs are charged to expense as incurred. Such costs primarily consist of discovery research, pre-clinical activities, manufacture of drug supply, lab supplies, contract and acquired services, stock-based compensation expense, salaries and related benefits, depreciation and allocated and direct facility expenses.

The Company evaluates its collaborative agreements for proper income statement classification based on the nature of the underlying activity. If payments to collaborative partners are not within the scope of other authoritative accounting literature, the income statement classification for these payments is based on a reasonable, rational analogy to authoritative accounting literature that is applied in a consistent manner. Amounts due to collaborative partners related to development activities are reflected as a research and development expense.

#### ***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, are 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, has no alternative future use.

#### ***Stock-based Compensation***

The Company accounts for stock-based compensation in accordance with FASB ASC Topic 718, 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 granted to non-employees is re-measured as they vest, and the resulting increase in value, if any, is recognized as expense during the period the related services are rendered. Restricted stock issued to non-employees is accounted for at estimated fair value as they vest.

#### ***Net Loss per Share***

Net loss per share is presented as both basic and diluted net loss per share. Basic net loss per share excludes any dilutive effects of options, shares subject to repurchase and warrants. Diluted net loss per share includes the impact of potentially dilutive securities. No dilutive effect was calculated for the three or six months ended June 30, 2013 and 2012 as the Company reported a net loss for each respective period and the effect would have been anti-dilutive. The Company had outstanding common share equivalents of 455,000 and 243,977 at June 30, 2013 and 2012, respectively. The Company excludes the potential issuance of common shares contingently issuable to the Lee's or IgDraSol as there is no guarantee that such shares will be issued in the future. See Note 2.

#### ***New Accounting Standards***

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update, or ASU, 2012-02, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment (the revised standard). The objective of this ASU is to simplify how entities test indefinite-lived intangible assets other than goodwill for impairment. The amendments in the ASU provide the option to first assess qualitative factors to determine whether, as a result of its qualitative assessment, that it is more-likely-than-not (a likelihood of more than 50%) the asset is impaired and it is necessary to calculate the fair value of the asset in order to compare that amount to the carrying value to determine the amount of the impairment, if any. If an entity believes, as a result of its qualitative assessment, that it is not more-likely-than-not (a likelihood of more than 50%) that the fair value of an asset is less than its carrying amount, no further testing is required. The revised standard includes examples of events and circumstances that might indicate that the indefinite-lived intangible asset is impaired. The approach in the ASU is similar to the guidance for testing goodwill for impairment contained in ASU 2011-08, intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. The revised standard, which may be adopted early, is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and does not change existing guidance on when to test indefinite-lived intangible assets for impairment. The adoption of the provisions of this guidance is not expected to have a material impact on the Company's consolidated results of operations, cash flows, and financial position.

## **2. Significant Agreements and Contracts**

### ***License Agreement with OPKO Health, Inc.***

In June 2009, the Company entered into a limited license agreement, or the OPKO License, with OPKO Health, Inc., or OPKO, pursuant to which the Company granted OPKO an exclusive, royalty-free, worldwide license under all U.S. and foreign patents and patent applications owned or controlled by the Company or any of its affiliates, or the STI Patents, to: (i) develop, manufacture, use, market, sell, offer to sell, import and export certain products related to the development, manufacture, marketing and sale of drugs for ophthalmological indications, or the OPKO Field, and (ii) use and screen any population of distinct molecules covered by any claim of the STI Patents or which is derived by use of any process or method covered by any claim of the STI Patents to identify, select and commercialize certain products within the OPKO Field. Subject to certain limitations, OPKO will have the right to sublicense the foregoing rights granted under the OPKO License. Additionally, pursuant to the OPKO License, OPKO has granted the Company an exclusive, royalty-free, worldwide license to any patent or patent application owned or controlled by OPKO or any of its affiliates to develop, use, make, market, sell and distribute certain products in any field of use, other than the OPKO Field, or the OPKO Patents.

The Company has retained all rights to the STI Patents outside of the OPKO Field and has agreed not to practice the OPKO Patents or the STI Patents outside the STI current field of use. Unless otherwise terminated in accordance with its terms, the License Agreement will expire upon the expiration of the last to expire patent within the STI Patents and OPKO Patents on a country-by-country basis.

#### ***License Agreement with The Scripps Research Institute***

In January 2010, the Company entered into a license agreement, or the TSRI License, with The Scripps Research Institute, or 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 three months ended June 30, 2013 and 2012 and for the period from inception (January 25, 2006)(“Inception”) through June 30, 2013, the Company recorded \$4,305, \$348 and \$134,152 in patent prosecution and maintenance costs associated with the TSRI License, respectively. For the six months ended June 30, 2013 and 2012, the Company recorded \$6,806 and \$22,569 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 May 2010, the NIAID awarded the Company an Advanced Technology Small Business Technology Transfer Research grant to support the Company’s program to generate and develop novel antibody therapeutics and vaccines to combat Staph infections, including Methicillin-resistant Staph, or the Staph Grant award. The project period for the Staph Grant award covers a two-year period which commenced in June 2010, with a potential award of \$300,000 per year. As of December 31, 2012, the entire Phase 1 grant of \$600,000 had been awarded and recognized as revenue. The Company records revenue associated with the grant as the related costs and expenses are incurred. During the three and six months ended June 30, 2012, and for the period from Inception through June 30, 2013, the Company recorded \$62,863, \$119,379 and \$600,000 of revenue associated with the Staph Grant award, respectively.

In July 2011, the NIAID awarded the Company a second Advanced Technology Small Business Technology Transfer Research grant, with an initial award of \$300,000, to support the Company’s program to generate and develop antibody therapeutics and vaccines to combat *C. difficile* infections, or the *C. difficile* Grant award. The project period for the *C. difficile* Grant award covers a two-year period which commenced in June 2011, and as of September 30, 2012, the entire Phase 1 grant of \$600,000 had been awarded. During the three months ended June 30, 2013 and 2012, and for the period from Inception through June 30, 2013, the Company recorded \$66,535, \$117,471 and \$592,717 of revenue associated with the *C. difficile* Grant award, respectively. During the six months ended June 30, 2013 and 2012, the Company recorded \$143,940 and \$171,104 of revenue associated with the *C. difficile* Grant award, respectively.

In June 2012, the NIAID awarded the Company a third Advanced Technology Small Business Technology Transfer Research grant, with an initial award of \$300,000, to support the Company’s program to generate and develop novel human antibody therapeutics to combat Staph infections, including Methicillin-resistant Staph, or the Staph Grant II award. The project period for the phase I grant covers a two-year period which commenced in June 2012, with a potential annual award of \$300,000 per year. During the three months ended June 30, 2013 and 2012, and for the period from Inception through June 30, 2013, the Company recorded \$75,063, \$36,801 and \$260,537, respectively, of revenue associated with the Staph Grant II award. During the six months ended June 30, 2013 and 2012, the Company recorded \$131,721 and \$36,801 of revenue associated with the Staph Grant II award, respectively.

### ***Collaboration Agreement***

In July 2010, the Company entered into the Collaboration Agreement with a third party. Under the terms of the Collaboration Agreement, the Company provided certain antibody screening services for an upfront cash fee of \$200,000 and was reimbursed for certain costs and expenses associated with providing the services, or the Development Costs. The upfront fee and reimbursable Development Costs were accounted for as separate units of accounting. The Company recorded the gross amount of the reimbursable Development Costs as revenue and the costs associated with these reimbursements are reflected as a component of research and development expense.

Any amounts received by the Company pursuant to the Collaboration Agreement prior to satisfying the Company's revenue recognition criteria are recorded as deferred revenue. All agreed upon services under the Collaboration Agreement were delivered in March 2011. For the period from Inception through June 30, 2013, the Company recognized \$223,453 in revenue.

### ***U.S. Treasury Grants***

During 2010, the U.S. Treasury awarded the Company grants totaling \$394,480 for investments in qualifying therapeutic discovery projects under section 48D of the Internal Revenue Code. The proceeds from this grant are classified in "Revenues – Grant" for the period from Inception through June 30, 2013.

### ***Assignment Agreement***

In January 2013, the Company entered into the assignment agreement, pursuant to which the Lees agreed to assign to the Company their right, title and interest throughout the world in and to certain inventions and patents that provide for the production of recombinant intravenous immunoglobulin. As consideration for the assignment by the Lees under the assignment agreement, the Company: (i) issued the Lee's 10,000 shares of the Company's common stock upon execution of the Agreement, (ii) paid the Lees \$50,000 in five monthly installments of \$10,000 beginning on February 1, 2013, and (iii) agreed to issue the Lees up to 80,000 shares of the Company's common stock based upon the achievement of certain milestone events described in the assignment agreement. Unless otherwise terminated in accordance with its terms, the assignment agreement will expire upon the expiration of the last to expire patent within the assigned patent rights.

### ***IgDraSol Transactions***

On March 7, 2013, the Company entered into an exclusive option agreement with IgDraSol, a private company focused on the development of oncologic agents for the treatment of MBC, NSCLC, and other cancers. IgDraSol granted the Company an irrevocable option to acquire IgDraSol by means of an agreement and plan of merger, and was paid a non-refundable lump sum payment of \$200,000 in April 2013. Such payment was capitalized when paid, and will be amortized over the life of the option period. The option must be exercised by the later of: (i) thirty (30) days after the receipt of the FDA End of Phase II meeting minutes for Cynviloq™, which were received by IgDraSol on July 29, 2013, or (ii) September 30, 2013. If the Company exercises its option to acquire IgDraSol, the Company will, pursuant to the merger agreement, issue 3,047,968 shares of common stock to IgDraSol stockholders and, upon the later achievement of a specified regulatory milestone, the Company will issue an additional 1,306,272 shares of common stock to former IgDraSol stockholders.

IgDraSol's lead compound, Cynviloq™, is a micellar diblock copolymeric paclitaxel formulation drug product. Cynviloq™ is currently approved and marketed in several countries, including South Korea for MBC and NSCLC under the trade name Genexol-PM®, and has completed Phase 2 testing for potential advancement into registration trials in the United States. IgDraSol obtained exclusive distribution rights for Cynviloq™ in the United States and 27 countries of the European Union, or EU, from Samyang Biopharmaceuticals Corporation, a South Korean corporation.

The Company entered into an initial services agreement dated March 7, 2013 with IgDraSol, wherein IgDraSol has provided certain product development and technology services related to antibody-based nanotherapeutics. In March 2013, IgDraSol was paid a non-refundable payment of \$1,000,000 and the related services were completed prior to May 31, 2013. There are no further obligations under the initial services agreement.

In addition, the Company entered into an asset purchase agreement with IgDraSol whereby it agreed to purchase all documentation, equipment, information and other know-how related to micellar nanoparticle technology encompassing Tocosol® and related technologies for a purchase price of \$1,210,000. The purchase price was paid in April 2013 and was recognized as acquired in-process research and development expense. Also in April 2013, the Company entered into a development services agreement with IgDraSol related to the development of Tocosol® and related technologies. The Company will pay IgDraSol up to \$3,000,000 for services provided. For the three and six months ended June 30, 2013, the Company recorded \$846,059 of operating expenses associated with the development services agreement.

### 3. Loan and Security Agreement

In February 2013, the Company entered into a loan and security agreement with a bank pursuant to which the lender provided the Company loans to finance certain equipment, in an aggregate principal amount of up to \$1,000,000. Under the loan agreement, the lender funded the initial equipment advance in the principal amount of \$875,888 in February 2013 and agreed to fund, subject to customary conditions, an additional equipment advance in the principal amount of \$124,112 on or prior to August 21, 2013. The loans under the loan agreement bear interest at a rate equal to the three-year U.S. Treasury note yield plus 4.65%, which is fixed on the date of each funding. Interest accrues on the initial outstanding advance at the fixed rate of 5.15%.

The Company is obligated to pay interest-only on any loans funded under the loan agreement prior to April 30, 2013 until May 1, 2013, and thereafter to pay 36 consecutive equal monthly installments of principal and interest through April 1, 2016. The Company is obligated to pay equal monthly installments of principal and interest through April 1, 2016 on any loans funded under the loan agreement after April 30, 2013. All loans funded under the loan agreement mature on April 1, 2016.

