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

FORM 10-Q

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from _____ to _____

Commission file number 001-36150

SORRENTO THERAPEUTICS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**33-0344842**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

4955 Directors Place

San Diego, California 92121
(Address of Principal Executive Offices)

(858) 203-4100
(Registrant's Telephone Number, Including Area Code)

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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
Emerging growth company	☐		

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

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

The number of shares of the issuer's common stock, par value $0.0001 per share, outstanding as of November 1, 2017 was 79,321,842.

Sorrento Therapeutics, Inc.

Form 10-Q for the Quarter Ended September 30, 2017

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

SORRENTO THERAPEUTICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except for share amounts)

	September 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,323	$ 82,398
Marketable securities	888	1,106
Grants and accounts receivables, net	1,693	1,696
Income tax receivable	1,525	1,289
Prepaid expenses and other, net	2,279	3,165
Total current assets	44,708	89,654
Property and equipment, net	18,969	12,707
Intangibles, net	71,675	64,766
Goodwill	38,298	41,548
Cost method investments	237,008	112,008
Equity method investments	70,686	76,994
Other, net	3,440	3,909
Total assets	$ 484,784	$ 401,586
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 12,984	$ 8,282
Accrued payroll and related benefits	4,158	3,565
Current portion of deferred compensation	—	1,012
Accrued expenses	4,441	4,741
Current portion of deferred revenue	14,666	9,666
Current portion of deferred rent	13	248
Acquisition consideration payable	44,682	48,362
Current portion of debt	2,407	209
Total current liabilities	83,351	76,085
Long-term debt	24,575	47,107
Deferred tax liabilities	105,659	53,238
Deferred revenue	127,133	134,376
Deferred rent and other	5,757	4,278
Total liabilities	346,475	315,084
Commitments and contingencies		
Equity:		
Sorrento Therapeutics, Inc. equity		
Preferred stock, $0.0001 par value; 100,000,000 shares authorized and no shares issued or outstanding	—	—
Common stock, $0.0001 par value; 750,000,000 shares authorized and 78,521,438 and 50,882,856 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	9	6
Additional paid-in capital	357,898	303,865
Accumulated other comprehensive income (loss)	123	(118)
Accumulated deficit	(177,545)	(174,252)
Treasury stock, 7,568,182 shares at cost at September 30, 2017, and December 31, 2016, respectively	(49,464)	(49,464)
Total Sorrento Therapeutics, Inc. stockholders' equity	131,021	80,037
Noncontrolling interests	7,288	6,465
Total equity	138,309	86,502
Total liabilities and stockholders' equity	$ 484,784	$ 401,586

See accompanying unaudited notes

SORRENTO THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Grant	$ 11	$ 142	$ 206	$ 899
Royalty and license	118,667	1,535	123,500	1,560
Sales and services	3,232	566	7,743	1,674
Total revenues	121,910	2,243	131,449	4,133
Operating costs and expenses:				
Costs of revenues	1,085	418	2,965	1,072
Research and development	16,604	10,382	42,667	28,903
Acquired in-process research and development	902	—	1,102	45,000
General and administrative	10,214	5,267	31,194	13,982
Intangible amortization	656	112	1,948	334
Gain on contingent liabilities and acquisition consideration payable	(4,468)	(1,687)	(8,558)	(6,184)
Total operating costs and expenses	24,993	14,492	71,318	83,107
Income (Loss) from operations	96,917	(12,249)	60,131	(78,974)
Gain on sale of marketable securities	—	27,193	—	27,193
Gain (loss) on trading securities	231	491	(218)	491
Gain (loss) on derivative liability	—	—	—	5,520
Gain (loss) on foreign currency exchange	(215)	—	(215)	—
Gain (loss) on equity investments	(507)	323	(2,557)	294
Interest expense	(1,208)	(236)	(4,017)	(816)
Interest income (expense)	(265)	26	192	84
Income (loss) before income tax	94,953	15,548	53,316	(46,208)
Income tax expense (benefit)	57,480	(195)	54,386	(195)
Net income (loss)	37,473	15,743	(1,070)	(46,013)
Net loss attributable to noncontrolling interests	3,514	(147)	2,223	(2,948)
Net income (loss) attributable to Sorrento	$ 33,959	$ 15,890	$ (3,293)	$ (43,065)
Net income (loss) per share - basic per share attributable to Sorrento	$ 0.44	$ 0.24	$ (0.05)	$ (0.91)
Net income (loss) per share - diluted per share attributable to Sorrento	$ 0.44	$ 0.24	$ (0.05)	$ (0.91)
Weighted-average shares used during period - basic per share attributable to Sorrento	76,887	66,193	66,122	47,581
Weighted-average shares used during period - diluted per share attributable to Sorrento	76,888	66,527	66,122	47,581

See accompanying unaudited notes

SORRENTO THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income (loss)	$ 37,473	$ 15,743	$ (1,070)	$ (46,013)
Other comprehensive income:				
Foreign currency translation adjustments	(95)	—	241	—
Unrealized gain (loss) on marketable securities, net of tax	—	2,067	—	(60,353)
Tax impact related to unrealized gain on marketable securities	—	—	—	14,295
Reclassification adjustment of unrealized gain included in net loss	—	(27,193)	—	(27,193)
Total other comprehensive loss	37,378	(9,383)	(829)	(119,264)
Comprehensive loss attributable to noncontrolling interests	3,514	(147)	2,223	(2,948)
Comprehensive loss attributable to Sorrento	$ 33,864	$ (9,236)	$ (3,052)	$ (116,316)

See accompanying unaudited notes

SORRENTO THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands, except for share amounts)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Subscription Receivable	Accumulated Deficit	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount						
Balance, December 31, 2016	50,882,856	$ 6	7,568,182	(49,464)	$ 303,865	$ (118)	$ —	$ (174,252)	$ 6,465	$ 86,502
Scilex acquisition adjustments	—	—	—	—	(627)	—	—	—	(1,400)	(2,027)
Issuance of common stock for business combinations	1,552,011	—	—	—	3,053	—	—	—	—	3,053
Issuance of common stock for public placement and investments, net	26,082,325	3	—	—	47,641	—	—	—	—	47,644
Issuance of common stock for private placement and investments, net	4,246	—	—	—	30	—	—	—	—	30
Stock-based compensation	—	—	—	—	3,936	—	—	—	—	3,936
Foreign currency translation adjustment	—	—	—	—	—	241	—	—	—	241
Net loss	—	—	—	—	—	—	—	(3,293)	2,223	(1,070)
Balance, September 30, 2017	78,521,438	$ 9	7,568,182	(49,464)	$ 357,898	$ 123	$ —	$ (177,545)	$ 7,288	$138,309

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Subscription Receivable	Accumulated Deficit	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount						
Balance, December 31, 2015	37,771,459	$ 4	—	—	$ 184,898	$ 73,579	$ —	$ (113,329)	$ (4,214)	$140,938
Issuance of common stock with exercise of options	89,976	—	—	—	454	—	—	—	—	454
Issuance of common stock for private placement and investments, net	27,587,131	23	—	—	149,163	—	—	—	—	149,186
Stock-based compensation	—	—	—	—	3,420	—	—	—	—	3,420
Stock Cancellation / Forfeiture	(7,868,515)	(1)	—	—	(1,341)	—	—	—	—	(1,342)
Change in unrealized gain on marketable securities	—	—	—	—	—	(73,251)	—	—	—	(73,251)
Stock subscription	—	—	—	(51,491)	—	—	(43,502)	—	—	(94,993)
Net loss	—	—	—	—	—	—	—	(43,065)	(2,948)	(46,013)
Balance, September 30, 2016	57,580,051	$ 26	—	(51,491)	$ 336,594	$ 328	$ (43,502)	$ (156,394)	$ (7,162)	$ 78,399

See accompanying unaudited notes

SORRENTO THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

	Nine Months Ended September 30,	
	2017	**2016**
Operating activities		
Net income (loss)	$ (1,070)	$ (46,013)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,271	1,223
Non-cash interest expense	920	181
Gain / Loss on marketable securities	—	(27,193)
Amortization of debt issuance costs	455	—
Gain on trading securities	218	(491)
Stock-based compensation	3,936	3,442
Provision for doubtful accounts	—	29
Gain on expiration of derivative liability	—	(5,520)
Gain / Loss on equity investments	2,557	(294)
Non-cash income on cost method investments	(116,249)	—
Gain on contingent liabilities and acquisition consideration payable	(8,558)	(6,184)
Deferred tax provision	54,445	—
Changes in operating assets and liabilities, excluding effect of acquisitions:		
Grants and other receivables	3	136
Accrued payroll	593	—
Prepaid expenses and other	886	(1,028)
Deposits and other assets	233	—
Accounts payable	4,572	38
Deferred revenue	(2,243)	25,848
Deferred rent and other	212	—
Accrued expenses and other liabilities	(509)	1,414
Net cash used for operating activities	(54,328)	(54,412)
Investing activities		
Purchases of property and equipment	(9,371)	(3,688)
Investment in Celularity	(5,000)	
Note receivable	—	(600)
Investments in common stock	—	(750)
Purchase of business, net of cash acquired	(557)	—
Net cash (used in) provided by investing activities	(14,928)	(5,038)
Financing activities		
Repayment under the amended loan and security agreement	(21,500)	(3,683)
Payments under deferred compensation arrangements	(1,012)	—
Proceeds from issuance of common stock, net of issuance costs	47,674	105,477
Purchase of treasury stock	—	(15,639)
Proceeds from exercise of stock options	—	454
Net cash provided by (used in) financing activities	25,162	86,609
Net change in cash and cash equivalents	(44,094)	27,159
Net effect of exchange rate changes on cash	19	—
Cash and cash equivalents at beginning of period	82,398	39,038
Cash and cash equivalents at end of period	$ 38,323	$ 66,197
Supplemental disclosures:		
Cash paid during the period for:		
Income taxes	$ 34	$ 1
Interest paid	$ 2,808	$ 778
Supplemental disclosures of non-cash investing and financing activities:		
Virttu acquisition non-cash consideration	$ 15,465	$ —
Stock subscription and note receivable issued	$ —	$ 43,502
Property and equipment costs incurred but not paid	$ 130	$ —
Purchase of treasury stock and warrant with marketable securities	$ —	$ 37,193
Scilex non-cash consideration for regulatory milestone	$ 1,380	$ —

See accompanying unaudited notes

1. Nature of Operations and Business Activities

Nature of Operations and Basis of Presentation

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

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

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

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

Through September 30, 2017, the Company had devoted substantially all of its efforts to product development, raising capital and building infrastructure.

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

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, which are only normal, recurring and necessary for a fair statement of financial position, results of operations and cash flows. These condensed 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, 2016. Operating results for interim periods are not expected to be indicative of operating results for the Company's 2017 fiscal year, or any subsequent period.

2. Liquidity and Going Concern

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred substantial net losses and negative operating cash flows and anticipates that it will continue to do so for the foreseeable future as it continues to identify and invest in advancing product candidates, as well as expanding corporate infrastructure.

As of September 30, 2017, the Company had a $30.0 million outstanding principal balance on the long-term debt associated with the Loan and Security Agreement, dated November 23, 2016, by and among the Company and certain of its domestic subsidiaries (together with the Company, the "Borrowers") and Hercules Capital, Inc. ("Hercules"), as amended (as so amended, the "Loan Agreement"). The Loan Agreement contains covenants requiring the Company (i) to achieve certain fundraising requirements by certain dates and (ii) to maintain $20.0 million of U.S. unrestricted cash prior to achieving the corporate and fundraising milestones. The Company's public offering of common stock in April 2017 for net proceeds of $43.5 million satisfied the fundraising requirements and fundraising milestone. As of September 30, 2017, the Company had $38.3 million of cash and cash equivalents (includes approximately $6.0 million of foreign cash), of which $20.0 million is required to be maintained subject to the minimum cash requirement of the Loan Agreement. Effective November 6, 2017, the Company and Hercules entered into an amendment to the Loan Agreement that reduced the minimum amount of U.S. unrestricted cash that the Company must maintain under the Loan Agreement to $8.0 million (see Note 18). The Company's available cash and financing sources will not be sufficient to meet its current and anticipated cash requirements without additional fundraising. Accordingly, these factors, among others, raise substantial doubt about the Company's ability to continue as a going concern.

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

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

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

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

Universal Shelf Registration

In November 2014, the Company filed a universal shelf registration statement on Form S-3 (the "Shelf Registration Statement") with the SEC, which was declared effective by the SEC in December 2014. This Shelf Registration Statement provides the Company with the ability to offer up to $250 million of securities, including equity and other securities as described in the registration statement. Included in the 2014 shelf registration is a sales agreement prospectus covering the offering, issuance and sale by the Company of up to a maximum aggregate offering price of $50.0 million of the Company's common stock that may be issued and sold under a sales agreement with MLV & Co. LLC (the "ATM Facility"). During the twelve months ended December 31, 2016 and the nine months ended September 30, 2017, the Company sold approximately $3.6 million and $4.1 million of net proceeds from shares of common stock under the ATM Facility, respectively. The Company can offer up to $41.9 million of additional shares of common stock under the ATM Facility, subject to certain limitations. On April 19, 2017, the Company completed a public offering of $47.5 million shares of common stock pursuant to the Shelf Registration Statement for net proceeds of approximately $43.5 million.

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

2016 Private Investment in Public Entity Financing

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

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

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

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

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

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

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

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

3. Significant Accounting Policies

Use of Estimates

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

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

The Company follows accounting guidance on fair value measurements for financial instruments measured on a recurring basis, as well as for certain assets and liabilities that are initially recorded at their estimated fair values. Fair value is defined as the exit price, or the amount that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses the following three-level hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs to value its financial instruments:

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

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

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

Marketable Securities

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

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

All of the Company's marketable securities are subject to a periodic impairment review. The Company recognizes an impairment charge when a decline in the fair value of its investments below the cost basis is judged to be other-than-temporary. For the three and nine months ended September 30, 2017 and 2016, no other-than-temporary impairment charges were recorded.

Grants and Accounts Receivable

Grants receivable at September 30, 2017 and December 31, 2016 represent amounts due under several federal contracts with the National Institute of Allergy and Infectious Diseases ("NIAID"), a division of the National Institutes of Health ("NIH"). The Company considers the grants receivable to be fully collectible; accordingly, no allowance for doubtful amounts has been established. If amounts become uncollectible, they are charged to operations.

Accounts receivable at September 30, 2017 and December 31, 2016 consist of trade receivables from sales and services provided to certain customers, which are generally unsecured and due within 30 days. Estimated credit losses related to trade accounts receivable are recorded as general and administrative expenses and as an allowance for doubtful accounts within grants and accounts receivable, net. The Company reviews reserves and makes adjustments based on historical experience and known collectability issues and disputes. When internal collection efforts on accounts have been exhausted, the accounts are written off by reducing the allowance for doubtful accounts. As of each of September 30, 2017 and December 31, 2016, the allowance for doubtful accounts was $20 thousand and $26 thousand, respectively.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets, which are generally three to five years. Leasehold improvements are amortized over the lesser of the life of the lease or the life of the asset. Repairs and maintenance are charged to expense as incurred.

Acquisitions and Intangibles

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

During the first quarter of 2017, the Company identified an error in the valuation of acquisition consideration associated with the Scilex Pharmaceuticals Inc. ("Scilex") acquisition, primarily related to the acquisition consideration payable, resulting in an overstatement of acquisition consideration payable of $6.5 million, and a corresponding overstatement of intangible assets of $6.7 million, goodwill of $4.6 million, deferred income tax liability of $2.8 million, additional paid-in capital of $0.6 million, and noncontrolling interest of $1.4 million as of December 31, 2016. The Company evaluated the materiality of this misstatement from quantitative and qualitative perspectives, and concluded that it was immaterial to the prior periods. Consequently, the Company corrected this error by recording the adjustment in the Company's condensed consolidated balance sheet in the quarter ended March 31, 2017.