At the Company's option, it may prepay all of the outstanding principal balance, subject to certain pre-payment fees ranging from 1% to 3% of the prepayment amount. In the event of a final payment of the loans under the loan agreement, either in the event of repayment of the loan at maturity or upon any prepayment, the Company is obligated to pay a final fee of \$55,000.

The Company granted the lender a security interest in any equipment that is financed under the loan agreement. The Company is also subject to certain affirmative and negative covenants under the loan agreement, including limitations on its ability to: undergo certain change of control events; convey, sell, lease, license, transfer or otherwise dispose of any equipment financed by loans under the loan agreement; create, incur, assume, guarantee or be liable with respect to indebtedness, subject to certain exceptions; grant liens on any equipment financed under the loan agreement; and make or permit any payment on specified subordinated debt. In addition, under the loan agreement, subject to certain exceptions, the Company is required to maintain with the lender its primary operating, other deposit and securities accounts.

Future annual principal payments under the loan agreement, as of December 31, 2012, are as follows:

2013	\$ 194,642
2014	291,963
2015	291,963
2016	97,320
Total payments	<u>\$ 875,888</u>

### 4. Stockholders' Equity

#### Common Stock and Related Party Transaction

In December 2011, the Company entered into a Stock Purchase Agreement, or the Stock Purchase Agreement, and issued 500,000 shares of common stock in a private placement transaction at \$4.00 per share, for aggregate gross proceeds of \$2,000,000. In May 2012, the Company entered into an Amended and Restated Stock Purchase Agreement, and issued 1,500,000 shares of common stock in a private placement transaction at \$4.00 per share, for aggregate gross proceeds of \$6,000,000. Two hundred and fifty thousand of the shares were purchased by an investor, Hongye SD Group, LLC, of which Dr. Henry Ji, the Company's Chief Executive Officer and President, is a managing director.

In January 2013, the Company entered into the assignment agreement and issued 10,000 shares of common stock valued at \$40,000.

In March 2013, the Company entered into a Stock Purchase Agreement and issued 1,426,333 shares of common stock, in a private placement transaction, at \$4.50 per share for aggregate gross proceeds of \$6,418,495.

In April 2013, Company's stockholders approved, among other items, three amendments to the Company's Certificate of Incorporation, as follows: (i) increased the number of shares of common stock authorized to be issued by the Company from 500,000,000 to 750,000,000, (ii) authorized the Company's Board of Directors, or the Board, to effect a reverse stock split of the Company's common stock by a ratio of not less than 1-for-2 and not more than 1-for-150, with the Board having the discretion as to whether or not the reverse split is to be effected at any time prior to April 26, 2014, and (iii) authorized the Board, in the event a reverse stock split is approved, in its discretion, to reduce the number of shares of common stock authorized to be issued by the Company in proportion to the percentage decrease in the number of outstanding shares of common stock resulting from the reverse split (or a lesser decrease in authorized shares of common stock as determined by the Board in its discretion). See Note 1.

## Stock Incentive Plans

### 2009 Equity Incentive Plan

In February 2009, prior to the Merger, the Company's Board of Directors approved the 2009 Equity Incentive Plan, or the EIP, under which 400,000 shares of common stock were reserved for issuance to employees, non-employee directors and consultants of the Company. In March 2009, the Company issued 296,155 restricted common stock awards to certain consultants for aggregate gross proceeds of \$291, of which the Company repurchased 44,166 unvested shares of restricted common stock for \$43 in January 2011. The restricted shares vested monthly over four years and all remaining shares were fully vested as of June 30, 2013. No further shares are available for grant under the EIP.

### 2009 Non-Employee Director Grants

In September 2009, prior to the adoption of the 2009 Stock Incentive 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. Such options are exercisable on the two year anniversary of the grant date and are generally exercisable for up to 10 years from the grant date. No further shares may be granted under this plan and, as of June 30, 2013, 3,200 options were outstanding.

### 2009 Stock Incentive Plan

In October 2009, the Company's stockholders approved the 2009 Stock Incentive Plan. In April 2013, the Company's stockholders approved, among other items, the amendment and restatement of the 2009 Stock Incentive Plan, or the Stock Plan, to increase the number of common stock authorized to be issued pursuant to the Stock Plan to 1,360,000. Such shares of the Company's common stock are reserved for issuance to employees, non-employee directors and consultants of the Company. In addition, this amount will be automatically increased annually on the first day of each fiscal year by the lesser of: (i) 1% of the aggregate number of shares of the Company's common stock outstanding on the last day of the immediately preceding fiscal year, (ii) 200,000 shares, or (iii) an amount approved by the administrator of the Stock Plan. The Stock 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. Employee option grants will generally vest 25% on each anniversary of the original vesting date over four 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. Unvested shares of the Company's common stock issued in connection with an early exercise however, may be repurchased by the Company upon termination of the optionee's service with the Company.

During the six months ended June 30, 2013 and 2012, the Company's Board of Directors awarded 42,800 and 82,200 options to certain employees and consultants and 899,000 and 376,300 shares were available for grant under the Stock Plan, respectively.

The Company uses the Black-Scholes valuation model to calculate the fair value of stock options. Stock based compensation expense is recognized over the vesting period using the straight-line method. The fair value of employee stock options was estimated at the grant date using the following assumptions:

	Six months ended June 30,	
	2013	2012
Dividend yield	—	—
Volatility	109%	102%
Risk-free interest rate	1.07%	1.02%
Expected life of options	6.1 years	5.7 years

The weighted average grant date fair value per share of employee stock options granted during the six months ended June 30, 2013 and 2012 was \$4.25 and \$3.25, respectively.

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 United States 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 stock-based compensation recorded as operating expenses was \$153,003, \$27,937 and \$715,288 for the three months ended June 30, 2013 and 2012 and for the period from Inception through June 30, 2013, respectively. The total employee stock-based compensation recorded as operating expenses was \$296,471 and \$54,665 for the six months ended June 30, 2013 and 2012, respectively.

As of June 30, 2013, unrecognized compensation cost related to the options was \$1,667,067 which will be recognized over 3.1 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 applicable 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 \$28,901, \$74,152 and \$1,181,016 for the three months ended June 30, 2013 and 2012 and for the period from Inception through June 30, 2013, respectively. Stock-based compensation expense related to non-employee consultants recorded as operating expenses was \$133,193 and \$148,592 for the six months ended June 30, 2013 and 2012, respectively.

## **5. Income Taxes**

The Company maintains deferred tax assets that 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. These deferred tax assets include net operating loss carryforwards, research credits and capitalized research and development. The net deferred tax asset has been fully offset by a valuation allowance because of the Company's history of losses. Utilization of operating losses and credits may be subject to substantial annual limitation due to ownership change provisions of the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

## **6. Subsequent Event**

Effective July 8, 2013, the Company entered into an exclusive option agreement with B.G. Negev Technologies and Applications Ltd. ("BGN"). Pursuant to the terms of the option agreement, BGN granted the Company an option to receive an exclusive sub-licensable worldwide license in and to certain licensed patent rights to develop and commercialize the licensed products. Licensed patent rights refers to any rights arising out of or resulting from any patent application filed by the Company for certain BGN technology relating to a group of defined fully human antibodies that bind to a Hep. C protease enzyme.



## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.**

*This Quarterly Report on Form 10-Q contains “forward-looking statements” about our expectations, beliefs or intentions regarding our potential product offerings, business, financial condition, results of operations, strategies or prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results as of the date they are made and are often identified by the use of words such as “assumes,” “plans,” “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” or “will,” and similar expressions or variations. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties that could cause our actual results to differ materially from any future results expressed or implied by the forward-looking statements. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described under the caption “Risk Factors” included elsewhere in this Quarterly Report on Form 10-Q and in our other filings with the Securities and Exchange Commission, or the SEC. Furthermore, such forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.*

### **Overview**

We are a biopharmaceutical company engaged in the discovery, acquisition, development and commercialization of proprietary drug therapeutics for addressing significant unmet medical needs in the United States, Europe and additional international markets. Our primary therapeutic focus is oncology but we are also developing therapeutic products for other indications, including inflammation, metabolic disorders, and infectious diseases.

Our proprietary G-MAB® fully-human antibody library platform was designed to facilitate the rapid identification and isolation of highly specific antibody therapeutic product candidates that bind to disease targets appropriate for antibody therapy. Our objective is to leverage our library to develop both First-in-Class, or FIC, and/or Best-in-Class, or BIC, antibody drug candidates that we expect will possess greater efficacy and fewer side effects as compared to existing drugs. Although we intend to retain ownership and control of some product candidates by advancing them further into preclinical development, we will also consider partnerships with pharmaceutical or biopharmaceutical organizations, with the appropriate experience and expertise, in order to balance the risks associated with drug discovery and development and maximize our stockholders’ returns. Our partnering objectives include generating revenue through license fees, milestone related development fees and royalties by licensing rights to our development candidates.

Our goal is to deliver innovative, highly effective and safe treatment options to patients throughout the world. By working closely with scientists, doctors, patient organizations and other health care specialists, we are committed to improving the lives of patients and assisting their caregivers in the fight against cancer, inflammatory and autoimmune diseases and other unmet medical needs.

### **Recent Developments**

#### ***IgDraSol Transactions and Cynviloq™***

On March 7, 2013, we entered into an exclusive option agreement with IgDraSol. IgDraSol granted us an irrevocable option to acquire IgDraSol by means of an agreement and plan of merger, and was paid a non-refundable lump sum payment of \$200,000 in April 2013. The option must be exercised by the later of: (i) thirty (30) days after the receipt of the FDA End of Phase II meeting minutes for Cynviloq™, which were received by IgDraSol on July 29, 2013, or (ii) September 30, 2013. If we exercise our option to acquire IgDraSol, we will immediately issue 3,047,968 shares of our common stock to the IgDraSol stockholders and, upon the achievement of a specified regulatory milestone, we will issue an additional 1,306,272 shares of our common stock to the former IgDraSol stockholders.

IgDraSol’s lead compound is Cynviloq™, a micellar diblock copolymeric paclitaxel formulation drug product. Cynviloq™ is currently approved and marketed in several countries, including South Korea for MBC and NSCLC under the trade name Genexol-PM®. IgDraSol obtained exclusive distribution rights for Cynviloq™ in the United States and 27 countries of the European Union, or EU, from Samyang Biopharmaceuticals Corporation, a South Korean corporation.

We entered into an initial services agreement dated March 7, 2013 with IgDraSol, wherein IgDraSol has provided certain product development and technology services related to antibody-based nanotherapeutics. In March 2013, IgDraSol was paid a non-refundable payment of \$1,000,000 and the related services were completed prior to May 31, 2013. There are no further obligations under the initial services agreement.

In addition, we entered into an asset purchase agreement with IgDraSol whereby we agreed to purchase all documentation, equipment, information and other know-how related to micellar nanoparticle technology encompassing Tocosol® and related technologies for a purchase price of \$1,210,000, which was paid in April 2013, which was recognized as in-process research and development expense. Also in April 2013, we entered into a development services agreement with IgDraSol related to the development of Tocosol® and related technologies. We will pay IgDraSol up to \$3,000,000 for services provided.

### ***Critical Accounting Policies and Estimates***

Management's discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements which are prepared in accordance with GAAP. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, related disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We continually evaluate our estimates and judgments, the most critical of which are those related to income taxes and stock-based compensation. We base our estimates and judgments on historical experience and other factors that we believe to be reasonable under the circumstances. Materially different results can occur as circumstances change and additional information becomes known.

During the quarter ended June 30, 2013, there were no significant changes to the items that we disclosed as our critical accounting policies and estimates in Note 2 to our financial statements for the year ended December 31, 2012 contained in our 2012 Form 10-K, as filed with the SEC.

### ***Results of Operations***

The following describes certain line items set forth in our statements of operations.

#### ***Three Months Ended June 30, 2013 Compared to the Three Months Ended June 30, 2012***

**Revenues.** Revenues were \$141,598 for the three months ended June 30, 2013, as compared to \$217,135 for the three months ended June 30, 2012. The decrease is due to lower grant revenue of \$75,537 due to decreased grant activities under two grant awards during 2013 as compared to three active grants during 2012.

In May 2010, we were awarded an Advanced Technology Small Business Technology Transfer Research grant to support our program to generate and develop novel antibody therapeutics and vaccines to combat Staph infections, including Methicillin-resistant Staph, or the Staph Grant award. The project period for this grant covered a two-year period which commenced in June 2010, and as of June 30, 2012, the entire Phase 1 grant of \$600,000 had been awarded and recognized in grant revenues.