Goodwill and Other Long-Lived Assets

Goodwill, which has an indefinite useful life, represents the excess of cost over fair value of net assets acquired. Goodwill is reviewed for impairment at least annually during the fourth quarter, or more frequently if events occur indicating the potential for impairment. During its goodwill impairment review, the Company may assess qualitative factors to determine whether it is more likely than not that the fair value of its reporting unit is less than its carrying amount, including goodwill. The qualitative factors include, but are not limited to, macroeconomic conditions, industry and market considerations, and the overall financial performance of the Company. If, after assessing the totality of these qualitative factors, the Company determines that it is not more likely than not that the fair value of its reporting unit is less than its carrying amount, then no additional assessment is deemed necessary. Otherwise, the Company proceeds to perform the two-step test for goodwill impairment. The first step involves comparing the estimated fair value of the reporting unit with its carrying value, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the Company performs the second step of the goodwill impairment test to determine the amount of loss, which involves comparing the implied fair value of the goodwill to the carrying value of the goodwill. The Company may also elect to bypass the qualitative assessment in a period and elect to proceed to perform the first step of the goodwill impairment test. The Company performed its annual assessment for goodwill impairment in the fourth quarter of 2016, noting no impairment. There have not been any triggering events indicating the potential for impairment through September 30, 2017.

The Company evaluates its long-lived and intangible assets with definite lives, such as property and equipment, acquired technology, customer relationships, patent and license rights, for impairment by considering competition by products prescribed for the same indication, the likelihood and estimated future entry of non-generic and generic competition with the same or similar indication and other related factors. The factors that drive the estimate of useful life are often uncertain and are

reviewed on a periodic basis or when events occur that warrant review. Recoverability is measured by comparison of the assets' book value to future net undiscounted cash flows that the assets are expected to generate. There have not been any impairment losses of long-lived assets through September 30, 2017.

Acquisition Consideration Payable - Gain on Contingent Liabilities

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

The condensed consolidated statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2016 and stockholders' equity and of cash flows for the nine months ended September 30, 2016 have been restated to correct for the effects of an immaterial error in the interim periods related to the re-measurement of acquisition consideration payable. As a result of the restatement, an adjustment of $1.7 million and $6.2 million to gain on contingent liabilities and an adjustment of $0.2 million and $0.3 million to research and development expense have been reflected in operating costs and expenses in the condensed consolidated statements of operations for the three and nine months ended September 30, 2016, respectively. This adjustment includes a gain of $991 thousand that relates to 2015 but was recognized in the three months ended March 31, 2016, thus is included in the condensed consolidated statement of operations for the nine months ended September 30, 2016. As a result of this adjustment, the financial results for the three months ended September 30, 2016 reflect the impact of the adjustment which resulted in a decrease in operating costs and expenses from $16.0 million to $14.5 million, an increase in net income attributable to the Company from $14.4 million to $15.9 million, and an increase in net income per share from $0.22 to $0.24 for the quarter ended September 30, 2016. The financial results for the nine months ended September 30, 2016 reflect the impact of the adjustment, which resulted in a decrease in operating costs and expenses from $89.0 million to $83.1 million, a decrease in net loss attributable to the Company from $48.9 million to $43.1 million, and a decrease in net loss per share from $(1.03) to ($0.91) for the nine months ended September 30, 2016.

Derivative Liability

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

Investments in Other Entities

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

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

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

Research and Development Costs and Collaborations

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

Acquired In-Process Research and Development Expense

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

Income Taxes

The provisions of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740 *"Income Taxes,"* addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC Topic 740-10, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The Company has determined that it has uncertain tax positions.

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

The Company has deferred tax assets, which are subject to periodic recoverability assessments. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that more likely than not will be realized. As of each of December 31, 2016 and September 30, 2017, the Company maintained a full valuation allowance against its deferred tax assets, with the exception of an amount equal to its deferred tax liabilities, which can be expected to reverse over a definite life, an amount equal to its alternative minimum tax credits and state research and development tax credits for which there is no expiration and the deferred tax assets related to its Scilex investment.

Revenue Recognition

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

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

Revenues from sales are generated from the sale of customized reagents which include industrial standard cytotoxins, linkers, and linker-toxins used for preparing ADCs. Contract development services include providing synthetic expertise to customers' synthesis by delivering proprietary cytotoxins, linkers and linker-toxins and ADC service using industry standard toxin and antibodies provided by customers. Revenue is recognized when, (i) persuasive evidence of an arrangement exists, (ii) the product has been shipped or the services have been rendered, (iii) the price is fixed or determinable, and (iv) collectability is reasonably assured. Royalty revenues will be recognized as earned per the terms of underlying royalty bearing contracts.

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

Stock-based Compensation

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

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

Comprehensive (Loss) Income

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

Net Loss per Share

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

Segment Information

The Company is engaged primarily in the discovery and development of innovative therapies focused on oncology and the treatment of chronic cancer pain as well as immunology and infectious diseases based on its platform technologies. Accordingly, the Company has determined that it operates in one operating segment.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. ASU No. 2014-09 was originally effective for annual reporting periods beginning after December 15, 2016, and interim periods thereafter. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delayed the effective date of the new standard for annual reporting periods beginning after December 15, 2017, and interim periods thereafter. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. The Company is in the process of evaluating the impact of ASU No. 2014-09 on its royalty and license revenues and does not expect a material impact to its grants and sales and services revenues. The standard allows for either a full retrospective or modified retrospective method of adoption. The Company expects to adopt this standard using the modified retrospective approach on its effective date, January 1, 2018.

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

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

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

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

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

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

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

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business,* to clarify the definition of a business to add guidance for evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Specifically, this ASU provides a screen to assist entities in determining when a set should not be considered a business, which screen provides that if substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar assets, the set is not a business. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not believe the adoption of ASU No. 2017-01 will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment (Topic 350)*. This standard eliminates Step 2 from the goodwill impairment test, instead requiring an entity to recognize a goodwill impairment charge for the amount by which the goodwill carrying amount exceeds the reporting unit's fair value. This guidance is effective

for interim and annual goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption permitted. This guidance must be applied on a prospective basis. The Company is currently evaluating the impact that the adoption of ASU No. 2017-04 will have on the Company's consolidated financial position, results of operations or cash flows.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting,* to provide clarity and reduce both the diversity in practice and cost of complexity when applying the guidance. Specifically, the ASU provides additional modification conditions in determining whether or not modification accounting should be applied. The ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not believe the adoption of ASU No. 2017-09 will have a material impact on the Company's consolidated financial position, results of operations or cash flows.

4. Acquisitions

Acquisition of Virttu Biologics Limited

On April 27, 2017, the Company entered into a Share Purchase Agreement (the "Virttu Purchase Agreement") with TNK Therapeutics, Inc., a majority-owned subsidiary of the Company ("TNK"), Virttu, the shareholders of Virttu (the "Virttu Shareholders") and Dayspring Ventures Limited, as the representative of the Virttu Shareholders, pursuant to which, among other things, TNK acquired from the Virttu Shareholders 100% of the outstanding ordinary shares of Virttu (the "Virttu Acquisition").

Virttu focuses on the development of oncolytic viruses that infect and selectively multiply in and destroy tumor cells without damaging healthy tissue. Its lead oncolytic virus candidate, Seprehvir, infects and replicates in cancer cells selectively, leaving normal cells unharmed.

Under the Virttu Purchase Agreement, the total amount of the consideration payable to the Virttu Shareholders in the Virttu Acquisition is equal to $25 million, less Virttu's net debt (the "Virttu Base Consideration"). An additional $10 million contingent consideration is payable upon the achievement of certain regulatory milestones (as described below) (the "Regulatory Approval Consideration").

At the closing of the Virttu Acquisition (the "Closing"), the Company issued to the Virttu Shareholders consideration valued at approximately $2.2 million, which consisted primarily of an aggregate of 797,081 shares (the "Virttu Closing Shares") and approximately $557,000 in cash (the "Cash Consideration"). The issuance of the Virttu Closing Shares and the payment of the Cash Consideration satisfied TNK's obligation to pay 20% of the Virttu Base Consideration at the Closing. Under the terms of the Virttu Purchase Agreement, the Company agreed to provide additional consideration to the Virttu Shareholders, as follows:

(1) Upon a financing resulting in gross proceeds (individually or in the aggregate) to TNK of at least $50.0 million (a "Qualified Financing"), TNK will issue to the Virttu Shareholders an aggregate number of shares of its capital stock ("TNK Capital Stock") as is equal to the quotient obtained by dividing 80% of the Virttu Base Consideration by the lowest per share price paid by investors in the Qualified Financing (the "TNK Financing Consideration"); provided, however, that 20% of the TNK Financing Consideration shall be held in escrow until April 27, 2018 (the "Financing Due Date"), to be used to, among other things, satisfy the indemnification obligations of the Virttu Shareholders. In the event that a Qualified Financing does not occur, then on the Financing Due Date, the Company will issue to the Virttu Shareholders an aggregate number of shares of the Company's common stock as is equal to the quotient obtained by dividing 80% of the Virttu Base Consideration, by $5.55 (as adjusted, as appropriate, to reflect any stock splits or similar events affecting the Company's common stock after the Closing).

(2) Within 45 business days after Virttu becomes aware that certain governmental bodies in the United States, the European Union, the United Kingdom or Japan have approved for commercialization, on or before October 26, 2024, Seprehvir (or any enhancement, combination or derivative thereof) as a monotherapy or in combination with one or more other active components (each of the first two such approvals by a governmental body being a "Regulatory Approval"), TNK shall pay half of the Regulatory Approval Consideration to the Virttu Shareholders, in a combination of (a) up to $5.0 million in cash (the "Regulatory Approval Cash") and/or (b) (i) such number of shares of the Company's common stock as is equal to the quotient obtained by dividing $5.0 million less the Regulatory Approval Cash (the "Regulatory Approval Share Value") by the 30 Day VWAP (as defined below) of one share of the Company's common stock; (ii) if TNK has completed its first public offering of TNK Capital Stock, the number of shares of TNK Capital Stock as is equal to the quotient obtained by dividing the Regulatory Approval Share Value by the 30 Day VWAP of one share of TNK Capital Stock; or (iii) such number of shares of common stock of a publicly traded company as is equal to the quotient obtained by dividing the Regulatory Approval Share Value by the volume weighted average price of the relevant security, as reported on the Nasdaq Capital Market (or other principal stock exchange or securities market on which the shares are then listed or quoted) for the thirty trading days immediately following

the receipt of Regulatory Approval (the "30 Day VWAP"), with the composition of the Regulatory Approval Consideration to be at TNK's option. In order for a second regulatory approval to qualify as a Regulatory Approval under the Purchase Agreement, the second approval must be granted by a different governmental body in a different jurisdiction than that which granted the first Regulatory Approval.

At April 27, 2017, the 80% of the Virttu Base Consideration was valued at $12.8 million. The fair value of the 80% of the Virttu Base Consideration is recorded as a current liability and will be adjusted quarterly for changes in fair value or as events and circumstances arise. At April 27, 2017, the contingent Regulatory Approval Consideration was valued at $1.0 million. The fair value of the contingent Regulatory Approval Consideration is recorded as a non-current liability within "Deferred rent and other" on the accompanying condensed consolidated balance sheet and will be adjusted quarterly for changes in fair value or as events and circumstances arise.

The consolidated financial statements include the preliminary results of operations from this transaction, which have been accounted for as a business combination, and require, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The preliminary valuation of the acquired assets and liabilities resulted in the recognition of identifiable assets of approximately $16.0 million comprised mainly of in-process research and development of approximately $15.4 million, deferred tax liabilities of $0.8 million and goodwill of approximately $1.4 million subject to final adjustments including tax related items. Various factors contributed to the establishment of goodwill, including an assembled workforce.

In connection with the Virttu transaction, we recorded acquisition costs of approximately $0.9 million in general and administrative expenses for the nine months ended September 30, 2017, for legal and related costs. Acquisition costs are expensed as incurred.

The purchase consideration, assets acquired, and liabilities assumed are preliminary and, as a result, are subject to change due to purchase price adjustments, additional information obtained related to fair value estimates, final tax adjustments and related items.

The acquisition of Virttu was not material to the Company's consolidated financial statements.

Acquisition of Scilex Pharmaceuticals Inc.

On November 8, 2016, the Company entered into a Stock Purchase Agreement (the "Scilex Purchase Agreement") with Scilex and a majority of the stockholders of Scilex (the "Scilex Stockholders") pursuant to which, on November 8, 2016, the Company acquired from the Scilex Stockholders, and the Scilex Stockholders sold to the Company, approximately 72% of the outstanding capital stock of Scilex (the "Scilex Acquisition"). The remainder of the outstanding capital stock of Scilex represents a noncontrolling interest of which approximately 23% continues to be held by ITOCHU CHEMICAL FRONTIER CORPORATION following the Scilex Acquisition.

Scilex focuses on the development and commercialization of specialty pharmaceutical products for the treatment of pain; its lead product, ZTlidoTM, is a branded lidocaine patch formulation being developed for the treatment of chronic pain. ZTlido™ (lidocaine patch 1.8%) will be manufactured by a contract manufacturer.

At the closing of the Scilex Acquisition, the Company issued to the Scilex Stockholders that were accredited investors (the "Accredited Scilex Stockholders") consideration valued at $4.8 million, which consisted primarily of an aggregate of 754,911 shares of the Company's common stock (the "Common Stock"). Under the terms of the Scilex Purchase Agreement, the Company agreed to provide additional consideration to the Accredited Scilex Stockholders upon the achievement of certain milestones, as follows:

(1) Upon receipt of notice from the U.S. Food and Drug Administration (the "FDA") that the FDA has accepted Scilex's resubmitted new drug application for ZTlidoTM for the treatment of postherpetic neuralgia (the "NDA"), the Company will deliver to the Accredited Scilex Stockholders a number of shares of Common Stock equal to the quotient obtained by dividing 10% of the total undiscounted purchase consideration of approximately $47.8 million (the "Adjusted Base Consideration") by a price (the "FDA Acceptance Price") equal to the closing market price of one share of Common Stock, as reported by the Nasdaq Stock Market LLC ("Nasdaq") on the date of Scilex's receipt of the FDA notice or, if no closing price is reported for such date, the closing price on the last preceding date for which such quotation exists; provided, however, that in no event shall the FDA Acceptance Price be greater than $25.32 or less than $6.33 (in each case as adjusted, as appropriate, to reflect any stock splits or similar events affecting the Common Stock).

On September 11, 2017, the Company received notice from the FDA that the FDA had accepted the NDA and the Company issued to the Accredited Scilex Stockholders consideration valued at $1.4 million, which consisted primarily of an aggregate of 754,930 shares of Common Stock.

(2) Upon receipt of notice from the FDA that the FDA has approved the NDA for commercialization, the Company will deliver to the Accredited Scilex Stockholders cash and shares of Common Stock in such proportion to be determined in the Company's sole discretion, with a total value equal to 80% of the Adjusted Base Consideration (the "FDA Approval Consideration"). To the extent that the Company elects to pay any portion of the FDA Approval Consideration in shares of Common Stock, the number of shares shall be equal to the quotient obtained by dividing (a) the portion of the FDA Approval Consideration to be paid in shares of Common Stock by (b) a price (the "FDA Approval Price") equal to the closing market price of one share of Common Stock, as reported by Nasdaq on the date of the Scilex's receipt of the FDA notice or, if no closing price is reported for such date, the closing price on the last preceding date for which such quotation exists; provided, however, that in no event shall the FDA Approval Price be greater than $25.32 or less than $6.33 (in each case as adjusted, as appropriate, to reflect any stock splits or similar events affecting the Common Stock). However, in no event may the Company make an election with respect to the FDA Approval Consideration so as to cause the total number of shares of Common Stock issued in connection with the Scilex Acquisition to exceed 4.99% of the total number of shares of Common Stock of the Company outstanding as of immediately prior to the Closing (as adjusted, as appropriate, to reflect any stock splits or similar events affecting the Common Stock), unless the Company has obtained stockholder approval to issue a greater number of shares.

During the first quarter of 2017, the Company identified an error in the valuation of acquisition consideration associated with the Scilex Acquisition, primarily related to the acquisition consideration payable, resulting in an overstatement of acquisition consideration payable of $6.5 million, and a corresponding overstatement of intangible assets of $6.7 million, goodwill of $4.6 million, deferred income tax liability of $2.8 million, additional paid-in capital of $0.6 million, and noncontrolling interest of $1.4 million as of December 31, 2016. The Company evaluated the materiality of this misstatement from quantitative and qualitative perspectives, and concluded that it was immaterial to the prior periods. Consequently, the Company corrected this error by recording the adjustment in the Company's condensed consolidated balance sheet in the quarter ended March 31, 2017.

At November 8, 2016, the contingent consideration was valued at $33.5 million, resulting in a total purchase consideration of approximately $38.2 million. The fair value of the contingent consideration is recorded as a current liability and will be periodically adjusted for changes in fair value or as events and circumstances arise. The remainder of the outstanding capital stock of Scilex represents a noncontrolling interest which was valued at $12.3 million at November 8, 2016.

The consolidated financial statements include the results of operations from this transaction, which have been accounted for as a business combination, and require, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The valuation of the acquired assets resulted in the recognition of identifiable assets of approximately $54.9 million comprised mainly of in-process research and development of $21.9 million and patents of $32.6 million. The valuation of the acquired liabilities resulted in the recognition of liabilities of approximately $17.9 million comprised mainly deferred tax liabilities of $13.9 million. The Company recorded goodwill of $13.5 million associated with the acquisition. The amounts in this footnote reflect the adjustment described above. Various factors contributed to the establishment of goodwill, including an assembled workforce.

Acquired In-process Research and Development of BDL

In August 2015, the Company and TNK entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with BDL Products, Inc. ("BDL") and the stockholders of BDL ("Stockholders") pursuant to which the Stockholders sold all of their shares of capital stock in BDL to TNK for: (1) a cash payment of $100.00, and (2) $6.0 million in shares of TNK Class A Stock, subject to adjustment in certain circumstances, to be issued to the Stockholders upon a financing resulting in gross proceeds (individually or in the aggregate) to TNK of at least $50.0 million (a "Qualified Financing"). In accordance with subsequent amendments to the Stock Purchase Agreement, in the event a Qualified Financing does not occur by October 15, 2017 (which is subject to further extension as implied and based on previously amended dates) or TNK does not complete an initial public offering of shares of its capital stock by September 15, 2017, in lieu of receiving shares of TNK pursuant to the acquisition, the Stockholders shall receive an aggregate of 309,917 shares of the Company's common stock, subject to adjustment in certain circumstances.

Although a Qualified Financing did not occur by October 15, 2017 and TNK did not complete an initial public offering by September 15, 2017, as of the date of the filing of this Quarterly Report on Form 10-Q, the Company has not issued shares to the Stockholders pursuant to the Stock Purchase Agreement as it is currently negotiating the terms of the Stock Purchase Agreement with the Stockholders.

Acquired In-process Research and Development of Cargenix

In August 2015, the Company and TNK entered into a Membership Interest Purchase Agreement (the "Membership Interest Purchase Agreement") with CARgenix Holdings LLC ("CARgenix") and the members of CARgenix (the "Members") pursuant to which the Members sold all of their membership interests in CARgenix to TNK for: (1) a cash payment of $100.00, and (2) $6.0 million in shares of TNK Class A common stock ("TNK Class A Stock"), subject to adjustment in certain circumstances, to be issued to the Members upon a financing resulting in gross proceeds (individually or in the aggregate) to TNK of at least $50.0 million (a "Qualified Financing"). In accordance with an amendment to the Membership Interest Purchase Agreement entered into in March 2016, in the event a Qualified Financing did not occur by September 15, 2016 or TNK did not complete an initial public offering of shares of its capital stock by October 15, 2016, in lieu of receiving shares of TNK pursuant to the acquisition, the Members would receive an aggregate of 309,917 shares of the Company's common stock, subject to adjustment in certain circumstances and to account for fractional shares. TNK did not complete a Qualified Financing by the amended financing deadline and the Company issued 309,916 shares of its common stock to the Members on October 7, 2016.

5. Fair Value Measurements

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

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

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

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

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

	Fair Value Measurements at September 30, 2017			
	Balance	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 38,323	$ 38,323	$ —	$ —
Marketable securities	$ 888	$ 700	$ —	$ 188
Total assets	$ 39,211	$ 39,023	$ —	$ 188
Liabilities:				
Acquisition consideration payable - Current	$ 44,682	$ —	$ —	$ 44,682
Acquisition consideration payable - Non-current	$ 1,032	$ —	$ —	$ 1,032
Total liabilities	$ 45,714	$ —	$ —	$ 45,714

	Fair Value Measurements at December 31, 2016			
	Balance	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 82,398	$ 82,398	$ —	$ —
Marketable securities	$ 1,106	$ 831	$ —	$ 275
Total assets	$ 83,504	$ 83,229	$ —	$ 275
Liabilities:				
Acquisition consideration payable	$ 48,362	$ —	$ —	$ 48,362
Total liabilities	$ 48,362	$ —	$ —	$ 48,362

The Company's financial assets and liabilities carried at fair value are comprised of cash and cash equivalents, acquisition consideration payable and derivative instruments. Cash and cash equivalents consist of money market accounts and

bank deposits which are highly liquid and readily tradable. These investments are valued using inputs observable in active markets for identical securities. Marketable securities are valued using inputs observable in active markets for identical securities. The Company recorded contingent consideration as part of its investment in Shanghai Three Alliance Biotech Co. LTD ("Shanghai Three"), agreement with Roger Williams Medical Center ("RWMC"), and acquisitions of Concortis, Inc., ("Concortis"), BDL, CARgenix, Scilex and Virttu. The fair value of the contingent consideration measured at fair value on a recurring basis using significant unobservable inputs (Level 3). Contingent consideration is measured using the income approach and discounting to present value the contingent payments expected to be made based on assessment of the probability that the company would be required to make such future payment.

The following table includes a summary of the Company's contingent consideration liabilities and acquisition consideration payables associated with acquisitions. The contingent consideration is measured at fair value using significant unobservable inputs (Level 3) during the nine months ended September 30, 2017:

(in thousands)	Fair Value
Beginning Balance at December 31, 2016	48,362
Scilex acquisition adjustment (See Note 4)	(6,500)
Acquisition consideration payable – current year acquisitions (See Note 4)	12,807
Contingent consideration (Non-current) – current year acquisitions (See Note 4)	983
Re-measurement of Fair Value	(8,558)
Payment of current year contingent consideration	(1,380)
Ending Balance at September 30, 2017	$ 45,714

The following table includes a summary of the Company's contingent and financing liabilities, related inputs used to determine fair value, and the valuation methodologies used for the fair value measurements using significant unobservable inputs (Level 3) at September 30, 2017:

(in thousands)	Fair Value Measurements at September 30, 2017	Valuation Methodology	Significant Unobservable Input	Weighted Average (range, if applicable)
BDL Contingent Consideration	$ 1,057	Multiple outcome discounted cash flow	Discount Rate Percent probabilities assigned to scenarios	6.82% 10% and 90%
Virttu Contingent Consideration (Non-current)	$ 1,032	Multiple outcome discounted cash flow	Discount Rate Probability of Regulatory Milestone	12.21% 16%
Virttu Contingent Consideration	$ 10,104	Multiple outcome discounted cash flow	Discount Rate Percent probabilities assigned to scenarios	3.21% 30% and 70%
Scilex Contingent Consideration	$ 28,900	Monte Carlo simulation method	Discount Rate Probability of Regulatory Milestones	11.39% 95%
Concortis Contingent Consideration	$ 534	Multiple outcome discounted cash flow	Discount Rate Percent probabilities assigned to scenarios	19.20% 20%
Shanghai Three Contingent Consideration	$ 1,635	Multiple outcome discounted cash flow	Discount Rate Percent probabilities assigned to scenarios	12.21% 50%
RWMC Contingent Consideration	$ 2,452	Multiple outcome discounted cash flow	Discount Rate, Percent probabilities assigned to scenarios	12.21% 50%

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

Fair Value of Other Financial Instruments

The fair value of the debt obligation is measured at fair value using significant other observable inputs (Level 2) at September 30, 2017. The carrying value and fair value of the Company's debt obligations are as follows (in thousands):

	September 30, 2017	
	Carrying Value	Fair Value
Debt Obligations:		
Term Loan	26,982	26,982
Total Fair Value of Debt Obligations:	$ 26,982	$ 26,982

	December 31, 2016	
	Carrying Value	Fair Value
Debt Obligations:		
Term Loan	47,316	47,316
Total Fair Value of Debt Obligations:	$ 47,316	$ 47,316

6. Marketable Securities

Marketable securities consisted of the following as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017			
	Cost	Gross Unrealized Gains (Losses)	Gross Realized Gains (Losses)	Fair Value
Trading securities:				
MedoveX common shares and warrants	$ 750	$ 138	$ —	$ 888

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

On August 5, 2016, the Company entered into a Unit Purchase Agreement (the "Unit Purchase Agreement") with MedoveX Corporation ("MedoveX"). Pursuant to the terms of the Unit Purchase Agreement, the Company purchased three Units for $750,000. Each Unit had a purchase price of $250,000 and consisted of (i) 208,333 shares of MedoveX common stock (the "MedoveX Common Stock"), and (ii) a warrant to purchase 104,167 shares of MedoveX Common Stock (the "MedoveX Warrant"). The MedoveX Warrant has an initial exercise price of $1.52 per share, subject to adjustment, and is initially exercisable six months following the date of issuance for a period of five years from the date of issuance. In addition, the Company entered into a Registration Rights Agreement with MedoveX pursuant to which MedoveX was required to file a registration statement registering for resale all shares of MedoveX Common Stock and shares of MedoveX Common Stock issuable pursuant to the MedoveX Warrant issued as part of the Units.

For the three months ended September 30, 2017 and 2016, the Company recorded a gain of $0.2 million and a gain of $0.5 million on trading securities. For the nine months ended September 30, 2017 and 2016, the Company recorded a loss of $0.2 million and a gain of $0.5 million on trading securities. The Company's investment in MedoveX will be revalued on each balance sheet date. The fair value of the Company's holding in MedoveX Common Stock at September 30, 2017 is a Level 1 measurement. The fair value of the Company's holdings in the MedoveX Warrant was estimated using the Black-Scholes option-pricing method. The risk-free rate was derived from the U.S. Treasury yield curve, matching the MedoveX Warrant's term, in effect at the measurement date. The volatility factor was determined based on MedoveX's historical stock prices. The warrant valuation is a Level 3 measurement.

The following table includes a summary of the warrant measured at fair value using significant unobservable inputs (Level 3) during the nine months ended September 30, 2017 (in thousands):

	Total
Beginning balance at December 31, 2016	$ 275
Change in fair value of warrant	(87)
Ending balance at September 30, 2017	$ 188

Available-for-sale Securities

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

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

7. Property and Equipment

Property and equipment consisted of the following as of September 30, 2017 and December 31, 2016 (in thousands):

	September 30, 2017	December 31, 2016
Furniture and fixtures	1,089	458
Office equipment	518	326
Machinery and lab equipment	18,787	13,220
Leasehold improvements	6,833	3,625
	27,227	17,630
Less accumulated depreciation	(8,258)	(4,922)
	$ 18,969	$ 12,707

Depreciation expense for the quarters ended September 30, 2017 and 2016 was $1.4 million and $0.5 million, respectively. Depreciation expense for the nine months ended September 30, 2017 and 2016 was $3.3 million and $1.4 million, respectively.

8. Cost Method Investments

As of September 30, 2017, the aggregate carrying amount of the Company's cost-method investments in non-publicly traded companies was $237.0 million and included an ownership interest in NantCell, Inc. ("NantCell"), NantBioScience, Inc. ("NantBioScience"), Globavir Biosciences, Inc., Brink Biologics, Inc., Coneksis, Inc., and Celularity Inc. (See Note 9).

As of December 31, 2016, the aggregate carrying amount of the Company's cost-method investments in non-publicly traded companies was $112.0 million and included an ownership interest in NantCell, NantBioScience, Globavir Biosciences, Inc., Brink Biologics, Inc. and Coneksis, Inc.

The Company's cost-method investments are assessed for impairment quarterly. The Company has determined that it is not practicable to estimate the fair value of its cost-method investments on a regular basis and does not reassess the fair value of cost-method investments if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investments. No impairment losses were recorded during the three or nine months ended September 30, 2017.

9. Equity Method Investments

NANTibody

In April 2015, the Company and NantCell, a wholly-owned subsidiary of NantWorks, Inc. ("NantWorks"), a private company owned by Dr. Patrick Soon-Shiong, established a new entity called Immunotherapy NANTibody, LLC ("NANTibody") as a stand-alone biotechnology company with $100.0 million initial joint funding. NantCell owns 60% of the equity interest of NANTibody and agreed to contribute $60.0 million to NANTibody. The Company owns 40% of NANTibody and in July 2015, the Company had NantPharma, LLC ("NantPharma") contribute its portion of the initial joint funding of $40.0 million to NANTibody from the proceeds of the sale of IgDraSol, Inc. ("IgDraSol"). NANTibody will focus on accelerating the development of multiple immuno-oncology mAbs for the treatment of cancer, including but not limited to anti-PD-1, anti-PD-L1, anti-CTLA4mAbs, and other immune-check point antibodies as well as ADCs and bispecific antibodies.

The Company is accounting for its interest in NANTibody as an equity method investment, due to the significant influence the Company has over the operations of NANTibody through its board representation and 40% voting interest. The Company's investment in NANTibody is reported in equity method investments on its condensed consolidated balance sheets and its share of NANTibody's loss is recorded in loss on equity investments on its condensed consolidated statement of operations. As of September 30, 2017, the carrying value of the Company's investment in NANTibody was approximately $39.8 million.

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

NANTibody recorded net profit of $375 thousand and net profit of $0.1 million for the three months ended June 30, 2017 and March 31, 2017, respectively. NANTibody recorded net loss of $1.0 million for the nine months ended June 30, 2017. The Company recorded its portion of loss from NANTibody in loss on equity investments on its condensed consolidated statement of operations for the three and nine months ended September 30, 2017 and 2016. As of June 30, 2017, NANTibody had $100.0 million in current assets and $387 thousand in current liabilities and no noncurrent assets or noncurrent liabilities.

NantStem

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

In the fourth quarter of 2015, the Company determined it had an other-than-temporary decline in the value of NantStem and recognized a loss of $4.0 million in loss on equity investments on its condensed consolidated statement of operations for the year ended December 31, 2015. There was no loss related to other-than-temporary impairment recognized for the equity investment for the year ended December 31, 2016 and the three and nine months ended September 30, 2017.

The Company is accounting for its interest in NantStem as an equity method investment, due to the significant influence the Company has over the operations of NantStem through its board representation and 20% voting interest. The Company's investment in NantStem is reported in equity method investments on its condensed consolidated balance sheets and its share of NantStem's loss is recorded in loss on equity investments on its condensed consolidated statement of operations. As of September 30, 2017, the carrying value of the Company's investment in NantStem was approximately $18.6 million. The

difference between the Company's investment in NantStem and the Company's 20% interest in the net assets of Nantstem was approximately $2.2 million at September 30, 2017.