In July 2011, we were awarded a second Advanced Technology Small Business Technology Transfer Research grant to support our program to generate and develop antibody therapeutics and vaccines to combat C. difficile infections, or the C. difficile Grant award. The project period for the C. difficile Grant award covers a two-year period which commenced in June 2011, and as of June 30, 2013, the entire Phase 1 grant of \$600,000 had been awarded. From July 2011 through June 30, 2013, \$592,717 of the C. difficile Grant award had been recorded in grant revenues.

In June 2012, we were awarded a third Advanced Technology Small Business Technology Transfer Research grant, with an initial award of \$300,000, to support our program to generate and develop novel human antibody therapeutics to combat Staph infections, including Methicillin-resistant Staph, or the Staph Grant II award. The project period for the phase I grant covers a two-year period which commenced in June 2012, with a potential annual award of \$300,000 per year. From June 2012 through June 30, 2013, \$260,537 of the Staph Grant II award had been recorded in grant revenues.

We had no other revenue during the six months ended June 30, 2013 and 2012. We expect that any revenue we generate will fluctuate from quarter to quarter as a result of the unpredictability of the timing and amount of grant awards, research and development reimbursements and other payments received under our strategic collaborations.

**Research and Development Expenses.** Research and development expenses for the three months ended June 30, 2013 and 2012 were \$2,141,039 and \$917,452, respectively. Research and development expenses include the costs to identify, isolate and advance human antibody drug candidates derived from our libraries, preclinical testing expenses, costs incurred under the IgDraSol initial and development services agreements, and the expenses associated with fulfilling our development obligations related to the Staph and C. difficile Grant awards, collectively the NIH Grants. Such expenses consist primarily of salaries and personnel -related expenses, stock-based compensation expense, laboratory supplies, consulting costs and other expenses. The increase of \$1,223,587 is primarily attributable to costs incurred under the initial and development services agreements with IgDraSol, as well as higher salary and lab supply costs incurred in connection with our expanded research and development activities. We expect research and development expenses to increase in absolute dollars as we: (i) incur incremental expenses associated with our efforts to advance a number of potential drug candidates into preclinical development activities, (ii) continue to incur costs under the IgDraSol development services agreement, and (iii) as we incur costs related to our potential merger with IgDraSol, assume IgDraSol's operating expenses, and costs associating with the clinical trials related to Cynviloq™, including expenses incurred under agreements with CROs and investigative sites that conduct their clinical trials, the cost of acquiring, developing and manufacturing clinical trial materials, and other regulatory operating activities.

We evaluate our collaborative agreements for proper income statement classification based on the nature of the underlying activity. If payments to our collaborative partners are not within the scope of other authoritative accounting literature, the statement of operations classification for these payments is based on a reasonable, rational analogy to authoritative accounting literature that is applied in a consistent manner. Amounts due to our collaborative partners related to development activities are reflected as a research and development expense.

*Acquired In-Process Research and Development Expenses.* Acquired research and development expenses for the three months ended June 30, 2013 and 2012 were \$1,210,000 and \$0, respectively. Acquired research and development expenses include the costs of acquiring the Tocosol® and related technologies in April 2013.

*General and Administrative Expenses.* General and administrative expenses for the three months ended June 30, 2013 and 2012 were \$1,507,516 and \$244,557, respectively. General and administrative expenses consist primarily of costs incurred under the IgDraSol initial and development services agreements, salaries and personnel related expenses for executive, finance and administrative personnel, stock-based compensation, professional fees, infrastructure expenses, legal and accounting, and other general corporate expenses. The increase of \$1,262,959 is primarily attributable to increases in costs incurred under the initial and development services agreement with IgDraSol, stock-based compensation, salaries and consulting expenses with the addition of our full time Chief Financial Officer and part-time Chief Business Officer in the second half of 2012, and higher legal and compliance costs associated with our public reporting obligations. We expect general and administrative expenses to increase in absolute dollars as we: (i) incur incremental expenses associated with ongoing operations, compliance with our public reporting obligations, (ii) continue to incur costs under the IgDraSol development services agreement, and (iii) incur costs related to our potential merger with IgDraSol and assume IgDraSol's operating expenses.

*Interest Income and Interest Expense.* Interest income and interest expense for the three months ended June 30, 2013 and 2012 was nominal. We expect interest expense to increase in absolute dollars as we incur incremental costs associated with the loan and security agreement entered into in February 2013.

*Net Loss.* Net loss for the three months ended June 30, 2013 and 2012 was \$4,736,611 and \$943,118, respectively. The increase in net loss is mainly attributable to the expanded general and administrative and research and development activities, including the costs associated with the IgDraSol Transactions. We expect our net loss to increase in absolute dollars as we incur incremental expenses associated with our ongoing operations, continue to incur costs under the IgDraSol development services agreement, and we incur costs related to our potential merger with IgDraSol and assume IgDraSol's operating expenses.

#### ***Six Months Ended June 30, 2013 Compared to the Six Months Ended June 30, 2012***

*Revenues.* Revenues were \$275,661 for the six months ended June 30, 2013, as compared to \$327,284 for the six months ended June 30, 2012. The decrease is due to lower grant revenue of \$51,623 due to decreased grant activities under two grant awards during 2013 as compared to three active grants during 2012.

We expect that any revenue we generate will fluctuate from quarter to quarter as a result of the timing and amount of grant awards and when the related costs and expenses are incurred, and timing of any other payments received under our strategic collaborations.

*Research and Development Expenses.* Research and development expenses for the six months ended June 30, 2013 and 2012 were \$3,539,716 and \$1,716,524, respectively. Research and development expenses include the costs to identify, isolate and advance human antibody drug candidates derived from our libraries, preclinical testing expenses, costs incurred under the IgDraSol initial and development services agreements, and the expenses associated with fulfilling our development obligations related to the Staph and C. difficile Grant awards, collectively the NIH Grants. Such expenses consist primarily of salaries and personnel -related expenses, stock-based compensation expense, laboratory supplies, consulting costs and other expenses. The increase of \$1,823,192 is attributable to costs incurred under the initial and development services agreements with IgDraSol, as well as higher salary and lab supply costs incurred in connection with our expanded research and development activities. We expect research and development expenses to increase in absolute dollars as we: (i) incur incremental expenses associated with our efforts to advance a number of potential drug candidates into preclinical development activities, (ii) continue to incur costs under the IgDraSol development services agreement, and (iii) as we incur costs related to our potential merger with IgDraSol, assume IgDraSol's operating expenses, and costs associating with the clinical trials related to Cynviloq™, including expenses incurred under agreements with CROs and investigative sites that conduct their clinical trials, the cost of acquiring, developing and manufacturing clinical trial materials, and other regulatory operating activities.

*General and Administrative Expenses.* General and administrative expenses for the six months ended June 30, 2013 and 2012 were \$2,757,197 and \$463,232, respectively. General and administrative expenses consist primarily of costs incurred under the IgDraSol initial and development services agreements, salaries and personnel related expenses for executive, finance and administrative personnel, stock-based compensation, professional fees, infrastructure expenses, legal and accounting, and other general corporate expenses. The increase of \$2,293,965 is primarily attributable to increases in costs incurred under the initial and development services agreement with IgDraSol, stock-based compensation, salaries and consulting expenses with the addition of our full time Chief Financial Officer and part-time Chief Business Officer in the second half of 2012, and higher legal and compliance costs associated with our public reporting obligations. We expect general and administrative expenses to increase in absolute dollars as we: (i) incur incremental expenses associated with ongoing operations, compliance with our public reporting obligations, (ii) continue to incur costs under the IgDraSol development services agreement, and (iii) incur costs related to our potential merger with IgDraSol and assume IgDraSol's operating expenses.

*Interest Income and Interest Expense.* Interest income and interest expense for the six months ended June 30, 2013 and 2012 were nominal. We expect interest expense to increase in absolute dollars as we incur incremental costs associated with the loan and security agreement entered into in February 2013.

*Net Loss.* Net loss for the six months ended June 30, 2013 and 2012 was \$7,258,950 and \$1,849,244, respectively. The increase in net loss is mainly attributable to the expanded general and administrative and research and development activities, including the costs associated with the IgDraSol Transactions. We expect our net loss to increase in absolute dollars as we incur incremental expenses associated with our ongoing operations, continue to incur costs under the IgDraSol development services agreement, and we incur costs related to our potential merger with IgDraSol and assume IgDraSol's operating expenses.

### ***Liquidity and Capital Resources***

As of June 30, 2013, we had \$5,754,579 million in cash and cash equivalents, attributable primarily to the closing of our private placement of our common stock for aggregate gross proceeds of \$6,418,495 in March 2013 as well as the \$1,000,000 debt facility with a bank in February 2013 (of which \$876,000 was funded in February 2013).

*Cash Flows from Operating Activities.* Net cash used for operating activities was \$6,297,172 for the six months ended June 30, 2013 and is primarily attributable to our net loss of \$7,258,950, which was partially offset by a net increase of \$187,047 in working capital balances, as well as by \$774,731 in non-cash activities relating to stock-based compensation and depreciation expense. Net cash used for operating activities was \$1,468,850 for the six months ended June 30, 2012 and was primarily attributable to our net loss of \$1,849,244, a net decrease of \$45,208 in working capital balances, which was partially offset by \$335,186 in non-cash activities relating to stock-based compensation and depreciation expense.

We expect to continue to incur substantial and increasing losses and have negative net cash flows from operating activities as we seek to expand and support our technology portfolio, research and development and general and administrative activities, as we potentially merge with IgDraSol, and assume IgDraSol's operating expenses.

*Cash Flows from Investing Activities.* Net cash used for investing activities was \$228,198 for the six months ended June 30, 2013 as compared to \$310,653 for the six months ended June 30, 2012. The net cash used related primarily to equipment acquired for research and development activities as well as the rights acquired under the assignment agreement.

We expect to increase our investment in laboratory equipment and furnishings as we seek to expand and progress our research and development activities and potentially merge with IgDraSol.

*Cash Flows from Financing Activities.* Cash flows from financing activities for the six months ended June 30, 2013 and 2012 was \$7,188,637 and \$5,938,231, respectively.

*Future Liquidity Needs.* From inception through June 30, 2013, we have principally financed our operations through private equity financings with aggregate net proceeds of \$22,689,305, as we have not generated any product related revenue from operations to date, and do not expect to generate significant revenue for several years, if ever. We will need to raise additional capital before we exhaust our current cash resources in order to continue to fund our research and development, including our long-term plans for preclinical trials and new product development, as well as to fund operations generally. As and if necessary, we will seek to raise additional funds through various potential sources, such as equity and debt financings, or through corporate collaboration and license agreements. We can give no assurances that we will be able to secure such additional sources of funds to support our operations, or, if such funds are available to us, that such additional financing will be sufficient to meet our needs.

We anticipate that we will continue to incur net losses into the foreseeable future as we: (i) continue to identify and advance a number of potential drug candidates into preclinical development activities, (ii) continue to incur costs under the IgDraSol development and technology services agreements, (iii) potentially merge with IgDraSol pursuant to the option agreement, and (iv) expand our corporate infrastructure, including the costs associated with being a public company. Without additional funding, we believe that we will not have sufficient funds to meet our obligations beyond October 2013. These conditions give rise to substantial doubt as to our ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We plan to continue to fund our losses from operations and capital funding needs through public or private equity or debt financings, strategic collaborations, licensing arrangements, asset sales, government grants or other arrangements. We filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission (“SEC”), which was declared effective by the SEC in July 2013. The Shelf Registration Statement provides us with the ability to offer up to \$100 million of securities, including equity and other securities as described in the registration statement. Pursuant to Shelf Registration Statement, we may offer such securities from time to time and through one or more methods of distribution, subject to market conditions and our 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, we cannot be sure that such additional funds will be available on reasonable terms, or at all. If we are unable to secure adequate additional funding, we may be forced to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible, and/or suspend or curtail planned programs. In addition, if we do not meet our payment obligations to third parties as they come due, we may be subject to litigation claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. Any of these actions could materially harm our business, results of operations, and future prospects.