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

NantStem recorded net income of $461 thousand and net income of $369 thousand for the three months ended June 30, 2017 and March 31, 2017, respectively. NantStem recorded net income of $375 thousand for the nine months ended June 30, 2017. The Company recorded its portion of loss from NANTibody in loss on equity investments on its condensed consolidated statement of operations for the three and nine months ended September 30, 2017 and 2016. As of June 30, 2017, NantStem had $82.1 million in current assets and $1 thousand in current liabilities and no noncurrent assets or noncurrent liabilities.

Yuhan Agreement

In March 2016, the Company and Yuhan Corporation, a South Korea company ("Yuhan"), entered into an agreement to form a joint venture company called ImmuneOncia Therapeutics, LLC ("ImmuneOncia") to develop and commercialize a number of immune checkpoint antibodies against undisclosed targets for both hematological malignancies and solid tumors. Under the terms of the joint venture agreement, Yuhan contributed an initial investment of $10.0 million to ImmuneOncia, and the Company granted ImmuneOncia an exclusive license to one of its immune checkpoint antibodies for specified countries while retaining the rights for the U.S., European and Japanese markets, as well as global rights for ImmuneOncia to two additional antibodies that will be selected by ImmuneOncia from a group of pre-specified antibodies from the Company's immuno-oncology antibody portfolio. During October 2016, funding and operations of ImmuneOncia commenced. Yuhan owns 51% of ImmuneOncia, while the Company owns 49%.

The Company is accounting for its interest in ImmuneOncia as an equity method investment, due to the significant influence the Company has over the operations of ImmuneOncia through its board representation and 49% voting interest while not sharing joint control with Yuhan. The Company's investment in ImmuneOncia is reported in equity method investments on its condensed consolidated balance sheets and its share of ImmuneOncia's loss is recorded in loss on equity investments on its condensed consolidated statement of operations. As of September 30, 2017, the carrying value of the Company's investment in ImmuneOncia was approximately $8.5 million. The difference between the Company's investment in ImmuneOncia and the Company's 49% interest in the net assets of ImmuneOncia was approximately $0.3 million at September 30, 2017.

ImmuneOncia recorded net loss of $0.5 million and $2.0 million for the three and nine months ended September 30, 2017, respectively. The Company recorded its portion (49% equity interest) of loss from ImmuneOncia in loss on equity investments on its condensed consolidated statement of operations for the three and nine months ended September 30, 2017. As of September 30, 2017, ImmuneOncia had $8.0 million in current assets, $32 thousand in current liabilities, $9.9 million in noncurrent assets, and no noncurrent liabilities.

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

Celularity Transaction

On November 1, 2016, the Company entered into a nonbinding term sheet (the "Term Sheet") with TNK and Celularity, Inc., a research and development company ("Celularity"), setting forth the terms and conditions by which the Company or TNK, along with one or more third parties, would contribute certain assets to Celularity. The Term Sheet outlined that contingent upon the execution of a definitive agreement among the parties, concurrently with asset contributions to Celularity to be made by one or more third parties, TNK would contribute to Celularity certain chimeric antigen receptor ("CAR") constructs for use in placenta-derived cells and cord blood-derived cell, and the Company would receive equity in Celularity.

In connection with the execution of the Term Sheet, on November 1, 2016, the Company loaned $5.0 million to Celularity, Inc. pursuant to a promissory note issued by Celularity to the Company, as amended (as so amended, the "Celularity Note"). Pursuant to the terms of the Celularity Note, the loan would be due and payable in full on the earlier of November 1, 2017 and the occurrence of an event of default under the Celularity Note (the "Maturity Date"). In the event that Celularity met certain minimum financing conditions prior to the Maturity Date, all outstanding amounts under the Celularity Note would be forgiven. On May 31, 2017, the Company loaned an additional $2.0 million to Celularity pursuant to the terms of the Celularity Note. On June 14, 2017, the Company loaned an additional $1.0 million to Celularity, and the Company loaned an additional $2.0 million to Celularity on July 6, 2017.

On June 12, 2017, the Company, TNK and Celularity entered into a Contribution Agreement (the "Contribution Agreement") pursuant to which, among other things, the Company and TNK agreed to license certain intellectual property rights related to their proprietary CAR constructs and related CARs to Celularity. Per the terms of the Contribution Agreement, the transaction was contingent upon, among other things, Celularity meeting minimum financing conditions similar to those required per the Celularity Note. In exchange for the Company's contribution under the Contribution Agreement and the forgiveness of the Celularity Note, the Company was to receive Series A preferred shares of Celularity equal to 25% of Celularity's outstanding shares of capital stock calculated on a fully-diluted basis.

On August 15, 2017, Celularity successfully completed the minimum financing conditions outlined in the Celularity Note and Contribution Agreement through the issuance of Series A preferred shares. As a result, the transactions contemplated by the Contribution Agreement closed and, on such date, among other things, (a) Celularity issued Series A preferred shares to TNK, (b) the Company, TNK and Celularity entered into a License and Transfer Agreement (the "License Agreement"), and (c) the Celularity Note was forgiven by the Company. Pursuant to the License Agreement (i) TNK and the Company agreed to provide to Celularity (1) their CAR constructs and related CARs for use worldwide in combination with placenta-derived cells and/or cord blood-derived cells for the treatment of any disease or disorder except that the anti-CD38 CAR constructs and related CARs may also be used in adult cells for the treatment of multiple myeloma unless TNK exercises its termination rights for the use with adult cells, and (2) their know-how relating to the foregoing, (ii) TNK and the Company granted to Celularity a limited, perpetual, transferable and sub-licensable license and covenant not to sue with respect to certain of their patents and other intellectual property rights, and (iii) Celularity agreed to pay to TNK 50% of the first $200 million and 20% thereafter of any upfront and milestone payments that Celularity receives in connection with any sub-license of a combination of anti-CD38 CAR constructs and either placenta-driven cells and/or cord blood–derived cells or adult cells.

From November 1, 2016 through August 15, 2017, the Company accounted for the Celularity Note as an equity method investment in Celularity in accordance with FASB Topic 323, *Investments-Equity Method and Joint Ventures* ("ASC 323"). As of August 14, 2017, the carrying value of the Company's equity method investment in Celularity was $8.8 million. Because Celularity completed the minimum financing conditions outlined in the Celularity Note and Contribution Agreement, on August 15, 2017, TNK received Series A preferred shares in an amount equivalent to a 25% ownership interest in Celularity on an as-converted basis and the Celularity Note was forgiven. Upon issuance of the Series A Preferred shares for 25% ownership interest in Celularity, in accordance with ASC 323, the Company modified its investment in Celularity as a cost method investment because it was determined the Series A Preferred shares were not in-substance common stock.

The Company determined that the exchange of the Celularity Note and the 25% ownership interest in Celularity is a nonmonetary exchange within the scope of ASC 845, *Nonmonetary Transactions*, and was accounted for at fair value. The carrying value of the Company's investment in Celularity is $125.0 million at August 15, 2017 and September 30, 2017.

The Company has assessed the accounting for the License Agreement under ASC 605-25, *Revenue Recognition - Multiple Element Arrangements*, and determined that the deliverables under the License Agreement should be accounted for as multiple units of accounting. The deliverables identified in the License Agreement consist of (1) delivered CAR constructs and related CARs, and (2) undelivered CAR constructs, if and when the Company discovers them. Per the License Agreement, the Company is neither obligated to provide substantive future support for the delivered technology, nor obligated to pursue the discovery of additional undiscovered CAR constructs. The Company has determined that the undelivered CAR constructs are of nominal value due to, among other things, (1) the uncertainty of discovery of a CAR construct with appropriate characteristics as well as (2) the extreme uncertainty of the commercialization of a compound that has yet to be discovered. Accordingly, the Company recognized revenue during the three months ended September 30, 2017 of approximately $116.2 million associated with the License Agreement.

On September 26, 2017, the Company entered into a joint development agreement with Celularity whereby the Company agreed to provide research services to Celularity through June 30, 2018 in exchange for upfront payment of $5.0 million. The revenue related to the joint development agreement of $5.0 million will be recognized over the length of the service agreement as services are performed.

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

Celularity incurred operating expense of approximately $1.4 million and $4.1 million for the three and nine months ended June 30, 2017, respectively, in its interim financial results. The Company recorded its portion of loss from Celularity in loss on equity investments on its condensed consolidated statement of operations until its conversion to cost method investment on August 15, 2017.

Shanghai Three

On March 7, 2016, TNK agreed to issue to SiniWest Holdings, Inc. ("SiniWest Holdings") $4.0 million in shares of TNK Class A Stock, subject to certain circumstances, to be issued upon a financing resulting in gross proceeds (individually or in the aggregate) to TNK of at least $10.0 million and a $1.0 million upfront cash payment in exchange for SiniWest Holdings transferring certain assets to TNK, including SiniWest Holdings' 25% interest in Shanghai Three-Alliance Biotech Co. LTD, a China based company ("Shanghai Three"). The Company is accounting for its interest in Shanghai Three as an equity method investment, due to the significant influence the Company has over the operations of Shanghai Three through its 25% voting interest. The Company's investment in Shanghai Three is reported in equity method investments on the condensed consolidated balance sheets and its share of Shanghai Three's income or loss is recorded in income (loss) on equity investments on the condensed consolidated statement of operations. As of September 30, 2017, the carrying value of the Company's investment in Shanghai Three was approximately $3.8 million.

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

Shanghai Three incurred no operating expenses for the three and nine months ended June 30, 2017. As of June 30, 2017, Shanghai Three had $0.4 million in current assets, $2.9 million in current liabilities, $5.3 million in noncurrent assets, and $5.0 million in noncurrent liabilities.

3SBio Term Sheet

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

Under the terms of the agreement 3SBio will contribute an initial investment of $10.0 million to the joint venture and TNK will grant the joint venture an exclusive license to the CEA CAR-T technology and two additional CARs for cellular therapy for the Greater China market, including Mainland China, Hong Kong and Macau. 3SBio will own 51% of the joint venture while TNK will own 49%. As of September 30, 2017, funding and operations of the joint venture had not yet begun, as a result no investment has been recorded as of September 30, 2017.

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

10. Goodwill and Intangible Assets

At September 30, 2017, the Company had recorded goodwill of $38.3 million, which reflects the adjustment described in Note 4. At December 31, 2016, the Company had recorded goodwill of $41.5 million. The Company performed a qualitative test for goodwill impairment as of December 31, 2016. Based upon the results of the qualitative testing the Company concluded that it is more-likely-than-not that the fair values of the Company's goodwill was in excess of its carrying value and therefore performing the first step of the two-step impairment test was unnecessary. No goodwill impairment was recognized for the three and nine months ended September 30, 2017 and 2016. A summary of the Company's goodwill as of September 30, 2017, including the impact of acquisitions described in Note 4 is as follows (in thousands):

	Total
Balance at December 31, 2016	$ 41,548
Scilex Acquisition Adjustment	(4,645)
Goodwill Acquired from Virttu Acquisition	1,384
Foreign Currency Translation Adjustments	$ 11
Balance at September 30, 2017	$ 38,298

The Company's intangible assets, excluding goodwill, include acquired license and patent rights, core technologies, customer relationships and acquired in-process research and development. Amortization for the intangible assets that have finite useful lives is generally recorded on a straight-line basis over their useful lives. A summary of the Company's identifiable intangible assets as of September 30, 2017, including the adjustment described in Note 4, and December 31, 2016 is as follows (in thousands):

	September 30, 2017		
	Gross Carrying Amount	Accumulated Amortization	Intangibles, net
Customer relationships	$ 1,585	$ 1,018	$ 567
Acquired technology	3,410	665	2,745
Acquired in-process research and development	37,660	—	37,660
Patent rights	32,720	2,017	30,703
Total intangible assets	$ 75,375	$ 3,700	$ 71,675

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

As of September 30, 2017, the remaining weighted average life for identifiable intangible assets is 14 years.

Patent rights are stated at cost and amortized on a straight-line basis over the estimated useful lives of the assets, determined to be approximately fifteen years or nineteen years from the date of transfer of the rights to the Company. Amortization expense for the three months ended September 30, 2017 and 2016 was $538 thousand and $1 thousand, respectively, which has been included in intangible amortization on the condensed consolidated statement of operations. Amortization expense for the nine months ended September 30, 2017 and 2016 was $1,597 thousand and $4 thousand, respectively, which has been included in intangible amortization on the condensed consolidated statement of operations.

Acquired technology is stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, determined to be approximately 19 years from the date of acquisition of the technology in December 2013. Amortization expense for the three months ended September 30, 2017 and 2016 was $44 thousand and $44 thousand, respectively, which has been included in intangibles amortization. Amortization expense for each of the nine months ended September 30, 2017 and

2016 was $132 thousand, which has been included in intangible amortization on the condensed consolidated statement of operations.

Customer relationships are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, determined to be approximately five years from the date of acquisition. Amortization expense for the three months ended September 30, 2017 and 2016, was $73 thousand and $66 thousand, respectively, which has been included in intangibles amortization. Amortization expense for the nine months ended September 30, 2017 and 2016 was $218 thousand and $198 thousand, respectively, which has been included in intangible amortization on the condensed consolidated statement of operations.

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

Estimated future amortization expense related to intangible assets at September 30, 2017 is as follows (in thousands):

Years Ending December 31,	Amount
2017	$ 713
2018	3,748
2019	3,858
2020	3,858
2021	5,053
Thereafter	54,445
Total	$ 71,675

11. Significant Agreements and Contracts

License Agreement with Les Laboratoires Servier

On July 11, 2016, the Company announced a license and collaboration agreement (the "Servier License Agreement") with Les Laboratoires Servier, SAS, a corporation incorporated under the laws of France, and Institut de Recherches Internationales Servier, a company duly organized and existing under the laws of France (individually and collectively, “Servier”) for the development, manufacture and commercialization of products using the Company’s fully human immuno-oncology anti-PD-1mAb STI-A1110 and will provide support for Servier’s initial development efforts. Pursuant to the financial terms of the Servier License Agreement, the Company received a non-refundable up-front payment of $27.4 million in July 2016, which has been recorded as deferred revenue in the Company’s condensed consolidated balance sheet and may also receive various payments based on commercial sales milestones related to annual sales levels. The Company will recognize the upfront payment over the expected period of performance of three years. During the quarter ended September 30, 2017, the Company recognized $2.3 million in license fee revenue pursuant to the Servier License Agreement. During the nine months ended September 30, 2017, the Company recognized $6.9 million in license fee revenue pursuant to the Servier License Agreement.

Effective November 6, 2017, the Servier License Agreement was terminated based on mutually agreed upon terms pursuant to the Servier License Agreement. As a result, the remaining unrecognized revenue of approximately $16.7 million associated with license fees under the Servier License Agreement will be recognized and reflected in the Company’s fourth quarter 2017 results.

License Agreement with Mabtech Limited

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

In June 2016, the Company agreed to accelerate and pay a $30.0 million milestone license payment which has been recognized as acquired in-process research and development expense in the condensed consolidated statements of operations,

in exchange for the purchase by Mabtech Limited in June 2016, of $10.0 million of shares of common stock and warrants. The amended agreement includes additional milestone payments totaling $150.0 million payable following the completion of the technology transfer from Mabtech Limited.