Our actual cash requirements may vary materially from those now planned, however, because of a number of factors, including the actual costs incurred to effect and support the IgDraSol Transactions and related operating activities, the pursuit of development of product candidates, competitive and technical advances, costs of commercializing any potential product candidates, and costs of filing, prosecuting, defending and enforcing any patent claims and any other intellectual property rights. If we are unable to raise additional funds when needed, we may not be able to develop any product candidates, we could be required to delay, scale back or eliminate some or all of our research and development programs and we may need to wind down our operations altogether. Each of these alternatives would have a material adverse effect on our business.

If we raise additional funds by issuing equity securities, substantial dilution to existing stockholders would result. If we raise 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 our ability to operate our business.

In its report on our consolidated financial statements for the year ended December 31, 2012 as filed with the SEC, our independent registered public accounting firm included an explanatory paragraph expressing substantial doubt regarding our ability to continue as a going concern. A “going concern” opinion means, in general, that our independent registered public accounting firm has substantial doubt about our ability to continue our operations without continuing infusions of capital from external sources and this opinion could impair our ability to finance our operations through the sale of debt or equity securities or commercial bank loans. Our ability to continue as a going concern depends, in large part, on our ability to obtain additional financing, which is uncertain. If we are unable to do so, our business would be jeopardized and we may not be able to continue operations and have to liquidate our assets and may receive less than the value at which those assets were carried on our consolidated financial statements, and in this event it is likely that investors will lose all or part of their investment.

Additionally, recent global market and economic conditions have been unprecedented and challenging with tighter credit conditions and recession in most major economies. As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide credit to businesses and consumers. These factors have led to a decrease in spending by businesses and consumers alike, and a corresponding decrease in global infrastructure spending. Continued turbulence in the U.S. and international markets and economies and prolonged declines in business and consumer spending may adversely affect our liquidity and financial condition, including our ability to access the capital markets to meet liquidity needs.

#### ***Off-Balance Sheet Arrangements***

Since our inception through June 30, 2013, we have not engaged in any off-balance sheet arrangements as defined in Item 303 (a)(4) of Regulation S-K.

#### ***New Accounting Pronouncements***

None.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

As a smaller reporting company, as defined by Section 10(f)(1) of Regulation S-K, we are not required to provide the information set forth in this Item.

**Item 4. Controls and Procedures.**

*Conclusion Regarding the Effectiveness of 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 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 principal executive officer and principal financial 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 principal executive officer and principal financial 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 Quarterly Report on Form 10-Q. Based on the foregoing, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

*Changes in Internal Control Over Financial Reporting*

There has been no change in our internal control over financial reporting during the quarter ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

To the best of our knowledge, we are not a party to any legal proceedings that, individually or in the aggregate, are deemed to be material to our financial condition or results of operations.

**Item 1A. Risk Factors.**

*Our Annual Report on Form 10-K for the year ended December 31, 2012, Part I –Item 1A, as well as our Registration Statement on Form S-3, effective in July 2013, Risk Factors, describes important risk factors that could cause our business, financial condition, results of operations and growth prospects to differ materially from those indicated or suggested by forward-looking statements made in this Form 10-Q or presented elsewhere by management from time to time. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business.*

There have been no material changes in our risk factors since the filing of our Registration Statement on Form S-3, effective in July 2013.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed as part of this Quarterly Report on Form 10-Q and such Exhibit Index is incorporated herein by reference.





## EXHIBIT INDEX

3.1	Certificate of Amendment of the Restated Certificate of Incorporation of Sorrento Therapeutics, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K filed on August 1, 2013).
10.1	Option Agreement between Sorrento Therapeutics, Inc. and B.G. Negev Technologies and Applications Ltd.
31.1	Certification of Henry Ji, Ph.D., Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended.
31.2	Certification of Richard Glenn Vincent, Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended.
32.1	Certification of Henry Ji, Ph.D., Principal Executive Officer, and Richard Glenn Vincent, Principal 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

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\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Act of 1934 and otherwise not subject to liability.

**EXCLUSIVE OPTION AGREEMENT**

**by and between**

**B.G. NEGEV TECHNOLOGIES AND APPLICATIONS LTD.,  
an Israeli Company**

**and**

**SORRENTO THERAPEUTICS, INC.,  
a Delaware (US) corporation**

## **EXCLUSIVE OPTION AGREEMENT**

This Option Agreement is entered into and made effective as of this 30 day of June, 2013 (the "Effective Date"), by and between B.G. NEGEV TECHNOLOGIES AND APPLICATIONS LTD, an Israeli corporation ("BGN") located at 1, Henrietta Szold str. Beer- Sheva, 84105, Israel, and SORRENTO THERAPEUTICS, INC., a Delaware corporation ("Sorrento") located at 6042 Cornerstone Ct., Suite B, San Diego, CA 92121, with respect to the facts set forth below.

### **RECITALS**

A. BGN, a company wholly-owned by Ben-Gurion University ("BGU"), is exclusively in charge of the protection, management and commercial exploitation of the intellectual property and know-how of BGU.

B. BGN, through Prof. Leslie Lobel Lab of BGU (the "Lobel Lab"), is engaged among others in anti-viral and infections research including research relating to the development of anti-viral antibodies useful against infectious disease.

C. Sorrento is engaged in research and development of antibody therapeutic products for disease management and treatment.

D. Sorrento wishes to receive from BGN, and BGN agrees to grant to Sorrento, an exclusive option, pursuant to the terms hereof, to receive from BGN an exclusive sub-licensable worldwide license in and to the Licensed Patent Rights (as defined below) in order to develop and commercialize Licensed Products (as defined below), all, subject to the terms and conditions set forth in this Agreement.

E. Sorrento wishes to evaluate, protect and perform some initial preclinical development of the BGN Technology (as defined below) in order to assess whether or not to exercise the option contained herein and for this purpose BGN will disclose to Sorrento certain Confidential Information of BGN/BGU relating to the a group of defined fully human antibodies that bind to a Hep. C protease enzyme (the "BGN Technology").

### **AGREEMENT**

NOW, THEREFORE, in consideration of the mutual covenants and conditions set forth herein, BGN and Sorrento hereby agree as follows:

#### **CHAPTER A: DEFINITIONS**

1. **Definitions.** Capitalized terms shall have the meaning set forth herein.

1.1 **Affiliate.** The term "Affiliate" (i) with respect to BGN, shall mean any entity or individual which directly or indirectly controls, is controlled by, or is under common control with, BGN, (ii) with respect to Sorrento, shall mean any entity or individual which directly or indirectly controls, is controlled by, or is under common control with,

Sorrento, and (iii) with respect to a Sublicensee, shall mean any entity or individual which directly or indirectly controls, is controlled by, or is under common control with, Sublicensee. For purposes of this clause 1.1, the term “control” means (i) in the case of corporate entities, the power to direct or manage the affairs of the relevant entity, or the direct or indirect ownership of at least fifty percent (50%) of such entity by voting share, equity interest, partnership interests, the right to vote for the election of directors, or otherwise; or (ii) in the case of non-corporate entities, the power to direct the management and policies of such non-corporate entities, or the direct or indirect ownership of at least fifty percent (50%) of the equity interest, of such non-corporate entities. Unless otherwise expressly specified, (i) the term Sorrento, as used in this Agreement, includes Sorrento’s Affiliates; and (ii) the term Sublicensee, as used in this Agreement, includes Sublicensee’s Affiliates.

1.2 Agreement. The term “Agreement” shall mean this Option Agreement and all appendices hereto, as may be amended or restated in writing from time to time.

1.3 Confidential Information. The term “Confidential Information” shall mean any and all proprietary or confidential information of BGN/BGU or Sorrento which may be exchanged between the parties at any time and from time to time prior to or during the term of this Agreement. If disclosed in writing, the Confidential Information shall be marked as confidential or proprietary it being noted that information that by its nature should reasonably be considered as confidential or proprietary shall be deemed as Confidential Information whether or not marked as aforementioned. If disclosed orally, the Confidential Information shall be reduced to writing that is identified as confidential or proprietary within thirty (30) days of such oral disclosure. Notwithstanding the foregoing, information shall not be considered confidential to the extent that the receiving party can establish by competent proof that it:

- (a) Is publicly disclosed through no fault of the receiving party, either before or after it becomes known to the receiving party; or
- (b) Was known to the receiving party prior to the date of this Agreement, which knowledge was acquired independently and not from another party hereto (or such party’s employees); or
- (c) Is subsequently disclosed to the receiving party in good faith by a third party who has a right to make such disclosure; or
- (d) Has been published by a third party as a matter of right; or
- (e) Has been developed by or on behalf of the receiving party independently without access to the disclosing party’s Confidential Information.

If Confidential Information is required to be disclosed by law or court order, the party required to make such disclosure shall limit the same to the minimum required to comply with the law or court order, and shall use reasonable efforts to attempt to seek confidential

treatment for that disclosure, and prior to making such disclosure that party shall notify the other party, not later than ten (10) days (or such shorter period of time as may be reasonably practicable under the circumstances) before the disclosure in order to allow that other party to comment and/or to obtain a protective or other order, including extensions of time and the like, with respect to such disclosure.

1.4 First Commercial Sale. The term “First Commercial Sale” shall mean the first sale of a Licensed Product by Sorrento or a Sublicensee to a non-Affiliated third party, for value and not for demonstration or other promotional purposes or testing or development purposes.

1.5 IND. The term “IND” shall mean an investigational new drug application as defined by 21 CFR Part 312.

1.6 Licensed Patent Rights. The term “Licensed Patent Rights” shall mean rights arising out of or resulting from (a) any patent application(s) filed by Sorrento to protect the BGN Technology and/or the Licensed Product under this Option Agreement; and (b) all patent applications that may hereafter be filed, in any jurisdiction, claiming priority from the application (s) referenced in sub clause (a) above; and (c) all patents which may be granted (issued) claiming priority from any of the foregoing patent applications referenced in sub clauses (a) and (b).

1.7 Licensed Product. The term “Licensed Product” shall mean any product and/or device and/or process and/or service (a) the manufacture, use or sale of which without a license from BGN would infringe upon any Licensed Patent Rights; and/or (b) that embodies, comprises, contains, uses or was developed using any Licensed Patent Rights and/or the BGN Technology, in each of the foregoing cases is covered by a Valid Claim of the Licensed Patent Rights.

1.8 Net Sales. The term “Net Sales” shall mean the gross amount invoiced by Sorrento, all Sublicensees, or any of them, on all sales of Licensed Products, less (a) customary discounts actually allowed; (b) credits for claims, allowances, retroactive price reductions or returned goods; (c) prepaid freight; and (d) sales taxes or other governmental charges actually paid in connection with sales of Licensed Products [but excluding what are commonly known as income taxes (whether paid by Sorrento/ Sublicensee or withheld by the third party at source) and value-added taxes]. Net Sales shall include all consideration charged by Sorrento and Sublicensees in exchange for any Licensed Products, including without limitation any monetary payments or any other consideration whatsoever. For purposes of determining Net Sales, a sale shall be deemed to have occurred when an invoice therefore shall be generated or the Licensed Product shipped for delivery. Sales of Licensed Products by Sorrento to any Affiliate or Sublicensee or by any Sublicensee to an Affiliate or other Sublicensee which is a reseller thereof shall be excluded from calculating Net Sales, and only the subsequent sale of such Licensed Products by such Affiliates or Sublicensees to unrelated parties shall be deemed Net Sales hereunder.

1.9 Sublicensees. The term “Sublicensee” shall mean any third party to whom Sorrento grants a sublicense.

1.10 Sublicense Income. The Term “Sublicense Income” shall mean all considerations received by Sorrento from Sublicensees attributable to the grant of Sublicenses under this Agreement, including without limitation cash income and other consideration received for or as a direct consequence of any sublicensing or co-marketing or co-promotion arrangement; *all provided, however*, that Sublicense Income shall not include Net Sales. To avoid any doubt, it is clarified that in calculating the amount of Sublicense Income, no deduction shall be made from the gross amounts invoiced by Sorrento, in respect of any tax based upon the income of Sorrento, whether paid by Sorrento or withheld by the Sublicensee at source.

1.11 Sublicense. The term “Sublicense” shall mean any right granted by Sorrento under the License to a Sublicensee who is not an Affiliate of Sorrento.

1.12 Valid Claim. The term “Valid Claim” shall mean a claim of an issued patent within the Licensed Patent Rights that has not (i) lapsed, (ii) expired, (iii) been canceled, (iv) or (v) become abandoned, or has not been held invalid by a court or other appropriate body of competent jurisdiction, or which has not been admitted to be invalid or unenforceable through reissue or disclaimer or otherwise. The term “Valid Claim” shall also include the claims of a pending patent application within the Licensed Patent Rights that has not been cancelled, rejected, withdrawn or abandoned without the possibility of appeal or re-filing.

## CHAPTER B; GRANT AND EXERCISE OF OPTION

### 2. Grant of Exclusive Option

2.1 Grant of Exclusive Option. BGN hereby grants, and Sorrento accepts, subject to the terms and conditions of this Agreement, an exclusive option to obtain from BGN an exclusive sub-licensable worldwide license in and to the Licensed Patent Rights to develop, make and have made, to use and have used, to sell and have sold and to import Licensed Products, subject to the terms and conditions set forth herein (“Option”).

2.2 Consideration for Exclusive Option. In consideration for the grant of the Option,

2.2.1 Sorrento shall create and protect as reasonable as possible and at its sole expense an intellectual property portfolio for the BGN Technology. Specifically, Sorrento shall, at its expense, file at least one provisional patent application as soon as applicable after the execution of this Agreement, but no later than 6 months of the Effective Date protecting the intellectual property identified by BGN and its Lobel Lab. BGN agrees to cooperate in all aspects with Sorrento’s efforts to secure such intellectual property protection. All intellectual property registered according to this Section 2.2 shall be registered in the sole name of BGN.

2.2.2 During the Option Period (as defined below) and if extended according to Section 2.3 below also during the Extended Option Period (as defined below) Sorrento shall fund the research and development of the BGN Technology. When applicable BGN will assist Sorrento in obtaining joint or other grant funds. Sorrento and the Lobel Lab will

collaborate in the performance of such research and development which will be financed respectively by Sorrento or by grant funds.

2.3 Term of Option. The term of the Option shall commence on the Effecting Date and shall terminate on the latest of: (i) 12 months from the Effective Date; or (ii) 10 months from the date of filing of a first priority patent application as recorded in Section 2.2 above (“Option Period”), subject to the further filing of a PCT (Patent Cooperation Treaty) patent application 12 months following the priority filing in order to delay the time for entry into major market foreign rights for a period of time not to exceed 30 months in total from the time of filing the initial provisional patent application (with or without simultaneously filing a US national utility patent application), Sorrento shall have the right to extend the Option Period by an additional 14 months (the “Extended Option Period”). Such right to extend the term of the Option Period shall be exercised by Sorrento by way of providing BGN with a written notice to this effect to be received by BGN no later than the end of the Option Period. The term of the Option Period and the Extended Option Period together shall terminate in any event no later than 4 months before the date of the worldwide National Phase filing is due. The provisions of Sections 10.1(a), 10.2, 10.3, 10.4 and the first paragraph of Section 12.1 shall apply *mutatis mutandis* to any and all patent applications filed under Section 2.2 above and this Section 2.3 and to all patents which may be granted pursuant to such applications.

2.4 Exercise of Option. The Option may be exercised by Sorrento by way of providing BGN a written notice to this effect, such notice to be received by BGN during the Option Period, or, if applicable during the Extended Option Period (“Exercise Notice”). In the event that Sorrento fails to provide such notice during such period then this Agreement (and the Option) shall terminate (and the provisions of Section 18 below shall apply to such termination), all rights in and to the BGN Technology, the Licensed Patent Rights, the Licensed Products and any patent or patent application filed according to the terms of Sections 2.2 and 2.3 above shall revert to BGN and Sorrento shall not be entitled to any compensation with regard thereto.

2.5 Terms of the Option. In the event that Sorrento shall exercise the Option in accordance with the provisions of Section 2.4 above, then contemporaneously with the provision of the Exercise Notice, Sorrento shall be granted with the License (as defined below). The terms of the License shall be as set forth in Chapter C below. Accordingly (but subject to the duly exercise of the Option), Chapter C shall be considered for any and all purposes as a *License Agreement* between the parties governing the terms and conditions of the License.

2.6 No Other Option. This Agreement confers upon Sorrento no option or rights by implication, estoppel, or otherwise under any patent applications or patents of BGN other than the Option and its associated Licensed Patent Rights.

#### CHAPTER C: LICENSE TERMS

Effective as of the date of the Exercise Notice, the provisions of this Chapter C shall govern the rights and undertakings of the parties with respect to the License; provided however

that Sorrento has exercised the Option in accordance with the terms of Chapter B above. In any other event, unless specifically mentioned otherwise herein the provisions of this Chapter C shall be disregarded and shall not bind the parties in any way.

### 3. Grant of License.

3.1 Grant of License. BGN grants and Sorrento accepts, subject to the terms and conditions of this Chapter C, an exclusive license under the Licensed Patent Rights to make and have made, to use and have used, to sell and have sold and to import Licensed Products (the "License").

### 4. Sublicensing.

4.1 Sorrento shall have the right to grant Sublicenses to any party with respect to the rights conferred upon Sorrento under the License, provided, however, that any such Sublicense shall be subject in all respects to the provisions contained in this Agreement. Sublicensees shall not further sublicense to other than an Affiliate of Sorrento without BGN's prior written consent, which approval shall not be unreasonably withheld, conditioned or delayed.

4.2 All Sublicenses shall in all cases be for consideration, on arms' length terms and pursuant to written agreements consistent with the terms and conditions of this Agreement, and Sorrento shall be entitled to determine the commercial terms and conditions of any such Sublicense Agreement (each such agreement, a "**Sublicense Agreement**").

4.3 Sorrento shall provide BGN with a copy of each Sublicense Agreement promptly following its execution.

4.4 Each Sublicense Agreement shall contain, *inter alia*, provisions necessary to ensure Sorrento's ability to perform its obligations under this Agreement, including with respect to reporting requirements and audit rights. Furthermore, Each Sublicense Agreement shall contain undertakings by the Sublicensee to observe and perform provisions substantially similar to those contained in this Agreement with regard to, *inter alia*, confidentiality, non-assignability, liability, insurance, BGN's proprietary rights, development and termination.

4.5 Without derogating from the above, each Sublicense Agreement should include specific provisions, whereby BGN shall have a right, at reasonable times and upon reasonable notice, to examine those records of the Sublicensee as may be necessary to determine the correctness or completeness of any payment made under this Agreement.

4.6 Upon the termination of this Agreement, howsoever arising, any existing Sublicense Agreement may by mutual consent of BGN and the Sublicensee remain in effect; such Sublicense Agreement shall be assigned to BGN as direct licensor.

4.7 Without derogating from the provisions of this Section 4 above, it is agreed that Sorrento will be responsible vis-à-vis BGN for its obligations hereunder and for the performance of its Sublicensees consistent with all relevant provisions of this Agreement,



and Sorrento shall use commercially reasonable efforts to ensure that its Sublicensees comply with the Sublicense Agreement as it relates to Sorrento's obligations under all relevant provisions of this Agreement. Accordingly, any act or omission by any Sublicensee, which are not remedied within 60 (sixty) days from the date of receipt of written notice by BGN to Sorrento of such act/omission (including, if necessary the termination of such Sublicense Agreement) and which would have constituted a breach of this Agreement by Sorrento had it been the act/omission of Sorrento, shall constitute a breach of this Agreement by Sorrento unless Sorrento has terminated the relevant Sublicense Agreement.

## 5. Research and Development by Sorrento

5.1 Research & Development Plan. No later than 30 days following the date of the Exercise Notice, the parties shall agree in writing on an applicable research and development plan ("Research & Development Plan"), which shall detail all research and works to be undertaken by Sorrento in connection to the Licensed Patent Rights and the Licensed Products and their commercialization (including timeframe for such activities). The Research and Development Plan will also include work to be performed by BGN and the Lobel Lab at BGU or at any other facilities agreed by the parties, which will be fully financed by grant funding and/or Sorrento according to a defined work plan, work period and work budget (the "**BGN R&D Plan**").

5.2 Diligence. Sorrento shall use commercially reasonable efforts to develop the Licensed Products, in accordance with the terms of this Agreement. Without derogating from the above, Sorrento shall exert commercially reasonable efforts to develop and to introduce the Licensed Products into the commercial markets as soon as practicable and thereafter, until the expiration of this Agreement, to make all commercially reasonable efforts and endeavors to keep the Licensed Products reasonably available to the public.

5.3 Reports. Sorrento shall provide BGN with annual written reports, which shall detail the development results and other related work performed by Sorrento or by any of its Sublicensees during the 12 (twelve) months prior to the report. Such report shall also set forth a general assessment regarding the development of the Licensed Product and the marketing thereof. Sorrento shall also submit to BGN a written notice with regard to the First Commercial Sale within thirty (30) days thereafter.

5.4 Failure. Without derogating from the undertakings of Sorrento under this Section 5 above, if Sorrento fails to prepare and file an IND in the United States on or before the lapse of six (6) years from the Effective Date (a "**Failure**"), Sorrento shall immediately notify BGN of such Failure. BGN may by written notice to Sorrento, allow Sorrento 90 (ninety) days to cure such Failure, in which case Sorrento shall notify BGN giving reasons and a statement of its intended actions. Sorrento's failure to cure the Failure to BGN's reasonable satisfaction within such 90-day period shall constitute a material breach of this Agreement, entitling BGN to terminate this Agreement by providing written notice to Sorrento.

## 6. Royalties.

6.1 Minimum Annual Royalty. Sorrento agrees to pay and shall pay to BGN a nonrefundable minimum annual royalty in the amount specified herein. The first payment is due no later than thirty (30) days following the date of the first regulatory marketing approval of a Licensed Product and shall be paid on or before January 3rd of each subsequent calendar year. Each of the first two payments shall be in an annual amount of ten thousand U.S. Dollars (U.S.\$ 10,000.00) and each consecutive payment shall be in an annual amount of twenty five thousand U.S. Dollars (U.S.\$ 25,000.00). Such payments shall be credited against Running Royalties due for that calendar year and Sorrento's royalty reports shall reflect such a credit. Such payments shall not be credited against milestone payments, if any.

6.2 Running Royalties for Licensed Products. Subject to Section 6.5, Sorrento shall pay to BGN a running royalty on a country by country basis, where the Licensed Products are sold by Sorrento and/or by Sublicensees and where there are Valid Claims in such country, in the amount of one percent (1.0%) of Net Sales ("Running Royalty"). Notwithstanding the definition of the term "Licensed Products" as recorded in Section 1.7 above, if Sorrento and/or Sublicensee sells Licensed Product/s in a country in which there are no Valid Claims, but a Valid Claim is enforceable in any Major Market country (as such is defined in this Section 6), then Running Royalty payments to BGN in connection to such sales in such countries where there are no Valid Claims shall be in an amount equal to one half of one percent (0.5%) of Net Sales. Major Market country shall mean: the US, Germany, France, Spain the UK and Japan.

6.3 Sublicense Consideration. Sorrento agrees to also pay and shall pay BGN an amount equal to 10% (ten percent) of any and all Sublicense Income ("**Sublicense Consideration**"). This payment shall constitute any and all payments due by Sorrento with respect to any Sublicensee and any Sublicensee sales of Licensed Products. Sublicense Consideration shall be payable and accepted in lieu of any and all royalties and milestone payments with respect to sales and activities of a Sublicensee; it being clarified that the term Net Sales includes sales of Licensed Products by Sublicensees and thus entitle BGN to Running Royalties as set forth in Section 6.2 above.

6.4 Arms-Length Transactions On sales of Licensed Products which are made in other than an arms-length transaction, the value of the Net Sales attributed under this Section 6 to such a transaction shall be that which would have been received in an arms-length transaction, based on sales of like quality and quantity products on or about the time of such transaction.

6.5 Duration of Royalty Obligations. The royalty obligations of Sorrento under Sections 6.2 and 6.3 above as to each Licensed Product shall terminate on a country-by-country basis on the later of the following dates: (i) the expiration of the last to expire Valid Claim within the Licensed Patent Rights that covers such Licensed Product; or (ii) ten (10) years from the date of the First Commercial Sale in such country.