Immunotherapy Research Collaboration Agreement with Roger Williams Medical Center

In April 2016, the Company entered into an immunotherapy research collaboration agreement with Roger Williams Medical Center to provide certain clinical trial, research and manufacturing services. Under the terms of the agreement, Roger Williams Medical Center will perform pre-clinical and clinical research related to the development and delivery of CAR-T immunotherapies. In exchange, the Company granted Roger Williams Medical Center $6.0 million in shares of TNK Class A Stock, subject to adjustment in certain circumstances, to be issued upon a financing resulting in gross proceeds (individually or in the aggregate) to TNK of at least $20.0 million. The Company determined the fair value of this obligation was $3.4 million as of the April of 2016 agreement effective date, and the amount was recognized as prepaid expense and other and acquisition consideration payable in the condensed consolidated balance sheet. The Company will recognize the upfront payment over the expected performance period of five years. During each of the quarters ended September 30, 2017 and 2016, the Company recognized approximately $170 thousand in pre-clinical research and development expense pursuant to the agreement. During the nine months ended September 30, 2017 and 2016, the Company recognized approximately $510 thousand and $283 thousand in pre-clinical research and development expense pursuant to the agreement, respectively.

License Agreement with NantCell

In April 2015, the Company and NantCell entered into a license agreement. Under the terms of the agreement the Company granted an exclusive license to NantCell covering patent rights, know-how, and materials related to certain antibodies, ADCs and two CAR-TNK products. NantCell agreed to pay a royalty not to exceed five percent (5%) to the Company on any net sales of products (as defined) from the assets licensed by the Company to NantCell. In addition to the future royalties payable under this agreement, NantCell paid an upfront payment of $10.0 million to the Company and issued 10 million shares of NantCell common stock to the Company valued at $100.0 million based on a recent equity sale of NantCell common stock to a third party. As of September 30, 2017, the Company had not yet provided all of the items noted in the agreement and therefore has recorded the entire upfront payment and value of the equity interest received as deferred revenue. The Company will recognize the upfront payment and the value of the equity interest received over the expected license period of approximately ten years on a straight-line basis. The Company's ownership interest in NantCell does not provide the Company with control or the ability to exercise significant influence; therefore the $100.0 million investment is carried at cost in the condensed consolidated balance sheets and evaluated for other-than-temporary impairment on a quarterly basis.

License Agreement with The Scripps Research Institute

In January 2010, the Company entered into a license agreement (the "TSRI License") with The Scripps Research Institute ("TSRI"). Under the TSRI License, TSRI granted the Company an exclusive, worldwide license to certain TSRI patent rights and materials based on quorum sensing for the prevention and treatment of Staphylococcus aureus ("Staph") infections, including Methicillin-resistant Staph. In consideration for the license, the Company: (i) issued TSRI a warrant for the purchase of common stock, (ii) agreed to pay TSRI a certain annual royalty commencing in the first year after certain patent filing milestones are achieved and (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 quarters ended September 30, 2017 and 2016, the Company recorded $72 thousand and $18 thousand in patent prosecution and maintenance costs associated with the TSRI License, respectively. For the nine months ended September 30, 2017 and 2016, the Company recorded $112 thousand and $40 thousand in patent prosecution and maintenance costs associated with the TSRI License, respectively. All such costs have been included in general and administrative expenses.

NIH Grants

In June 2014, the NIAID awarded the Company a Phase II Small Business Technology Transfer ("STTR") grant (the "Staph Grant III Award") to support the advanced preclinical development of human bispecific antibody therapeutics to prevent and treat *Staphylococcus aureus* ("*S. aureus*" or "Staph") infections, including methicillin-resistant *S. aureus* ("MRSA"). The project period for the Staph Grant III Award covered a two-year period which commenced in June 2014, which was

subsequently extended by one year, with total funds available of approximately $1.0 million per year for up to two years. The Staph Grant III Award was not extended beyond June 30, 2017 and the remaining amounts for the award have been recorded as of September 30, 2017. During each of the quarters ended September 30, 2017 and 2016, the Company recorded $11 thousand and $135 thousand of revenue associated with the Staph Grant III Award, respectively. During the nine months ended September 30, 2017 and 2016, the Company recorded $206 thousand and $592 thousand of revenue associated with the Staph Grant III Award, respectively.

Binding Term Sheet Regarding Acquisition of Semnur Pharmaceuticals, Inc.

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

In addition to the Initial Consideration, Scintilla may pay additional consideration of up to $140.0 million to Semnur's equityholders upon Scintilla's completion of certain clinical studies and trials, receipt of certain regulatory approvals and the achievement of certain sales targets following the Semnur Closing. The Company paid $6.9 million associated with the development activities since the inception of the Semnur Binding Term Sheet through September 30, 2017.

Under the Semnur Binding Term Sheet, either party may terminate the Semnur Binding Term Sheet.

On October 6, 2017, the Semnur Binding Term Sheet was terminated without additional consideration, effective immediately.

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

12. Loan and Security Agreement

In September 2013, the Company entered into a $5.0 million loan and security agreement with two banks pursuant to which: (i) the lenders provided the Company a term loan which was funded at closing, (ii) the Company repaid its then outstanding equipment loan balance of $762,000, and (iii) the lenders received a warrant to purchase an aggregate 31,250 shares of the Company's common stock at an exercise price of $8.00 per share exercisable for seven years from the date of issuance. The value of the warrants, totaling $215 thousand, was recorded as debt discount and additional paid-in capital.

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

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

On November 23, 2016, the Company and certain of its domestic subsidiaries (together with the Company, the "Borrowers") entered into a Loan and Security Agreement (the "Loan Agreement") with Hercules Capital, Inc. ("Hercules"), as a lender and agent for several banks and other financial institutions or entities from time to time party to the Loan Agreement (collectively, the "Lenders") for a term loan of up to $75.0 million, subject to funding in multiple tranches (the "Term Loan"). The Term Loan will mature on December 1, 2020. The proceeds of the Term Loan will be used for general corporate purposes and coincided with the repayment of the outstanding debt financing arrangement with Oxford Finance LLC and Silicon Valley Bank.

The first tranche of $50.0 million was funded upon execution of the Loan Agreement on November 23, 2016. Under the terms of the Loan Agreement, the Borrowers may, but are not obligated to, request additional funds of up to $25.0 million which are available until June 30, 2018, subject to approval by Hercules' Investment Committee. Pursuant to the terms of the third amendment to the Loan Agreement entered into on March 15, 2017, the Company paid Hercules $1.5 million for a portion of the backend fee. Pursuant to the terms of the fourth amendment to the Loan Agreement entered into on March 23, 2017 (the "Fourth Amendment"), the Company repaid Hercules, without repayment penalty, $20.0 million of the outstanding principal and unpaid interest accrued thereon on March 23, 2017. The Fourth Amendment also provided for the following: (1) Hercules reduced the minimum amount of unrestricted cash that the Company must maintain under the Loan Agreement, and (2) the parties agreed to change the date by which the Company must achieve a fundraising milestone.

Pursuant to the terms of the seventh amendment to the Loan Agreement entered into on November 6, 2017 (the "Seventh Amendment"), (i) the Company repaid Hercules, without repayment penalty, $10.0 million of the outstanding principal and unpaid interest accrued thereon on November 6, 2017, and (ii) Hercules agreed to reduce the minimum amount of unrestricted cash that the Company must maintain under the Loan Agreement from $20.0 million to $8.0 million.

The Loan Agreement contains customary affirmative and restrictive covenants and representations and warranties, including financial reporting obligations and significant limitations on dividends, indebtedness, liens (including a negative pledge on intellectual property and other assets), collateral, investments, distributions, transfers, mergers or acquisitions, taxes, corporate changes, deposit accounts, and subsidiaries. Additionally, the Loan Agreement contains covenants requiring the Borrowers (i) to achieve certain fundraising requirements by certain dates and (ii) to maintain $20.0 million of unrestricted cash prior to achieving its corporate and fundraising milestones. The Company's public offering for net proceeds of $43.5 million satisfied the fundraising requirements and fundraising milestone. Effective November 6, 2017, the Seventh Amendment to the Loan Agreement reduced the minimum amount of U.S. unrestricted cash that the Company must maintain under the Loan Agreement to $8.0 million. The breach of certain covenants under the Loan Agreement would result in the occurrence of an event of default. The Loan Agreement also contains other customary provisions, such as expense reimbursement, non-disclosure obligations, as well as indemnification rights for the benefit of the Lenders. Upon the occurrence of an event of default and following any applicable cure periods, if any, a default interest rate of an additional 5.00% may be applied to the

outstanding loan balances, and the Lenders may declare all outstanding obligations immediately due and payable and take such other actions as set forth in the Loan Agreement.

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

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

Face value of loan	$	50,000
Repayment principal and backend fee		(21,500)
Fair value of warrant		(1,377)
Capitalized debt issuance costs		(1,681)
Accretion of debt issuance costs and other		1,182
Accretion of debt discount		358
Balance at September 30, 2017		26,982

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

Year Ending December 31,		
2017		758
2018		8,322
2019		13,612
2020		14,935
Total future minimum payments		37,627
Unamortized interest		(7,587)
Debt discount		(1,377)
Capitalized debt issuance costs		(1,681)
Total minimum payment		26,982
Current portion		(2,407)
Long-term debt	$	24,575

13. Stock Incentive Plans

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 non-statutory stock options to the Company's non-employee directors. The options vested on the one year anniversary of the vesting commencement date in October 2010, and are exercisable for up to ten years from the grant date. No further shares may be granted under this plan and, as of September 30, 2017, 3,200 options with a weighted-average exercise price of $1.12 were outstanding.

2009 Stock Incentive Plan

In October 2009, the Company's stockholders approved the 2009 Stock Incentive Plan. In July 2017, the Company's stockholders approved, among other items, the amendment and restatement of the 2009 Stock Incentive Plan (as amended and restated, the "Stock Plan") to increase the number of shares of the Company's common stock authorized to be issued pursuant to the Stock Plan to 11,260,000. Such shares of the Company's common stock are reserved for issuance to employees, non-employee directors and consultants of the Company. The 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 generally vest 25% on

the first anniversary of the original vesting commencement date, with the balance vesting monthly over the remaining three years. The vesting schedules for grants to non-employee directors and consultants will be determined by the Company's Compensation Committee. Stock options are generally not exercisable prior to the applicable vesting date, unless otherwise accelerated under the terms of the applicable stock plan agreement.

The following table summarizes stock option activity as of September 30, 2017 and the changes for the period then ended (dollar values in thousands):

	Options Outstanding	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2016	4,332,876	$ 7.86	$ 427
Options Granted	3,110,100	$ 1.82	
Options Canceled	(510,676)	$ 8.26	
Options Exercised	—	$ —	
Outstanding at September 30, 2017	6,932,300	$ 5.14	$ 617

The aggregate intrinsic value of options exercised during each of the three months ended September 30, 2017 and 2016 was $0 and $0 for each of the nine months ended September 30, 2017 and 2016, respectively. The Company uses the Black-Scholes valuation model to calculate the fair value of stock options. The fair value of employee stock options was estimated at the grant date using the following assumptions:

	Nine Months Ended September 30,	
	2017	2016
Weighted-average grant date fair value	$ 1.82	$ 6.35
Dividend yield	—%	—%
Volatility	81%	75%
Risk-free interest rate	2.16%	1.39%
Expected life of options	6.1 years	6.1 years

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

The total employee and director stock-based compensation recorded as operating expenses was $1.1 million and $0.9 million for the three months ended September 30, 2017 and 2016, respectively, and $3.6 million and $3.0 million for the nine months ended September 30, 2017 and 2016, respectively.

The total unrecognized compensation cost related to unvested employee and director stock option grants as of September 30, 2017 was $8.8 million and the weighted average period over which these grants are expected to vest is 3.0 years.

The Company records equity instruments issued to non-employees as expense at their fair value over the related service period as determined in accordance with the authoritative guidance and periodically revalues the equity instruments as they vest. Stock-based compensation expense related to non-employee consultants recorded as operating expenses was $52 thousand and $67 thousand for the three months ended September 30, 2017 and 2016, respectively, and $178 thousand and $163 thousand for the nine months ended September 30, 2017 and 2016, respectively.

Common Stock Reserved for Future Issuance

Common stock reserved for future issuance consists of the following at September 30, 2017:

Common stock warrants outstanding under the underwriters agreement	182,600
Common stock warrants outstanding under the loan and security agreement	65,892
Common stock warrants outstanding under the Cambridge securities agreement	1,224,138
Common stock warrants outstanding under the Hercules securities agreement	306,748
Common stock warrants outstanding under private placements	4,153,620
Common stock options outstanding under the Non-Employee Director Plan	3,200
Authorized for future grant or issuance under the 2009 Stock Incentive Plan	3,756,796
Issuable under BDL acquisition agreement	309,916
Issuable under Scilex acquisition agreement	1,381,346
Issuable under Virttu acquisition agreement	3,603,604
Issuable under assignment agreement based upon achievement of certain milestones	80,000
	15,067,860

2017 Stock Option Plans

In June 2017, the Company's subsidiary, Scilex, adopted the Scilex 2017 Stock Option Plan, reserved 4.0 million shares of Scilex common stock and awarded 1.0 million options to certain Company personnel, directors and consultants under such plan. Stock options granted under this plan typically vest 1/4th of the shares on the first anniversary of the vesting commencement date and 1/48th of the remaining options vest each month thereafter. As of September 30, 2017, 0.8 million options were outstanding.

2015 Stock Option Plans

In May 2015, the Company's subsidiary, TNK, adopted the TNK 2015 Stock Option Plan, reserved 10.0 million shares of TNK class A common stock and awarded 3.6 million options to certain Company personnel, directors and consultants under such plan. In November 2015, TNK awarded 0.5 million options to certain Company personnel. Stock options granted under this plan typically vest a portion immediately upon grant and the remaining options over two to four years or monthly over four years from the grant date and have a contractual term of ten years. Effective August 29, 2017, options to purchase an aggregate of 1.0 million shares were canceled. As of September 30, 2017, 1.7 million options were outstanding.

In May 2015, TNK granted a warrant to the Company's CEO to purchase 9.5 million shares of TNK class B common stock, which have 10 to 1 voting rights. Warrant shares totaling 4.0 million were exercisable evenly over forty months and the remaining warrant shares were exercisable if certain defined events occur within four years from date of issuance at an initial exercise price of $0.01 per share. This warrant was canceled in its entirety effective August 29, 2017.

In May 2015, the Company's subsidiary, LA Cell, Inc. ("LA Cell"), adopted the LA Cell 2015 Stock Option Plan reserved 10.0 million shares of LA Cell class A common stock and awarded 2.9 million options to certain Company personnel, directors and consultants under such plan. Stock options granted under this plan typically vest a portion immediately upon grant and the remaining options over two to four years or monthly over four years from the grant date and have a contractual term of ten years. Effective August 29, 2017, options to purchase an aggregate of 1.0 million shares were cancelled. As of September 30, 2017, 0.8 million options were outstanding.

In May 2015, LA Cell granted a warrant to the Company's CEO to purchase 9.5 million shares of LA Cell class B common stock, which have 10 to 1 voting rights. Warrant shares totaling 4.0 million were exercisable evenly over forty months and the remaining warrant shares were exercisable if certain defined events occur within four years from date of issuance at an initial exercise price of $0.01 per share. This warrant was canceled in its entirety effective August 29, 2017.

In October 2015, the Company's subsidiary, Concortis Biosystems, Corp. ("CBC"), adopted the CBC 2015 Stock Option Plan and reserved 10.0 million shares of CBC class A common stock and awarded 1.8 million options to certain Company personnel, directors and consultants under such plan. Stock options granted under this plan typically vest a portion immediately upon grant and the remaining options over two to four years or monthly over four years from the grant date and have a contractual term of ten years. Effective August 29, 2017, options to purchase an aggregate of 1.6 million shares were cancelled. As of September 30, 2017, 0.1 million options were outstanding.