7. Milestone Payments.

7.1 Product Development Milestones. Sorrento agrees to pay and shall pay to BGN the following one-time, non-creditable, non-refundable product development milestones (each, a “Product Development Milestone Payment”) within sixty (60) days of the end of the calendar quarter in which each milestone (or its equivalent) first occurs as follows:

<u>Milestone</u>	<u>Payment (U.S. Dollar)</u>
Treating first patient in Phase II clinical trial	\$ 100,000
Treating first patient in Phase III clinical trial	\$ 500,000
First approval of a Licensed Product in a Major Country	\$ 1,000,000

For purposes of this Section 7:

(a) the term “Phase II Trial” shall mean a human clinical trial that would satisfy the requirements for a Phase 2 study as defined in 21 CFR § 312.21(b) (or its successor regulation);

(b) the term “Phase III Trial” shall mean a human clinical trial that would satisfy the requirements for a Phase 3 study as defined in 21 CFR § 312.21(c) (or its successor regulation).

8. Payments.

8.1 Sales by Sorrento. Running Royalties and Sublicense Considerations payable pursuant to Section 6 herein, shall be payable by Sorrento quarterly, within sixty (60) days after the end of each calendar quarter, based upon Net Sales/Sublicense Consideration received during the immediately preceding calendar quarter. Applicable VAT, if any, shall be added to each payment due hereunder to BGB.

9. Reports on Sales or Payments.

9.1 Reports on Revenues and Payments. Commencing upon the First Commercial Sale of the first Licensed Product or the date of first execution of a Sublicense Agreement. Sorrento shall submit to BGN, no later than sixty (60) days after the end of each calendar quarter, a royalty report (the “Royalty Report”) setting forth for such quarter at least the following information:

- (a) the number of Licensed Products sold by Sorrento and its Sublicensees;

- (b) the gross amounts due or charged for such Licensed Products;
- (c) deductions applicable to determine the Net Sales of Licensed Products pursuant to Section 1.8;
- (d) the amount of Sublicense Income received by Sorrento; and
- (e) the amount of royalty due on all of the above (together with exchange rates used for conversion, if such rates apply), or if no royalties are due to BGN for any reporting period, the statement that no royalties are due and an explanation why they are not due for that quarterly period.

Such Royalty Report shall be certified as correct by an officer of Sorrento and shall include a listing of all deductions from royalties.

9.2 Royalty Payments. All payments due hereunder shall be deemed received when funds are credited to BGN's bank account and shall be payable by check or wire transfer in United States Dollars.

9.3 Foreign Sales. The remittance of royalties payable on sales outside the United States shall be payable to BGN in United States Dollar equivalents at the official rate of exchange of the currency of the country from which the royalties are payable, as quoted in the *Wall Street Journal* for the last business day of the calendar quarter in which the royalties are payable. If the transfer of or the conversion into the United States Dollar equivalents of any such remittance in any such instance is not lawful or possible, the payment of such part of the royalties as is necessary shall be made by the deposit thereof, in the currency of the country where the sale was made on which the royalty was based to the credit and account of BGN or its nominee in any commercial bank or trust of BGN's choice located in that country, prompt written notice of which shall be given by Sorrento to BGN.

9.4 Foreign Taxes. Any tax required to be withheld by Sorrento under the laws of any foreign country for any royalties or other amounts due hereunder or for the accounts of BGN shall be promptly paid by Sorrento for and on behalf of BGN to the appropriate governmental authority, and Sorrento shall furnish BGN with proof of payment of such tax together with official or other appropriate evidence issued by the applicable government authority. Any such tax actually paid on BGN's behalf shall be deducted from royalty payments due BGN. Each Party agrees to assist the other Party in claiming exemption from such deductions or withholdings.

9.5 Record Keeping. Sorrento shall keep, and shall require its Affiliates and Sublicensees to keep, accurate records (together with supporting documentation) of Licensed Products sold under this Agreement, appropriate to determine the amount of royalties, Sublicense Payments, Product Development Milestone Payments and other monies due to BGN hereunder. Such records shall be retained for at least five (5) years following the end of the reporting period to which such records relate. They shall be available during normal business hours for examination and copying by an independent certified accountant selected by BGN (the "BGN Accountant") for the purpose of verifying Sorrento's reports and payments hereunder and its compliance with this Agreement; provided that reasonable advance notice of such

examination and copying shall be given by BGN to Sorrento. In conducting examinations pursuant to this Section, the BGN Accountant shall have access to, and may disclose to BGN, all records which BGN reasonably believes to be relevant to the calculation of royalties under Section 6, non-royalty revenues under Section 7 and Sorrento's compliance with this Agreement.

Except as set forth above, BGN's accountant shall not disclose to BGN any information other than information relating to the accuracy of reports and payments made hereunder and to Sorrento's compliance with this Agreement. Except as otherwise expressly provided herein, such examination by the BGN Accountant shall be at BGN's sole cost and expense. Notwithstanding the foregoing, if the BGN Accountant concludes in writing that Sorrento underreported or underpaid an amount in excess of ten percent (10%) for any twelve (12) month period (each, an "Alleged Underpayment"), such conclusion, and the BGN Accountant's detail in support thereof, shall be delivered to Sorrento. Sorrento shall pay the cost of such examination (including without limitation BGN's attorney's fees, accountant's fees and other costs) as well as any additional sum that would have been payable to BGN had the Sorrento reported correctly (as set forth in the BGN Accountant's report), plus interest on said sum at the rate of one percent (1.0%) per month (prorated for a partial month) accruing from the date such underpaid amount was initially due (collectively, the "Penalty Payment") within thirty (30) days of Sorrento's receipt of the Alleged Underpayment.

#### 10. Patent Matters.

10.1 Patent Prosecution and Maintenance. Without derogating from the provisions of Section 2.2 above and subject to the provisions of Section 2.4 above, from and after the date of the Exercise Notice, the provisions of this Section 10 shall control the prosecution of any patent application and maintenance of any patent included within Licensed Patent Rights. Subject to the requirements, limitations and conditions set forth in this Agreement, Sorrento shall, at its expense:

- (a) direct and control the preparation, filing and prosecution of the United States and foreign patent applications (at the minimum in all major market countries *i.e.* the US, Germany, France, UK and Japan) within Licensed Patent Rights (including without limitation any reissues, reexaminations, appeals to appropriate patent offices and/or courts, inter parties reviews, and foreign oppositions); and
- (b) maintain the patents issuing therefrom. BGN shall have full rights of consultation with the patent attorney so selected on all matters relating to Licensed Patent Rights and BGN, and its counsel, shall have the right to review and provide comments on any and all filings, correspondence or other documents to be filed with, or submitted to, any regulatory body, including, but not limited to the U.S. Patent and Trademark Office, that relate to any Licensed Patent Rights, in each case at least ten (10) business days prior, whenever reasonably possible, to the filing or submission thereof. Sorrento shall implement all reasonable and timely requests made

by BGN with regard to such matters, provided, however, that such requests are delivered within the first to occur of (a) fifteen (15) days following BGN's written notification to Sorrento or (b) two (2) business days prior to the filing or submission thereof of any correspondence with the U.S.P.T.O. by Sorrento, provided that BGN complies in all respects with its obligations set forth in this Section 10.1.

10.2 Information to BGN. Sorrento shall keep BGN timely informed in writing (such as by electronic means) with regard to the patent application and maintenance processes. Sorrento shall deliver to BGN copies of all patent applications, amendments, office actions, responses, related correspondence, and other related matters in a timely matter, but in no event later than five (5) business days after the receipt thereof.

10.3 Patent Costs. Sorrento agrees to pay and shall pay for all expenses referenced in Section 10.1(a).

10.4 Ownership. All rights, title and interest in and to the Licensed Patent Rights shall be owned solely by BGN and/or its designee/s. Sorrento undertakes not to take any action or let any party take any action on its behalf that will create in Sorrento's favor any right, title or interest in and to the aforesaid Licensed Patent Rights. Without derogating from the above it is recorded that the patent applications filed and the patents obtained by Sorrento pursuant to Section 10.1 hereof shall be assigned to BGN, and deemed a part of Licensed Patent Rights.

10.5 Infringement Actions.

(a) Prosecution and Defense of Infringements. BGN and Sorrento shall promptly notify the other in writing of any alleged or threatened infringement of, or any challenge to the validity or unenforceability of, Licensed Patent Rights of which it becomes aware. After receiving notice from the other party of a possible infringement of the Licensed Patent Rights by a third party, the parties will consult with each other about whether and to what extent such third party's products or activities are infringing upon the Licensed Patent Rights in that country, the extent to which the infringing products or activities are damaging sales of Licensed Products in such country, and the risk that an enforcement action against such third party would result in such third party challenging the validity or enforceability of the Licensed Patent Rights; *provided, however*, that promptly after delivery of such notice, and in any event prior to engaging in any such consultation or discussion, BGN and Sorrento shall enter into a mutually acceptable joint defense/common interest agreement for the purpose of preserving all applicable privileges attaching to the parties' discussion and pursuit of their mutual interest in the enforcement of the Licensed Patent Rights. In this way, the parties will attempt to reach a mutual agreement regarding what, if any, action should be taken against the third party.

(b) If (i) such third party's products or activities are infringing upon the Licensed Patent Rights, and (ii) cumulative lost sales of Licensed Products as a result of such infringing activity exceed \$100,000,000, then, except as otherwise mutually agreed by the parties pursuant to Section 10.5(a), Sorrento shall have the first right, but not the obligation, to prosecute such infringement (including defense of actions for declaratory relief of non-infringement) by

that third party. Sorrento may enter into settlements, stipulated judgments or other arrangements respecting such infringement, at its own expense, but only with BGN's prior written consent, which will not be unreasonably withheld or delayed. BGN shall permit any action to be brought in its name and/or join in such action if required by law, and Sorrento shall hold BGN harmless from any costs, expenses or liability respecting such action. BGN agrees to provide reasonable assistance of a technical nature which Sorrento may require in any litigation arising in accordance with the provisions of this Section 10.5.

(c) In the event that Sorrento, pursuant to Section 10.5(b), decides not to, or the parties mutually agree not to, pursuant to Section 10.5(a), prosecute any such infringement, then Sorrento shall notify BGN in writing within ninety (90) days of initial consultation pursuant to Section 10.5(a), and BGN shall have the right, but not the obligation, to prosecute such infringement on its own behalf. Sorrento agrees to execute any and all necessary documents and perform such acts as are reasonably requested by BGN in order to affect such prosecution. All fees, royalties, payments and any other consideration to be paid by that third party to BGN under any non-exclusive license to be granted to the infringing third party shall be paid to BGN and retained by BGN in full.

10.6 Allocation of Recovery. Any damages or other recovery from an infringement action undertaken by Sorrento pursuant to Section 10.5 shall first be used to reimburse the parties for the costs and expenses incurred in such action, and shall thereafter be allocated between the parties as follows: if Sorrento has prosecuted the action: (i) Fifteen Percent (15%) to BGN, as the Sublicense Consideration payment outlined in the Agreement and (ii) Eighty Five Percent (85%) to Sorrento. If BGN, rather than Sorrento, has prosecuted any such action, then any damages or other recovery net of the parties' costs and expenses incurred in such infringement action shall be allocated: (i) Fifteen Percent (15%) to Sorrento and (ii) Eighty Five Percent (85%) to BGN. If Sorrento and BGN jointly prosecute any such action, then any damages or other recovery net of the parties' costs and expenses incurred in such infringement action shall be allocated: (i) Fifty Percent (50%) to Sorrento and (ii) Fifty Percent (50%) to BGN.