In October 2015, CBC granted a warrant to the Company's CEO to purchase 9.5 million shares of CBC class B common stock, which have 10 to 1 voting rights. Warrant shares totaling 4.0 million were exercisable evenly over forty months and the remaining warrant shares were exercisable if certain defined events occur within four years from date of issuance at an initial exercise price of $0.25 per share. This warrant was canceled in its entirety effective August 29, 2017.

In October 2015, the Company's subsidiary, Scintilla, adopted the Scintilla 2015 Stock Option Plan, reserved 10.0 million shares of Scintilla class A common stock and awarded 2.1 million options to certain Company personnel, directors and consultants under such plan. Stock options granted under this plan typically vest a portion immediately upon grant and the remaining options over two to four years or monthly over four years from the grant date and have a contractual term of ten years. Effective August 29, 2017, options to purchase an aggregate of 0.8 million shares were canceled. As of September 30, 2017, 0.1 million options were outstanding.

In October 2015, Scintilla granted a warrant to the Company's CEO to purchase 9.5 million shares of Scintilla class B common stock, which have 10 to 1 voting rights. Warrant shares totaling 4.0 million were exercisable evenly over forty months and the remaining warrant shares were exercisable if certain defined events occur within four years from date of issuance at an initial exercise price of $0.01 per share. This warrant was canceled in its entirety effective August 29, 2017.

In October 2015, the Company's subsidiary, Sorrento Biologics, Inc. ("Biologics"), adopted the Biologics 2015 Stock Option Plan, reserved 10.0 million shares of Biologics class A common stock and awarded 2.6 million options to certain Company personnel, directors and consultants under such plan. Stock options granted under this plan typically vest a portion immediately upon grant and the remaining options over two to four years or monthly over four years from the grant date and have a contractual term of ten years. Effective August 29 2017, options to purchase an aggregate of 1.0 million shares were cancelled. As of September 30, 2017, 0.2 million options were outstanding.

In October 2015, Biologics granted a warrant to the Company's CEO to purchase 9.5 million shares of Biologics class B common stock which have 10 to 1 voting rights. Warrant shares totaling 4.0 million were exercisable evenly over forty months and the remaining warrant shares were exercisable if certain defined events occur within four years from date of issuance at an initial exercise price of $0.01 per share. This warrant was canceled in its entirety effective August 29, 2017.

On August 29, 2017, the options and warrants were canceled in accordance with the terms of the Settlement Agreement and, as a result, unrecognized compensation expense of $281 thousand associated with these previously issued shares was accelerated and recognized upon cancellation.

The total director stock-based compensation recorded as operating expenses by the Company for TNK, LA Cell, CBC, Scintilla and Biologics for the three months ended September 30, 2017 and 2016 was $285 thousand and $42 thousand, respectively, and was $380 thousand and $125 thousand for the nine months ended September 30, 2017 and 2016, respectively. No unrecognized stock-based compensation expense related to unvested director stock option and warrant grants remained for these entities as of September 30, 2017. The Company records equity instruments issued to non-employees as expense at their fair value over the related service period as determined in accordance with the authoritative guidance and periodically revalues the equity instruments as they vest. Stock based compensation expense related to non-employee consultants recorded as operating expenses by the Company for TNK, LA Cell, CBC, Scintilla and Biologics was $46 thousand and $47 thousand for the three months ended September 30, 2017 and 2016, respectively, and was $137 thousand and $139 thousand for each of the nine months ended September 30, 2017 and 2016, respectively.

The weighted-average assumptions used in the Black-Scholes option and warrant pricing model used by TNK, LA Cell, CBC, Scintilla and Biologics to determine the fair value of stock option grants for directors and non-employee consultants for the nine months ended September 30, 2017 were as follows: expected dividend yield – 0%, risk-free interest rate –2.42% to 2.48%, expected volatility – 65% to 77%, and expected term of 4.0 to 6.1 years.

2014 Stock Option Plan

In May 2014, the Company's subsidiary, Ark Animal Health, Inc. ("Ark"), adopted the Ark 2014 Stock Option Plan and reserved and awarded 600,000 options to certain directors and consultants under such plan. Stock options granted under such plan typically vest a portion immediately upon grant and the remaining options over one year from the grant date and have a contractual term of ten years. Effective August 29, 2017, options to purchase an aggregate of 135,000 shares were canceled.As of September 30, 2017, 88,000 options were outstanding.

The total director and consultant stock-based compensation recorded as operating expenses by the Company for Ark for each of the three months ended September 30, 2017 and 2016 was $0 for each of the nine months ended September 30, 2017 and 2016. No unrecognized stock-based compensation expense remains related to stock option grants as of September 30, 2017.

14. Derivative Liability

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

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

As of September 30, 2017 and December 31, 2016, no derivative liability was recorded on the Company's condensed consolidated balance sheets.

15. Commitments and Contingencies

Litigation

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

Derivative Action Litigation

On April 25, 2016, Wildcat Liquid Alpha, LLC ("WLA") filed a complaint in the Court of Chancery of the State of Delaware seeking an order compelling the Company to provide WLA with certain documents, books and records for inspection and copying pursuant to an April 11, 2016 demand made by WLA (the "Inspection Demand Action").

On May 13, 2016, WLA filed a derivative action in the Court of Chancery of the State of Delaware (the "WLA Action" and, together with the Inspection Demand Action, the "Actions") against each of the members of the Company's board of directors at the time, Henry Ji, William S. Marth, Kim D. Janda, Jaisim Shah, David H. Deming, and Douglas Ebersole (the "Prior Board") and against the Company as nominal defendant. After the members of the Prior Board and the Company moved to dismiss, on August 12, 2016, WLA filed an amended complaint containing both direct and derivative claims against each of the members of the Prior Board and against the Company as nominal defendant, alleging, among other things: (1) breach of fiduciary duty with respect to the formation of, and certain options and warrants issued by, certain of the Company's subsidiaries to Dr. Ji and members of the Prior Board (the "Subsidiary Options Claim"); (2) breach of fiduciary duty with respect to the Company's prior announcement that it had entered into a voting agreement with Yuhan Corporation ("Yuhan") in connection with a transaction through which it purchased $10 million of shares of the Company's common stock and warrants (the "Yuhan Agreement Claim"); (3) waste of corporate assets regarding the foregoing; (4) unjust enrichment regarding the foregoing; and (5) violation of 8 Del. C. § 160 based on the Yuhan voting agreement.

On March 17, 2017, the Company, the members of the Prior Board and WLA entered into a confidential settlement agreement and release (the "Settlement Agreement") pursuant to which, among other things, each party agreed to forever release and not to sue the other party with respect to the claims asserted in the Actions and WLA agreed to take all actions to seek to dismiss the Actions without prejudice within ten business days following the execution of the Settlement Agreement. As part of the Settlement Agreement, the Company also agreed (1) to terminate all options and warrants currently outstanding in Company subsidiaries that have been granted to Dr. Ji and any other directors of the Company no later than 60 days after the Company's next annual meeting of stockholders, (2) to grant WLA the right to designate a representative to attend all meetings of the Company's board of directors in a nonvoting observer capacity, (3) to act in good faith to attempt to add two additional independent directors to the Company's board of directors, and (4) to pay $400,000 as reimbursement for WLA's out of pocket fees and expenses. In addition, WLA agreed to comply with a two-year standstill period, during which WLA is prohibited from engaging in certain actions relating to controlling or influencing the management of the Company. On August 29, 2017, the options and warrants were canceled in accordance with the terms of the Settlement Agreement and, as a result, unrecognized compensation expense associated with these previously issued time-vesting stock options and warrants was accelerated and recognized upon cancellation. Additionally, on September 26, 2017, the Company appointed two new independent directors to serve as members of the Board of Directors.

On May 31, 2017, the Court of Chancery of the State of Delaware entered an order providing for dismissal of the Actions without prejudice pursuant to the terms of the Settlement Agreement, to be effective upon the Company submitting to the Court of Chancery of the State of Delaware a notice of the filing of a Current Report on Form 8-K with the Securities and Exchange Commission, which was filed on June 1, 2017.

On September 8, 2016, Yvonne Williams filed an action both derivatively and on behalf of a purported class of stockholders in the Court of Chancery of the State of Delaware against each of the members of the Prior Board; George Ng, the Company's Executive Vice President, Chief Administrative Officer, and Chief Legal Officer; Jeffrey Su, the Company's Executive Vice President & Chief Operating Officer; and the Company as nominal defendant, alleging: (1) breach of fiduciary duty with respect to the Subsidiary Options Claim; and (2) breach of fiduciary duty with respect to the Yuhan Agreement Claim (the "Williams Action"). The Company is unable to determine whether any loss will occur with respect to the Williams Action or to estimate the range of such potential loss; therefore, no amount of loss has been accrued by the Company as of the date of filing of this Quarterly Report on Form 10-Q. Furthermore, there is no guarantee that the Company will prevail in this suit or receive any relief if it does prevail.

Immunomedics Litigation

On June 26, 2015, Immunomedics, Inc. ("Immunomedics") filed a complaint in the United States District Court for the District of New Jersey (the "Immunomedics Action") against the Board of Directors of Roger Williams Medical Center, Dr. Richard P. Junghans, Dr. Steven C. Katz, the Office of the Board of Advisors of Tufts University School of Medicine, and one or more individuals or entities to be identified later. This complaint (the "Initial Complaint") alleged, among other things: (1) breach of contract; (2) breach of covenant of good faith and fair dealing; (3) tortious interference with prospective economic gain; (4) tortious interference with contracts; (5) misappropriation; (6) conversion; (7) bailment; (8) negligence; (9) vicarious liability; and (10) patent infringement. Overall, the allegations in the Initial Complaint were generally directed to an alleged material transfer agreement dated December 2008 and Immunomedics' alleged request for the return of certain alleged research material, as well as the alleged improper use and conversion of such research materials outside the scope of the material transfer agreement.

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

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

Operating Leases

The Company currently leases in San Diego, California approximately 43,000 square feet of corporate office and laboratory space, approximately 6,350 square feet of laboratory and office space at a second location and approximately 1,405 square feet of office space at a third location. The Company also previously leased approximately 1,800 square feet of office space in Cary, North Carolina, under a lease which expired in March 2016 and was not renewed. The Company's lease

agreements in San Diego, as amended, for its corporate office and laboratory space, its second laboratory and office space and its third office space, expire in December 2026, November 2025 and September 2020, respectively. The Company also leases 25,381 square feet of office and laboratory space in Suzhou, China, which lease expires in June 2018. The Company leases 1,920 square feet of office, laboratory, and storage space in Scotland, which lease expires in March 2021.

Additionally, the Company entered into a new lease in San Diego, California for approximately 76,700 square feet of additional corporate office and laboratory space as well as approximately 36,400 square feet for offices, facilities for cGMP fill and finish and storage space. The lease began in February of 2017 and expires in November 2023.

In July 2017, the Company entered into a new sublease in New York, New York for approximately 4,550 square feet of additional corporate office space. The sublease began in July of 2017 and expires in December 2020.

16. 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 temporary differences. In assessing the Company's ability to realize deferred tax assets, management considers, on a periodic basis, whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. As such, management has determined that it is appropriate to maintain a valuation allowance against the Company's U.S. federal and state deferred tax assets, with the exception of an amount equal to its deferred tax liabilities, which can be expected to reverse over a definite life and an amount equal to its alternative minimum tax credits and state research and development tax credits for which there is no expiration and the deferred tax assets related to its Scilex subsidiary.

The Company’s income tax expense of $54.4 million and income tax benefit of $195 thousand reflect effective tax rates of 102.01% and 1.13% for the nine months ended September 30, 2017 and 2016, respectively.

The difference between the expected statutory federal tax expense of 35% and the 102.01% effective tax expense for the nine months ended September 30, 2017, was primarily attributable to the valuation allowance against most of the Company’s deferred tax assets and the deferred tax expense related to the Company’s Celularity investment. For the nine months ended September 30, 2017, when compared to the same period in 2016, the increase in the tax expense and change in effective income tax rate was primarily attributable to the deferred tax expense recorded related to the Company’s Celularity investment.

A reconciliation of the income tax provision from operations computed by applying the statutory federal income tax rate of 35% to income (loss) from operations before income taxes to the income tax provision for the nine months ended September 30, 2017 was as follows (in thousands):

		September 30, 2017
Income tax provision at federal statutory rate	$	18,661
State tax, net of federal tax benefit	$	(176)
Non-deductible expense and other	$	269
Impact of indefinite-lived deferred tax liabilities	$	38,962
Income tax credits	$	(828)
Decrease in valuation allowance	$	(2,502)
Income tax provision	$	54,386

Internal Revenue Code Section 382 rules apply to limit a corporation’s ability to utilize existing net operating loss carry forwards once the corporation experiences an ownership change as defined in the rules of Section 382. The Company’s ability to use its federal and state net operating losses may be limited due to Section 382 ownership change limitations that may have occurred or that could occur in the future. The Company has not yet completed a study to assess whether an ownership change has occurred or whether there have been changes since the Company became a “loss corporation” under the definition of Section 382. Due to the existence of the valuation allowance, it is not expected that any possible limitation will have an impact on the results of operations or financial position of the Company.

The Company is subject to taxation in the U.S. and various state jurisdictions. The Company's tax years for 2007 and later are subject to examination by the U.S. and state tax authorities due to the existence of the NOL carryforwards.

As of September 30, 2017, the Company had approximately $2.7 million of unrecognized tax benefits that, if recognized, would impact the effective income tax rate for continuing operations, subject to possible offset by an increase in the deferred tax asset valuation allowance. As of September 30, 2016, the Company had approximately $1.8 million of unrecognized tax benefits that, if recognized, would impact the effective income tax rate for continuing operations, subject to possible offset by an increase in the deferred tax asset valuation allowance.

The Company recognizes interest and penalties related to unrecognized tax benefits in its provision for income taxes. For the nine months ended September 30, 2017 and 2016, no expense was recorded related to interest and penalties. The Company believes that no significant amount of the liabilities for uncertain tax positions will expire within twelve months of September 30, 2017.

17. Related Party Agreements

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

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

In March 2016, the Company and Yuhan entered into an agreement to form a joint venture company called ImmuneOncia Therapeutics, LLC, to develop and commercialize a number of immune checkpoint antibodies against undisclosed targets for both hematological malignancies and solid tumors. As of September 30, 2017, the carrying value of the Company's investment in ImmuneOncia Therapeutics, LLC was approximately $8.5 million. During the three months ended June 30, 2016, Yuhan purchased $10.0 million of Common Stock and warrants.

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

On August 15, 2017, the transactions contemplated by the Contribution Agreement closed. Dr. Henry Ji, the Company's Chairman of the Board, President and Chief Executive Officer, Jaisim Shah, a member of the Company's Board of Directors and David Deming, a member of the Company's Board of Directors, were previously appointed as members of the board of directors of Celularity.

On November 8, 2016, the Company entered into the Scilex Purchase Agreement, pursuant to which the Company acquired from the Scilex Stockholders approximately 72% of the outstanding capital stock of Scilex. Dr. Henry Ji, the Company's President and Chief Executive Officer and a member of the Company's Board of Directors, and George K. Ng, the Company's Vice President, Chief Administrative Officer and Chief Legal Officer, were stockholders of Scilex prior to the acquisition transaction.

18. Subsequent Events

Termination of Binding Term Sheet with Semnur Pharmaceuticals, Inc.

On October 6, 2017, the Semnur Binding Term Sheet was terminated without additional consideration, effective immediately. (See Note 11).

Seventh Amendment to Loan and Security Agreement

Pursuant to the terms of the Seventh Amendment, (i) the Company repaid Hercules, without repayment penalty, $10.0 million of the outstanding principal and unpaid interest accrued thereon on November 6, 2017, and (ii) Hercules agreed to reduce the minimum amount of unrestricted cash that the Company must maintain under the Loan Agreement from $20.0 million to $8.0 million.