## 11. Indemnity and Insurance.

11.1 Indemnity. Nothing in this Agreement shall impose upon BGN liability for any Licensed Products commercialized by Sorrento and/or any Sublicensee. Sorrento hereby declares that it assumes any and all liabilities and responsibilities, under any applicable laws, for any Licensed Products commercialized by or on behalf of Sorrento and/or any Sublicensee. Sorrento shall indemnify, defend (by counsel reasonably acceptable to BGN) and hold harmless BGN, BGU and any parent, subsidiary or other affiliated entity of BGN and BGU and their trustees, directors, officers, employees, scientists, agents, successors, assigns and other representatives (collectively, the "BGN Indemnitees") from and against all damages, claims, liabilities, losses and other expenses, including without limitation reasonable attorney's fees, expert witness fees and costs, whether or not a lawsuit or other proceeding is filed ("BGN Claim"), that arise out of or relate to

- (a) Sorrento's or any Sublicensee's use or commercialization of any of the Licensed Patent Rights or Licensed Products,

- (b) any advertising or other promotion of the Licensed Products by Sorrento or any Sublicensees,
- (c) any allegations that the Licensed Products developed, manufactured, sold, distributed or rendered by Sorrento or any Sublicensee and/or any trademarks, service marks, logos, symbols, slogans or other materials used in connection with or to market Licensed Products violate or infringe upon the trademarks, service marks, trade dress, trade names, copyrights, patents, works of authorship, inventorship rights, trade secrets, database rights, rights under unfair competition laws, rights of publicity, privacy or defamation, or any other intellectual or industrial property rights of any third party,
- (d) Sorrento's or any Sublicensee's transactions with third parties or the operation of their respective businesses, and/or
- (e) the negligent or willful acts or omissions of Sorrento or any Sublicensee. BGN shall promptly notify Sorrento in writing of such BGN Claim. Sorrento shall have the sole control of the defense and/or settlement thereof except as provided below. BGN Indemnitee shall furnish to Sorrento, on request and at Sorrento's expense, all relevant information available to the BGN Indemnitee and reasonable cooperation for such defense. Sorrento shall not enter into any settlement of such BGN Claims that involve BGN admitting any liability, paying any money or taking any action that would have an adverse effect on BGN's reputation or business without BGN's prior written consent. Notwithstanding the above, BGN Indemnitees, at their sole cost and expense, shall have the right to retain separate independent counsel to assist in defending any such BGN Claims. In the event Sorrento fails to promptly indemnify and defend such Claims and/or pay BGN Indemnitees' expenses as provided above, BGN Indemnitees shall have the right to defend themselves, and in that case, Sorrento shall reimburse BGN Indemnitees for all of their reasonable, actual and documented attorney's fees, costs and damages incurred in settling or defending such Claims within thirty (30) days of each of Indemnitees' written requests, which requests shall include such documentation. This indemnity shall be a direct payment obligation and not merely a reimbursement obligation of Sorrento to BGN Indemnitees.

11.2 Sorrento shall, at its own expense, obtain commercial insurance, commensurate with such level of risk as should reasonably be anticipated in the present and the foreseeable future, to insure against those liabilities described in Section 11.1 above during the period immediately beginning prior to any commercialization and continuing during the entire period that the License is in force, plus any additional period thereafter during which any Licensed Product continues to be commercialized by Sorrento and/or any Sublicensee. Such insurance shall be in reasonable amounts and on reasonable terms in the circumstances, having regard, in particular, to the nature of the Licensed Products, and shall be subscribed for from a reputable insurance company. BGN shall be included as additional insured under such



insurance, and the beneficiaries thereof shall include also the respective employees, officers and directors of BGN and BGU. Said insurance policy shall include a “cross-liability” provision pursuant to which the insurance is deemed to be separate insurance for each named insured (without right of subrogation as against any of the insured under the policy, or any of their representatives, employees, officers, directors or anyone in their name) and shall further provide that the insurer will be obliged to notify each insured in writing at least thirty (30) days in advance of the expiry or cancellation of the policy or policies. Sorrento hereby undertakes to comply punctually with all obligations imposed upon it under such policy or policies and in particular, without limiting the generality of the foregoing, to pay in full and punctually all premiums and other payments for which it is liable pursuant to such policy or policies. Upon request, Sorrento shall submit to BGN a certificate of insurance evidencing the aforesaid within fourteen (14) days of the date of issue of each such policy.

12. Limited Warranty.

12.1 Limited Warranty. EXCEPT AS SET FORTH IN THIS AGREEMENT, BGN MAKES NO WARRANTIES CONCERNING LICENSED PATENT RIGHTS, OR ANY OTHER MATTER WHATSOEVER, INCLUDING WITHOUT LIMITATION ANY EXPRESS OR IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR ARISING OUT OF COURSE OF CONDUCT OR TRADE CUSTOM OR USAGE, AND BGN DISCLAIMS ALL SUCH EXPRESS OR IMPLIED WARRANTIES. EXCEPT AS SET FORTH IN THIS AGREEMENT, BGN MAKES NO WARRANTY OR REPRESENTATION AS TO THE VALIDITY OR SCOPE OF LICENSED PATENT RIGHTS, OR THAT ANY LICENSED PRODUCT WILL BE FREE FROM AN INFRINGEMENT ON PATENTS OR OTHER INTELLECTUAL PROPERTY RIGHTS OF THIRD PARTIES, OR THAT NO THIRD PARTIES ARE IN ANY WAY INFRINGING UPON ANY LICENSED PATENT RIGHTS OR LICENSED PRODUCTS COVERED BY THIS AGREEMENT. FURTHER, BGN HAS MADE NO INVESTIGATION AND MAKES NO REPRESENTATION THAT THE LICENSED PATENT RIGHTS OR LICENSED PRODUCTS ARE SUITABLE FOR SORRENTO’S PURPOSES.

IN NO EVENT SHALL BGN BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, EXEMPLARY OR CONSEQUENTIAL DAMAGES (INCLUDING WITHOUT LIMITATION DAMAGES FOR LOSS OF PROFITS OR EXPECTED SAVINGS OR OTHER ECONOMIC LOSSES, OR FOR INJURY TO PERSONS OR PROPERTY) ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR ITS SUBJECT MATTER. BGN’S AGGREGATE LIABILITY, IF ANY, FOR ALL DAMAGES OF ANY KIND RELATING TO THIS AGREEMENT OR ITS SUBJECT MATTER SHALL NOT EXCEED THE AMOUNT PAID BY SORRENTO TO BGN UNDER THIS AGREEMENT. THE FOREGOING EXCLUSIONS AND LIMITATIONS SHALL APPLY TO ALL CLAIMS AND ACTIONS OF ANY KIND AND ON ANY THEORY OF LIABILITY, WHETHER BASED ON CONTRACT, TORT (INCLUDING, BUT NOT LIMITED TO NEGLIGENCE OR STRICT LIABILITY), OR ANY OTHER GROUNDS, AND REGARDLESS OF WHETHER BGN HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, AND NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY. THE PARTIES FURTHER AGREE THAT EACH WARRANTY DISCLAIMER,

EXCLUSION OF DAMAGES OR OTHER LIMITATION OF LIABILITY HEREIN IS INTENDED TO BE SEVERABLE AND INDEPENDENT OF THE OTHER PROVISIONS SINCE THEY EACH REPRESENT SEPARATE ELEMENTS OF RISK ALLOCATION BETWEEN THE PARTIES.

13. Confidentiality and Publication.

13.1 Treatment of Confidential Information. The parties agree that during the term of this Agreement, and for a period of five (5) years after this Agreement terminates or expires, a party receiving Confidential Information of the other party will (a) maintain in confidence such Confidential Information at least to the same extent such party maintains its own proprietary information (but in any event while utilizing reasonable precaution measures); (b) not disclose such Confidential Information to any third party without prior written consent of the other party; and (c) not use such Confidential Information for any purpose except those permitted by this Agreement.

13.2 Publications. Each party agrees that the other party shall have a right to publish in accordance with its general policies, and that this Agreement shall not restrict, in any fashion, either party's right to publish. However, each party shall provide the other party with a copy of any manuscript related to the Licensed Patent Rights prior to publication and in the event that such publication contain patentable information, the publishing party will delay publication for up to 60 days for the purpose of filing of patent applications or other intellectual property protection. The parties agree to follow standard scientific practices with respect to authorship and the provision of materials on any such publication.

14. [Deleted. Reserved]

15. [Deleted. Reserved]

16. Additional Provisions Pertaining to the License

16.1 Governmental Approvals and Marketing of Licensed Products. Sorrento or a Sublicensee shall be responsible for obtaining all necessary governmental approvals for the development, production, distribution, performance, sale and use of any Licensed Product, including, without limitation, any safety studies. Sorrento shall have sole responsibility for any warning labels, packaging and instructions as to the use of Licensed Products and for the quality control for any Licensed Products.

16.2 Patent Marking. To the extent required by applicable law, Sorrento shall mark all Licensed Products or their containers in accordance with the applicable patent marking laws.

16.3 No Use of Name. The use of the name "B.G. NEGEV TECHNOLOGIES AND APPLICATIONS LTD." or "Ben Gurion University" or any variation thereof in connection with the advertising, sale or performance of Licensed Products is expressly prohibited.

## CHAPTER D: ADDITIONAL PROVISIONS

### 17. Representations and Warranties.

17.1 Licensor. BGN hereby represents and warrants to Sorrento that as of the Effective Date:

- (a) All corporate action on the part of BGN necessary for the authorization, execution and delivery of this Agreement and the performance of its obligations hereunder has been taken.
- (b) This Agreement is the legal, valid and binding obligation of BGN, enforceable against it in accordance with its terms, except as such enforcement may be limited by general equitable principles or by applicable bankruptcy, insolvency, or similar laws affecting creditors' rights generally.
- (c) BGN, to its actual knowledge, has the full right and power to enter into this Agreement and has the full rights to grant to Sorrento the licenses and license rights granted to Sorrento.
- (d) BGN, to its actual knowledge, exclusively owns all rights in and to the BGN Technology, free and clear of any encumbrances, liens, security interests, or restrictions of any kind.
- (e) BGN has not received any written notice challenging BGN's right to grant the License to Sorrento pursuant to this Agreement.

17.2 Sorrento. Sorrento hereby represents and warrants to BGN that as of the Effective Date:

- (a) All corporate action on the part of Sorrento necessary for the authorization, execution and delivery of this Agreement and the performance of its obligations hereunder has been taken.
- (b) This Agreement is the legal, valid and binding obligation of Sorrento, enforceable against it in accordance with its terms, except as such enforcement may be limited by general equitable principles or by applicable bankruptcy, insolvency, or similar laws affecting creditors' rights generally.

### 18. Term and Termination.

18.1 Term. The term of this Agreement shall be as of the Effective Date and until the end of the Option Period, or if such period is extended according to the provisions of Section 2.3 above, until the end of the Extended Option Period ("Initial Term"). In the event that the Option shall be exercised by Sorrento according to the provisions of Chapter B

above, the Initial Term shall automatically be extended, on a country-by-country basis until the date of expiry of the last of the Licensed Patent Rights in the relevant country.

18.2 Termination Upon Mutual Agreement. Notwithstanding Section 18.1 above, this Agreement may be terminated by mutual written consent of both parties.

18.3 Termination by BGN. Notwithstanding Section 18.1 above, BGN may terminate this Agreement by written notice to Sorrento with immediate effect in any of the following events:

(a) According to the provisions of Section .4 above;

(b) If Sorrento does not make a payment due hereunder and fails to cure such default (including the payment of interest in accordance with Sections 9.5 and 21.2 hereof) within sixty (60) days after the date of notice in writing of such non-payment by BGN;

(c) If Sorrento shall become insolvent, shall make an assignment for the benefit of creditors, or shall have a petition in bankruptcy filed for or against it;

(d) If Sorrento is convicted of a felony relating to the manufacture, use or sale of Licensed Products;

(e) Except as provided in subparagraphs (a) – (d) above, if Sorrento defaults in the performance of any obligation under this Agreement and the default has not been remedied within sixty (60) days after the date of notice in writing of such default by BGN to Sorrento;

18.4 Termination by Sorrento. Sorrento may terminate this Agreement by giving sixty (60) days advance written notice of termination to BGN.

18.5 Upon the expiration or termination of this Agreement, all rights in and to any Licensed Patent Rights and in and to any patent application filed according to Chapter B above as well as any patent granted from such applications shall revert to BGN and Sorrento further grants BGN an exclusive royalty-free fully paid up license in and to any Licensed Product Data with the right to sublicense Licensed Product Data together with the Licensed Patent Rights and to cross-reference such Licensed Product Data in any FDA filing(s). For this purpose the term “Licensed Product Data” shall mean any intellectual property, invention, product, know-how, data, regulatory filing, information or other results discovered or obtained by Sorrento or any Sublicensee during the term of this Agreement that claims priority to a Licensed Patent Right.

18.6 Rights Upon Expiration. Neither party shall have any further rights or obligations upon the expiration of this Agreement upon its regularly scheduled expiration date other than the obligation of Sorrento to make any and all reports and payments for the period ending on the regular expiration date. However, Sections 4.6, 4.7, 9.5, 10.4, 11, 12, 13.1, 16.3, 18 and 21 and all defined terms used therein shall survive the termination or expiration of this Agreement for any reason.