Termination of License Agreement with Les Laboratoires Servier

Effective November 6, 2017, the Servier License Agreement was terminated based on mutually agreed upon terms pursuant to the Servier License Agreement. As a result, the remaining unrecognized revenue of approximately $16.7 million associated with license fees under the Servier License Agreement will be recognized and reflected in the Company's fourth quarter 2017 results. (See Note 11).

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 (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 clinical stage biotechnology company focused on delivering clinically meaningful therapies to patients and their families, globally. Our primary focus is to transform cancer into a treatable or chronically manageable disease. We also have programs assessing the use of our technologies and products in auto-immune, inflammatory, neurodegenerative and infectious diseases and pain indications with high unmet medical needs.

At our core, we are an antibody-centric company and leverage our proprietary G-MAB™ library and targeted delivery modalities to generate the next generation of cancer therapeutics. Our validated fully human antibodies include PD-1, PD-L1, CD38, CD123, CD47, c-MET, VEGFR2, CCR2, OX40, TIGIT and CD137 among others. Our vision is to leverage these antibodies in conjunction with proprietary targeted delivery modalities to generate the next generation of cancer therapeutics. These modalities include proprietary antibody drug conjugates ("ADCs"), bispecific approaches, as well as TCR-like antibodies. With LA Cell, Inc. ("LA Cell"), our joint venture with City of Hope, our objective is to become the global leader in the development of antibodies against intracellular targets such as STAT3, mutant KRAS, MYC, p53 and TAU. Additionally, we have acquired and are assessing the regulatory and strategic path forward for our portfolio of late stage biosimilar/biobetter antibodies based on Erbitux®, Remicade®, Xolair®, and Simulect® as these may represent nearer term commercial opportunities.

Although we intend to retain ownership and control of product candidates by advancing their development, we regularly also consider, (i) partnerships with pharmaceutical or biopharmaceutical companies and (ii) license or sale of certain products in each case, in order to balance the risks and costs associated with drug discovery, development and commercialization with efforts to maximize our stockholders' returns. Our partnering objectives include generating revenue through license fees, milestone-related development fees and royalties as well as profit shares or joint ventures to generate potential returns from our product candidates and technologies.

Recent Developments

Termination of Binding Term Sheet Regarding Acquisition of Semnur Pharmaceuticals, Inc.

On August 15, 2016, our subsidiary, Scintilla Pharmaceuticals, Inc. ("Scintilla") and Semnur Pharmaceuticals, Inc. ("Semnur") entered into a binding term sheet (the "Semnur Binding Term Sheet") setting forth the terms and conditions by which Scintilla would, through a subsidiary, purchase all of the issued and outstanding equity of Semnur. On October 6, 2017, the Semnur Binding Term Sheet was terminated without additional consideration, effective immediately.

Public Offering of Common Stock

On April 13, 2017, we entered into an underwriting agreement (the "Underwriting Agreement") with Cantor Fitzgerald & Co., as representative of the several underwriters named therein (the "Underwriters"), relating to an underwritten public offering (the "Offering") of 23,625,084 shares of our common stock. The public offering price was $2.00 per share of our

common stock and the Underwriters agreed to purchase the shares of our common stock pursuant to the Underwriting Agreement at a price of $1.8571 per share. Under the terms of the Underwriting Agreement, we also granted to the Underwriters an option, exercisable in whole or in part at any time for a period of 30 days from the date of the closing of the Offering, to purchase up to an additional 3,543,763 shares of our common stock at the public offering price.

On April 19, 2017, the Offering was completed and resulted in net proceeds of approximately $43.5 million (excluding any sale of shares of common stock pursuant to the option granted to the Underwriters), after deducting underwriting discounts and commissions and estimated Offering expenses payable by us.

Acquisition of Virttu Biologics Limited

On April 27, 2017, we entered into a Share Purchase Agreement (the "Virttu Purchase Agreement") with TNK Therapeutics, Inc., our majority-owned subsidiary ("TNK"), Virttu Biologics Limited ("Virttu"), the shareholders of Virttu (the "Virttu Shareholders") and Dayspring Ventures Limited, as the representative of the Virttu Shareholders, pursuant to which, among other things, TNK acquired from the Virttu Shareholders 100% of the outstanding ordinary shares of Virttu (the "Virttu Acquisition").

Virttu focuses on the development of oncolytic viruses that infect and selectively multiply in and destroy tumor cells without damaging healthy tissue. Its lead oncolytic virus candidate, Seprehvir, infects and replicates in cancer cells selectively, leaving normal cells unharmed.

Under the Virttu Purchase Agreement, the total amount of the consideration payable to the Virttu Shareholders in the Virttu Acquisition is equal to $25 million, less Virttu's net debt (the "Virttu Base Consideration"). An additional $10 million contingent consideration is payable upon the achievement of certain regulatory milestones (as described below) (the "Regulatory Approval Consideration").

At the closing of the Virttu Acquisition (the "Closing"), we issued to the Virttu Shareholders consideration valued at approximately $2.2 million, which consisted primarily of an aggregate of 797,081 shares (the "Virttu Closing Shares") and approximately $557,000 in cash (the "Cash Consideration"). The issuance of the Closing Shares and the payment of the Cash Consideration satisfied TNK's obligation to pay 20% of the Virttu Base Consideration at the Closing. Under the terms of the Virttu Purchase Agreement, we agreed to provide additional consideration to the Virttu Shareholders, as follows:

(1) Upon a financing resulting in gross proceeds (individually or in the aggregate) to TNK of at least $50.0 million (a "Qualified Financing"), TNK will issue to the Virttu Shareholders an aggregate number of shares of its capital stock ("TNK Capital Stock") as is equal to the quotient obtained by dividing 80% of the Virttu Base Consideration by the lowest per share price paid by investors in the Qualified Financing (the "TNK Financing Consideration"); provided, however, that 20% of the TNK Financing Consideration shall be held in escrow until April 27, 2018 (the "Financing Due Date"), to be used to, among other things, satisfy the indemnification obligations of the Virttu Shareholders. In the event that a Qualified Financing does not occur, then on the Financing Due Date, we will issue to the Virttu Shareholders an aggregate number of shares of our common stock as is equal to the quotient obtained by dividing 80% of the Virttu Base Consideration, by $5.55 (as adjusted, as appropriate, to reflect any stock splits or similar events affecting our common stock after the Closing).

(2) Within 45 business days after Virttu becomes aware that certain governmental bodies in the United States, the European Union, the United Kingdom or Japan have approved for commercialization, on or before October 26, 2024, Seprehvir (or any enhancement, combination or derivative thereof) as a monotherapy or in combination with one or more other active components (each of the first two such approvals by a governmental body being a "Regulatory Approval"), TNK shall pay half of the Regulatory Approval Consideration to the Virttu Shareholders, in a combination of (a) up to $5.0 million in cash (the "Regulatory Approval Cash") and/or (b) (i) such number of shares of our common stock as is equal to the quotient obtained by dividing $5.0 million less the Regulatory Approval Cash (the "Regulatory Approval Share Value") by the 30 Day VWAP (as defined below) of one share of our common stock; (ii) if TNK has completed its first public offering of TNK Capital Stock, the number of shares of TNK Capital Stock as is equal to the quotient obtained by dividing the Regulatory Approval Share Value by the 30 Day VWAP of one share of TNK Capital Stock; or (iii) such number of shares of common stock of a publicly traded company as is equal to the quotient obtained by dividing the Regulatory Approval Share Value by the volume weighted average price of the relevant security, as reported on the Nasdaq Capital Market (or other principal stock exchange or securities market on which the shares are then listed or quoted) for the thirty trading days immediately following the receipt of Regulatory Approval (the "30 Day VWAP"), with the composition of the Regulatory Approval Consideration to be at TNK's option. In order for a second regulatory approval to qualify as a Regulatory Approval under the Purchase Agreement, the second approval must be granted by a different governmental body in a different jurisdiction than that which granted the first Regulatory Approval.

Celularity Transaction

On November 1, 2016, we loaned $5.0 million to Celularity, Inc., a research and development company ("Celularity"), pursuant to a promissory note issued by us to Celularity, as amended (as so amended, the "Celularity Note"), in connection with the entry into a nonbinding term sheet by us, TNK and Celularity. Pursuant to the terms of the Celularity Note, the loan will be due and payable in full on the earlier of November 1, 2017 and the occurrence of an event of default under the Celularity Note (the "Maturity Date"). In the event that Celularity meets certain minimum financing conditions prior to the Maturity Date, all outstanding amounts under the Celularity Note shall be forgiven and converted to equity. On May 31, 2017, we loaned an additional $2.0 million to Celularity pursuant to the terms of the Celularity Note. On June 14, 2017, we loaned an additional $1.0 million to Celularity. Additionally, on July 7, 2017, we loaned an additional $2.0 million to Celularity.

On June 12, 2017, we entered into a Contribution Agreement (the "Contribution Agreement") with TNK and Celularity, pursuant to which, among other things, we and TNK agreed to contribute certain intellectual property rights related to our proprietary chimeric antigen receptor ("CAR") constructs and related CARs to Celularity in exchange for shares of Celularity's Series A Preferred Stock equal to 25% of Celularity's outstanding shares of capital stock, calculated on a fully-diluted basis (the "Celularity Shares").

On August 15, 2017, the transactions contemplated by the Contribution Agreement closed and, on such date, among other things, (a) Celularity issued the Celularity Shares to TNK, and (b) we, TNK and Celularity entered into a License and Transfer Agreement (the "License Agreement"). Pursuant to the License Agreement (i) TNK and we agreed to provide to Celularity (1) our CAR constructs and related CARs for use worldwide in combination with placenta-derived cells and/or cord blood-derived cells for the treatment of any disease or disorder except that anti-CD38 CAR constructs and related CARs may also be used in adult cells for the treatment of multiple myeloma unless TNK exercises its termination rights, and (2) our know-how relating to the foregoing, (ii) TNK and we granted to Celularity a limited, perpetual, transferable and sublicensable license and covenant not to sue with respect to certain of their patents and other intellectual property rights, which license is exclusive for a subset of such patents, and (iii) Celularity agreed to pay to TNK 50% of the first $200 million and 20% thereafter of any upfront and milestone payments that Celularity receives in connection with any sublicense of a combination of anti-CD38 CAR constructs and either placenta-driven cells and/or cord blood–derived cells or adult cells.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements which are prepared in accordance with GAAP. The preparation of these 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 September 30, 2017, there were no significant changes to the items that we disclosed as our critical accounting policies and estimates in Note 3 to our consolidated financial statements for the year ended December 31, 2016 contained in our Annual Report on Form 10-K for the year ended December 31, 2016, as amended, as filed with the SEC.

Results of Operations

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

Comparison of the Three Months Ended September 30, 2017 and 2016

Revenues. Revenues were $121.9 million for the three months ended September 30, 2017, as compared to $2.2 million for the three months ended September 30, 2016. The net increase of $119.7 million is primarily due to an increase in our royalty and license revenue of $117.1 million resulting primarily from our collaboration arrangements.

In June 2014, the National Institute of Allergy and Infectious Diseases ("NIAID"), a division of the National Institutes of Health, or NIH awarded us a Phase II STTR grant to support the advanced preclinical development of human bispecific antibody therapeutics to prevent and treat *Staphylococcus aureus* (*S. aureus* or Staph) infections, including methicillin-resistant *S. aureus* (MRSA), or the Staph Grant III award. The project period for this Phase II grant covers a two-year period which commenced in June 2014, which was subsequently extended by one year, with total funds available of approximately $1 million per year. During the three months ended September 30, 2017 and 2016, we recorded $11 thousand and $135 thousand of revenue, respectively, associated with the Staph Grant III award.

We expect that any revenue we generate will fluctuate from quarter to quarter as a result of the unpredictability of the demand for products and services offered as well as the timing and amount of grant awards, research and development reimbursements and other payments received under any strategic collaborations, if any.

Cost of revenues. Cost of revenues for the three months ended September 30, 2017 and 2016 were $1.1 million and $0.4 million, respectively, and relate to the sale of customized reagents and providing contract development services. The costs generally include employee-related expenses including salary and benefits, direct materials and overhead costs including rent, depreciation, utilities, facility maintenance and insurance. The increase of $667 thousand is primarily attributable to increased indirect costs associated with the higher sales and service revenues for next generation homogenous antibody drug conjugate development.

Research and Development Expenses. Research and development expenses for the three months ended September 30, 2017 and 2016 were $16.6 million and $10.4 million, respectively. Research and development expenses include the costs to advance our CAR-T programs for solid tumors, our RTX program towards entering into future clinical trials, our biosimilar/ biobetter antibodies development, costs to identify, isolate and advance human antibody drug candidates derived from our libraries as well as advancing our ADC preclinical drug candidates, preclinical testing expenses and the expenses associated with fulfilling our development obligations related to the NIH grant awards, collectively the NIH Grants. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, clinical development expenses, preclinical testing, lab supplies, consulting costs, depreciation and other expenses. The increase of $6.2 million is primarily attributable to increased payroll expense for research and development. We expect research and development expenses to increase in absolute dollars as we: (i) advance our CAR-T programs, (ii) advance RTX into clinical trials and pursue other potential indications, the cost of acquiring, developing and manufacturing clinical trial materials, and other regulatory operating activities, (iii) advance our biosimilar/biobetter antibodies clinical development program, (iv) incur incremental expenses associated with our efforts to further advance a number of potential product candidates into preclinical development activities, (v) continue to identify and advance a number of fully human therapeutic antibody and ADC preclinical product candidates, (vi) incur higher salary, lab supply and infrastructure costs incurred in connection with supporting all of our programs, and (vii) invest in our JVs or other third party agreements.

Acquired In-process Research and Development Expenses. Acquired in-process research and development expenses for the three months ended September 30, 2017 and 2016 were $902,000 and $0, respectively.

General and Administrative Expenses. General and administrative expenses for the three months ended September 30, 2017 and 2016 were $10.2 million and $5.3 million, respectively. General and administrative expenses consist primarily of salaries and personnel related expenses for executive, finance and administrative personnel, stock-based compensation expense, professional fees, infrastructure expenses, legal and accounting expenses and other general corporate expenses.

We expect general and administrative expenses to increase in absolute dollars as we: (i) incur incremental expenses associated with expanded operations and development efforts, (ii) compliance with our public reporting obligations, (iii) increased infrastructure costs, and (iv) invest in our JVs or other third party agreements.

Intangible Amortization. Intangible amortization for the three months ended September 30, 2017 and 2016 was $656 thousand and $112 thousand, respectively. The increase in the three months ended September 30, 2017 as compared to the same period in 2016 is due to the intangible assets acquired as part of the Scilex acquisition in the fourth quarter of the prior year.

Gain (loss) on equity investments. Income (Loss) on equity investments for the three months ended September 30, 2017 and 2016 was $(507) thousand and $323 thousand, respectively.

Interest Expense. Interest expense for the three months ended September 30, 2017 and 2016 was $1.2 million and $0.2 million, respectively. The increase in interest expense resulted primarily from higher average borrowings under the amended loan and security agreement.

Interest Income (Expense). Interest income for the three months ended September 30, 2017 and 2016 was $(265) thousand and $26 thousand, respectively. We expect that continued low interest rates will significantly limit our interest income in the near term.

Income tax expense (benefit). Income tax for the three months ended September 30, 2017 and 2016 was expense of $57.5 million and benefit of $(195,000), respectively. The increase in income tax expense resulted mainly from the intangibles transferred to Celularity as a result of the closing of Contribution Agreement in the quarter.