18.7 Rights Upon Termination. Without derogating from the above, upon the termination (but not the expiration) of this Agreement, Sorrento shall have no further right to develop, manufacture or market any Licensed Product or to otherwise use any Licensed Patent Rights. Upon any such termination, Sorrento shall promptly return all materials, samples, documents, information, and other materials which embody or disclose Licensed Patent Rights or any applications filed pursuant to Chapter B above and any patent granted thereupon; provided, however, that Sorrento shall not be obligated to provide BGN with proprietary information which Sorrento can show that does not claim priority to Licensed Patent Rights. Any termination shall not relieve either party from any obligations accrued to the date of such termination.

18.8 Work in Progress. In the event that this Agreement shall be terminated following the exercise of the Option by Sorrento, then upon any such early termination of the License, Sorrento shall be entitled to finish any work in progress and to sell any completed inventory of a Licensed Product covered by such License which remain on hand as of the date of the termination, so long as Sorrento sells such inventory in the normal course of business and at regular selling prices and pays to BGN the royalties applicable to said subsequent sales in accordance with the terms and conditions as set forth in this Agreement, provided that no such sales shall be permitted after the expiration of six (6) months after the date of termination in accordance with the terms hereof.

18.9 Final Royalty Report. In the event of the termination or expiration of this Agreement (following the exerciser of the Option), Sorrento shall submit a final report to BGN within sixty (60) days of such termination or expiration, and any payments due to BGN shall become immediately payable.

18.10 No party shall be entitled, by reason of termination or expiration of this Agreement according to its terms, to claim any compensation, indemnity or damages, whether actual or contingent, for any reason whatsoever (or on the basis of any cause of action, including unjust enrichment), including without limitation on account of the loss of present or prospective profits on commercialization of the Licensed Products and/or the Licensed Patent Rights, and no party shall be liable to pay any compensation, indemnity or damages, as aforesaid; however, the above shall not prejudice any rights and remedies to which a party may be entitled pursuant to this Agreement and/or applicable law in the event of termination under Section 18.3 above.

#### 19. Assignment; Successors.

19.1 Assignment. Any and all assignments of this Agreement or any rights or undertakings hereunder by Sorrento without the prior written consent of BGN are void *ab initio*, except that Sorrento has the right to assign this Agreement to any entity (or a parent company thereof) that acquires all or substantially all of Sorrento's business in the field of anti-infectives, whether by sale of assets, sale of stock, merger, consolidation, joint venture or otherwise, without the consent of BGN. BGN may assign its rights and obligations hereunder in their entirety to BGN and/or to any other entity wholly owned (whether directly or indirectly) by BGN, by written notice to Sorrento but without the need for its consent.

19.2 Binding Upon Successors and Assigns. Subject to the limitations on assignment herein, this Agreement shall be binding upon and inure to the benefit of any successors in interest and assigns of BGN and Sorrento (and any parent company of such successors). Any such successor or assignee of Sorrento's interest shall expressly assume in writing the performance of all the terms and conditions of this Agreement to be performed by Sorrento and such written assumption shall be delivered to BGN as a condition to BGN's agreement to consent to any such assignment if BGN's consent is required hereunder.

## 20. Additional Provisions Incorporated by Reference.

20.1 The provisions of the second paragraph of Section 12.1 and Section 13 above shall bind the parties throughout the entire term of this Agreement (including during the Initial Term) whether or not the Option shall be exercised by Sorrento.

## 21. General Provisions.

21.1 Independent Contractors. The relationship between BGN and Sorrento is that of independent contractors. BGN and Sorrento are not joint venturers, partners, principal and agent, master and servant, employer or employee, and have no other relationship other than independent contracting parties. BGN and Sorrento shall have no power to bind or obligate each other in any manner, other than as is expressly set forth in this Agreement.

21.2 Late Payments. Without derogating from any rights hereunder or by law to any other additional remedy or relief, late payments of any and all payments due hereunder shall be subject to a charge of One Percent (1.0%) per month or the highest rate permitted by law, whichever is lower, pro-rated for the portion of any month in which an undisputed payment is late.

21.3 Foreign Registration. Sorrento agrees to register this Agreement with any foreign governmental agency which requires such registration, and Sorrento shall pay all costs and legal fees in connection therewith. In addition, Sorrento shall ensure that all foreign laws affecting this Agreement or the sale of Licensed Products are satisfied in all material respects.

21.4 Arbitration. Any controversy or claim arising out of or relating to this Agreement, or the breach thereof shall be settled by binding confidential arbitration in accordance with the Rules of Arbitration of the International Chamber of Commerce ("Rules"), and the procedures set forth below. In the event of any inconsistency between the Rules and the procedures set forth below, the procedures set forth below shall control. Judgment upon the award rendered by the arbitrator may be enforced in any court having jurisdiction thereof.

21.4.1 Location. The location of the arbitration shall be in New York, NY. BGN and Sorrento hereby irrevocably submit to the exclusive jurisdiction and venue of the arbitration panel selected according to the Rules for any dispute regarding this Agreement, and waive any right to contest or otherwise object to such jurisdiction or venue.

21.4.2 Selection of Arbitrators. The arbitration shall be conducted by a single neutral arbitrator who is independent and disinterested with respect to the parties, this Agreement, and the outcome of the arbitration.

21.4.3 Discovery. The arbitrator shall decide any disputes and shall control the process concerning these pre-hearing discovery matters. Pursuant to the Rules, the parties may subpoena witnesses and documents for presentation at the hearing.

21.4.4 Case Management. Prompt resolution of any dispute is important to both parties; and the parties agree that the arbitration of any dispute shall be conducted expeditiously. The arbitrator is instructed and directed to assume case management initiative and control over the arbitration process (including scheduling of events, pre-hearing discovery and activities, and the conduct of the hearing), in order to complete the arbitration as expeditiously as is reasonably practical for obtaining a just resolution of the dispute.

21.4.5 Remedies. The arbitrator may grant any legal or equitable remedy or relief that the arbitrator deem just and equitable, to the same extent that remedies or relief could be granted by a state or federal court, provided however, that no punitive damages may be awarded. No court action shall be maintained seeking punitive damages. Notwithstanding anything to the contrary in this Agreement, prior to or while an arbitration proceeding is pending, either party has the right to seek and obtain injunctive and other equitable relief from a court of competent jurisdiction to enforce that party's rights hereunder.

21.4.6 Expenses. The expenses of the arbitration, including the arbitrator's fees, expert witness fees, and attorney's fees, may be awarded to the prevailing party, in the discretion of the arbitrator, or may be apportioned between the parties in any manner deemed appropriate by the arbitrator. Unless and until the arbitrator decide that one party is to pay for all (or a share) of such expenses, both parties shall share equally in the payment of the arbitrator's fees as and when billed by the arbitrator.

21.4.7 Confidentiality. Except as set forth below, and as necessary to obtain or enforce a judgment upon any arbitration award, the parties shall keep confidential the fact of the arbitration, the dispute being arbitrated, and the decision of the arbitrator. Notwithstanding the foregoing, the parties may disclose information about the arbitration to persons who have a need to know, such as directors, trustees, management employees, witnesses, experts, investors, attorneys, lenders, insurers, and others who may be directly affected. Additionally, if a party has stock which is publicly traded, the party may make such disclosures as required by applicable securities laws, rules and regulations.

21.5 Entire Agreement; Modification. This Agreement and all of the attached Exhibits set forth the entire agreement and understanding between the parties as to the subject matter hereof, and supersede all prior or contemporaneous agreements or understandings, whether oral or written. There shall be no amendments or modifications to this Agreement, except by a written document which is signed by both parties.

21.6 Choice of Law. This Agreement shall be construed and enforced in accordance with the laws of the State of New York without regard to its conflicts or choice of laws principles.

21.7 Headings. The headings for each article and section in this Agreement have been inserted for convenience of reference only and are not intended to limit or expand on the meaning of the language contained in the particular article or section.

21.8 Severability. Should any one or more of the provisions of this Agreement be held invalid or unenforceable by a court of competent jurisdiction, it shall be considered severed from this Agreement and shall not serve to invalidate the remaining provisions thereof. The parties shall make a good faith effort to replace any invalid or unenforceable provision with a valid and enforceable one such that the objectives contemplated by them when entering this Agreement may be realized.

21.9 No Waiver. Any delay in enforcing a party's rights under this Agreement or any waiver as to a particular default or other matter shall not constitute a waiver of such party's rights to the future enforcement of its rights under this Agreement, excepting only as to an express written and signed waiver as to a particular matter for a particular period of time.

21.10 Name. Whenever there has been an assignment by Sorrento as permitted by this Agreement, the term "Sorrento" as used in this Agreement shall also include and refer to, if appropriate, such assignee.

21.11 Attorneys' Fees. In the event of a dispute between the parties hereto or in the event of any default hereunder, the party prevailing in the resolution of any such dispute or default shall be entitled to recover its reasonable attorneys' fees and other costs incurred in connection with resolving such dispute or default.

21.12 Notices. Any notices required by this Agreement shall be in writing, shall specifically refer to this Agreement and shall be sent by registered or certified airmail, postage prepaid, or by facsimile, or by overnight courier, postage prepaid and shall be forwarded to the respective addresses set forth below unless subsequently changed by written notice to the other party:

For BGN:            B.G. Negev Technologies and Applications Ltd.  
                          1, Henrietta Szold str.  
                          Beer- Sheva, 84105, Israel,  
                          Attention: Senior VP Business Development  
                          Fax No.: +972 8 6276420  
Email:                orabgn@bgu.ac.il

For Sorrento:      Sorrento Therapeutics, Inc.  
                          6042 Cornerstone Ct., Suite B  
                          San Diego, CA 92121  
                          Attention: Chief Executive Officer  
                          Fax No.: (858) 210-3759



Email: [hji@sorrentotherapeutics.com](mailto:hji@sorrentotherapeutics.com)

With a copy to:

General counsel

Email: [joster@sorrentotherapeutics.com](mailto:joster@sorrentotherapeutics.com)

Notices shall be deemed delivered upon the earlier of (a) when received; (b) five (5) days after deposit into the U.S. or Israeli mail; (c) the date notice is sent via facsimile or Email; or (d) the day immediately following delivery to an overnight courier guaranteeing next-day delivery (except Sunday and holidays).

IN WITNESS WHEREOF, the parties have executed this Agreement by their duly authorized representatives as of the date set forth above.

B.G. NEGEV TECHNOLOGIES AND APPLICATIONS LTD.

SORRENTO THERAPEUTICS, INC :

By: /s/ Netta Cohen

Name: Netta Cohen

Title: CEO

Date: July 4, 2013

By: /s/ Henry JI

Name: HENRY JI

Title: PRESIDENT & CEO

Date: July 2, 2013

By: \_\_\_\_\_

Name: Prof. Moti Herskowitz

Title: Director

Date: \_\_\_\_\_

I hereby confirm that I have read the above Agreement and giving my consent and undertaking to carry out my obligations in accordance with the terms and conditions of the Agreement.

Signature: \_\_\_\_\_

Name: Prof. Leslie Lobel

Date \_\_\_\_\_

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

I, Henry Ji, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sorrento Therapeutics, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 13, 2013

By: /s/ Henry Ji, Ph.D.

Henry Ji, Ph.D.

*Director, Chief Executive Officer & President*

(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER**

I, Richard Glenn Vincent, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sorrento Therapeutics, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 13, 2013

By: /s/ Richard Glenn Vincent

Richard Glenn Vincent

*Director & Chief Financial Officer*

(Principal Financial and Accounting Officer)

**CERTIFICATIONS OF  
PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Henry Ji, Principal executive officer of Sorrento Therapeutics, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to my knowledge:

1. The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2013 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2013

By: /s/ Henry Ji, Ph.D.

Henry Ji, Ph.D.

*Director, Chief Executive Officer & President*

(Principal Executive Officer)

I, Richard Glenn Vincent, Principal financial and accounting officer of Sorrento Therapeutics, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to my knowledge:

1. The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2013 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2013

By: /s/ Richard Glenn Vincent

Richard Glenn Vincent

*Director & Chief Financial Officer*

(Principal Financial and Accounting Officer)

A signed original of these certifications has been provided to Sorrento Therapeutics, Inc. and will be retained by Sorrento Therapeutics, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of Sorrento Therapeutics, Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.