Net Income. Net income for the three months ended September 30, 2017 and 2016 was $37.5 million and $15.7 million, respectively.

Comparison of the Nine Months Ended September 30, 2017 and 2016

Revenues. Revenues were $131.4 million for the nine months ended September 30, 2017, as compared to $4.1 million for the nine months ended September 30, 2016. The net increase of $127.3 million is primarily due to an increase in our royalty and license revenues of $121.9 million resulting primarily from our collaboration arrangements.

In June 2014, the National Institute of Allergy and Infectious Diseases ("NIAID"), a division of the National Institutes of Health, or NIH awarded us a Phase II STTR grant to support the advanced preclinical development of human bispecific antibody therapeutics to prevent and treat *Staphylococcus aureus* (*S. aureus* or Staph) infections, including methicillin-resistant *S. aureus* (MRSA), or the Staph Grant III award. The project period for this Phase II grant covers a two-year period which commenced in June 2014, which was subsequently extended by one year, with total funds available of approximately $1 million per year. During the nine months ended September 30, 2017 and 2016, we recorded $206 thousand and $592 thousand of revenue, respectively, associated with the Staph Grant III award.

We expect that any revenue we generate will fluctuate from quarter to quarter as a result of the unpredictability of the demand for products and services offered as well as the timing and amount of grant awards, research and development reimbursements and other payments received under any strategic collaborations, if any.

Cost of revenues. Cost of revenues for the nine months ended September 30, 2017 and 2016 were $3.0 million and $1.1 million, respectively, and relate to the sale of customized reagents and providing contract development services. The costs generally include employee-related expenses including salary and benefits, direct materials and overhead costs including rent, depreciation, utilities, facility maintenance and insurance. The increase of $1.9 million is primarily attributable to increased indirect costs associated with the higher sales and service revenues for next generation homogenous antibody drug conjugate development.

Research and Development Expenses. Research and development expenses for the nine months ended September 30, 2017 and 2016 were $42.7 million and $28.9 million, respectively. Research and development expenses include the costs to advance our CAR-T programs for solid tumors, our RTX program towards entering into future clinical trials, our biosimilar/ biobetter antibodies development, costs to identify, isolate and advance human antibody drug candidates derived from our libraries as well as advancing our ADC preclinical drug candidates, preclinical testing expenses and the expenses associated with fulfilling our development obligations related to the NIH grant awards, collectively the NIH Grants. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, clinical development expenses, preclinical testing, lab supplies, consulting costs, depreciation and other expenses. The increase of $13.8 million is primarily attributable to increased payroll expense for research and development. We expect research and development expenses to increase in absolute dollars as we: (i) advance our CAR-T programs, (ii) advance RTX into clinical trials and pursue other potential indications, the cost of acquiring, developing and manufacturing clinical trial materials, and other regulatory operating activities, (iii) advance our biosimilar/biobetter antibodies clinical development program, (iv) incur incremental expenses associated with our efforts to further advance a number of potential product candidates into preclinical development activities, (v) continue to identify and advance a number of fully human therapeutic antibody and ADC preclinical product candidates, (vi) incur higher salary, lab supply and infrastructure costs incurred in connection with supporting all of our programs, and (vii) invest in our JVs or other third party agreements.

Acquired In-process Research and Development Expenses. Acquired in-process research and development expenses for the nine months ended September 30, 2017 and 2016 were $1.1 million and $45.0 million, respectively. The decrease is due to cost associated with the purchase price of the license rights from Mabtech Limited and the purchase price of the license rights from the City of Hope in the prior year.

General and Administrative Expenses. General and administrative expenses for the nine months ended September 30, 2017 and 2016 were $31.2 million and $14.0 million, respectively. General and administrative expenses consist primarily of salaries and personnel related expenses for executive, finance and administrative personnel, stock-based compensation expense, professional fees, infrastructure expenses, legal and accounting expenses and other general corporate expenses. The increase of $17.2 million is primarily attributable to higher salaries and related compensation expenses resulting from new hires and higher transaction costs.

We expect general and administrative expenses to increase in absolute dollars as we: (i) incur incremental expenses associated with expanded operations and development efforts, (ii) compliance with our public reporting obligations, (iii) increased infrastructure costs, and (iv) invest in our JVs or other third party agreements.

Intangible Amortization. Intangible amortization for the nine months ended September 30, 2017 and 2016 was $1.9 million and $0.3 million, respectively. The increase in the nine months ended September 30, 2017 as compared to the same period in 2016 is due to the intangible assets acquired as part of the Scilex acquisition in the fourth quarter of the prior year.

Income (loss) on equity investments. Income (loss) on equity investments for the nine months ended September 30, 2017 and 2016 was $(2,557) thousand and $294 thousand, respectively.

Interest Expense. Interest expense for the nine months ended September 30, 2017 and 2016 was $4.0 million and $0.8 million, respectively. The increase in interest expense resulted primarily from higher average borrowings under the amended loan and security agreement.

Interest Income. Interest income for the nine months ended September 30, 2017 and 2016 was $192 thousand and $84 thousand, respectively. We expect that continued low interest rates will significantly limit our interest income in the near term.

Income tax expense (benefit). Income tax expense for the nine months ended September 30, 2017 and 2016 was $54.4 million and $(195,000), respectively. The increase in income tax expense resulted mainly from the intangibles transferred to Celularity as a result of the closing of Contribution Agreement in the quarter.

Net Loss. Net loss for the nine months ended September 30, 2017 and 2016 was $1.1 million and $46.0 million, respectively.

Liquidity and Capital Resources

As of September 30, 2017, we had $38.3 million in cash and cash equivalents attributable in part to the net proceeds received under the loan and security agreement that we and certain of our domestic subsidiaries (collectively, the "Borrowers") entered into with Hercules Capital, Inc. ("Hercules") on November 23, 2016, as amended (as so amended, the "Loan Agreement"). As of September 30, 2017, we had $24.6 million of long term debt associated with the Loan Agreement. The Loan Agreement contains covenants requiring us (i) to achieve certain fundraising requirements by certain dates, and (ii) to maintain $20.0 million of U.S. unrestricted cash prior to achieving the corporate and fundraising milestones. The Offering (as described below) satisfied the fundraising requirements and fundraising milestone. We are currently in compliance with these covenants, and have plans in place to maintain compliance with these covenants. Effective November 6, 2017, we and Hercules entered into an amendment to the Loan Agreement that reduced the minimum amount of U.S. unrestricted cash that we must maintain under the Loan Agreement to $8.0 million (see the disclosure in Part II, Item 5 of the Quarterly Report on Form 10-Q for additional details). To the extent we are unable to execute on these plans to maintain compliance with these covenants, or we are unable to amend the Loan Agreement to maintain such compliance then we would be in default under the Loan Agreement and the outstanding loan balance may be declared immediately due and payable. If the outstanding loan balance was payable in the next 12 months and we are unable to secure additional sources of financing, we would not have enough cash to fund our operating and capital requirements for the next 12 months. We cannot be certain that additional funding will be available on acceptable terms, or at all. If we issue additional equity securities to raise funds, the ownership percentage of existing stockholders would be reduced. New investors may demand rights, preferences or privileges senior to those of existing holders of common stock. If we are unable to raise additional capital in sufficient amounts or on terms acceptable to us we may have to significantly delay, scale back or discontinue the development or commercialization of one or more of our product candidates. We may also seek collaborators for one or more of our current or future product candidates at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available. These factors raise substantial doubt about our ability to continue as a going concern. Our financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q do not include any adjustments that might result from the outcome of this uncertainty.

Cash Flows from Operating Activities. Net cash used for operating activities was $54.3 million for the nine months ended September 30, 2017 and is primarily attributable to our net loss of $1.1 million and $54.4 million of deferred tax provision, offset by non-cash cost method investments of $116.2 million.

We expect to continue to incur substantial and increasing losses and negative net cash flows from operating activities as we seek to expand and support our clinical and preclinical development and research activities and fund our joint ventures, collaborations and other third party agreements.

Cash Flows from Investing Activities. Net cash used for investing activities was $14.9 million for the nine months ended September 30, 2017 as compared to $5.0 million for the nine months ended September 30, 2016. The net cash used related primarily to equipment acquired for research and development activities and investment in Celularity.

We expect to increase our investment in equipment as we seek to expand and progress our research and development capabilities.

Cash Flows from Financing Activities. Net cash provided by financing activities was $25.2 million for the nine months ended September 30, 2017 as compared to net cash provided financing of $86.6 million for the nine months ended

September 30, 2016, which was primarily due to the repayment associated with the amended loan and security agreement in the current year.

Future Liquidity Needs. We have principally financed our operations through underwritten public offerings and private equity financings with aggregate net proceeds of approximately $201.1 million, as we have not generated any product related revenue from our principal 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 plans for clinical and 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) advance RTX and other product candidates into clinical trials and potentially pursue other development, (ii) continue to identify and advance a number of potential mAb and ADC product candidates into preclinical development activities, (iii) continue our development of, and seek regulatory approvals for, our product candidates, (iv) expand our corporate infrastructure, including the costs associated with being a NASDAQ listed public company, and (v) incur our share of joint venture and collaboration costs for our products and technologies.

We plan to continue to fund our operating losses and capital funding needs through public or private equity or debt financings, strategic collaborations, licensing arrangements, asset sales, government grants or other arrangements.

In November 2014, we filed a universal shelf registration statement on Form S-3 with the U.S. Securities and Exchange Commission (the "SEC"), which was declared effective by the SEC in December 2014. This Shelf Registration Statement provides us with the ability to offer up to $250 million of securities, including equity and other securities as described in the registration statement. Included in the November 2014 shelf registration is a sales agreement prospectus covering the offering, issuance and sale by us of up to a maximum aggregate offering price of $50.0 million of our common stock that may be issued and sold under a sales agreement with MLV & Co. LLC (the "ATM Facility"). During the twelve months ended December 31, 2016 and the nine months ended September 30, 2017, we sold approximately $3.6 million and $2.1 million in shares of common stock under the ATM Facility, respectively. We can offer up to $41.8 million of additional shares of common stock under the ATM Facility, subject to certain limitations. On April 19, 2017, we completed the Offering of $47.5 million shares of common stock pursuant to the shelf registration statement and received net proceeds of approximately $43.5 million.

Pursuant to this Shelf Registration Statement, we may offer additional 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.

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

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

On April 3, 2016, we also entered into a Securities Purchase Agreement (collectively, the "Additional Purchase Agreements") with each of Beijing Shijilongxin Investment Co., Ltd. ("Beijing Shijilongxin"), FREJOY Investment Management Co., Ltd. ("Frejoy") and Yuhan, pursuant to which, among other things, we agreed to issue and sell, in separate private placement transactions: (1) to Beijing Shijilongxin, 8,108,108 shares of Common Stock, and a warrant to purchase 1,176,471 shares of Common Stock, for an aggregate purchase price of $45.0 million; (2) to Frejoy, 8,108,108 shares of Common Stock, and a warrant to purchase 1,176,471 shares of Common Stock, for an aggregate purchase price of $45.0

million; and (3) to Yuhan, 1,801,802 shares of Common Stock, and a warrant to purchase 235,294 shares of Common Stock, for an aggregate purchase price of $10.0 million. The warrants to be issued pursuant to each of the Additional Purchase Agreements (collectively, the "Additional Warrants" and, together with each ABG Warrant, the "Warrants") had an exercise price of $8.50 per share, were immediately exercisable upon issuance, had a term of three years and were exercisable on a cash or cashless exercise basis.

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

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

Between May 31, 2016 and June 7, 2016, we closed on the remainder of the $150.0 million financing. The ABG Purchasers led the financing and, together with Beijing Shijilongxin and Frejoy, collectively purchased 25,225,221 shares of common stock at $5.55 per share, and warrants to purchase 5,055,642 shares of common stock for total consideration of $140.0 million.

On November 23, 2016, we and the other Borrowers entered into the Loan Agreement with Hercules. The Loan Agreement provides for a term loan of up to $75.0 million, subject to funding in multiple tranches (the "Term Loan"). The proceeds of the Term Loan will be used for general corporate purposes and coincided with the repayment of the outstanding debt financing arrangement with Oxford Finance LLC and Silicon Valley Bank.

The first tranche of $50.0 million of the Term Loan was funded upon execution of the Loan Agreement on November 23, 2016. Under the terms of the Loan Agreement, as most recently amended in March 2017, the Borrowers may, but are not obligated to, request additional funds of up to $25.0 million which are available until June 30, 2018, subject to approval by Hercules' Investment Committee. The Term Loan will mature on December 1, 2020.

On December 31, 2016, we entered into Warrant and Note Cancellation and Share Forfeiture Agreements (the "Cancellation and Forfeiture Agreements") with certain investors (the "Investors") that held an aggregate of 7,838,259 shares of Common Stock and certain of the Warrants granting the right to purchase an aggregate of 1,137,316 shares of Common Stock. The Investors had also issued to us secured promissory notes (the "Notes") in an aggregate principal amount of $53.5 million, of which $43.5 million was then outstanding. Pursuant to the Cancellation and Forfeiture Agreements, effective December 31, 2016, the Warrants held by the Investors and the Notes were cancelled and the shares of Common Stock held by the Investors were forfeited and returned to us.

On April 13, 2017, we entered into the Underwriting Agreement with the Underwriters, relating to the Offering of 23,625,084 shares of our common stock. The public offering price was $2.00 per share of our common stock and the Underwriters agreed to purchase the shares of common stock pursuant to the Underwriting Agreement at a price of $1.8571 per share. Under the terms of the Underwriting Agreement, we also granted to the Underwriters an option, exercisable in whole or in part at any time for a period of 30 days from the date of the closing of the Offering, to purchase up to an additional 3,543,763 shares of our common stock at the public offering price.

On April 19, 2017, the Offering was completed and resulted in net proceeds of approximately $43.5 million (excluding any sale of shares of common stock pursuant to the option granted to the Underwriters), after deducting underwriting discounts and commissions and estimated Offering expenses payable by us.

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.

Off-Balance Sheet Arrangements

Since our inception through September 30, 2017, we have not engaged in any off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

New Accounting Pronouncements

Refer to Note 1, "Nature of Operations and Business Activities," in the accompanying notes to the condensed consolidated financial statements for a discussion of recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk. Our exposure to market risk is confined to our cash and cash equivalents. We have cash and cash equivalents and invest primarily in high-quality money market funds, which we believe are subject to limited credit risk. Due to the low risk profile of our investments, an immediate 10% change in interest rates would not have a material effect on the fair market value of our portfolio. The interest rate under our loan and security agreement with Hercules Capital, Inc. is calculated at a prime-based variable rate, currently at 10.0%. We do not believe that we have any material exposure to interest rate risk arising from our investments.

Capital Market Risk. We currently do not have significant revenues from grants or sales and services and we have no product revenues from our planned principal operations and therefore depend on funds raised through other sources. One source of funding is through future debt or equity offerings. Our ability to raise funds in this manner depends upon, among other things, capital market forces affecting our stock price.

Item 4. Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's regulations, rules and forms and that such information is accumulated and communicated to our management, including our 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 not effective as of the end of the period covered by this Quarterly Report on Form 10-Q as a result of the material weakness described below.

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

Based on these findings and the criteria discussed above, our management identified a material weakness in our review controls over unusual or non-recurring and significant transactions. Specifically, our controls were not properly designed to provide reasonable assurance that we (1) timely identify and assess the accounting implications of terms in unusual or non-recurring agreements and (2) reassess the valuation of associated assets or liabilities at the end of each reporting period.

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

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. As identified above, a material weakness was identified in our internal control over financial reporting as of September 30, 2017. Our plans for remediating such material weakness, which would constitute changes in our internal control over financial reporting prospectively, are also enumerated above.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

To the best of our knowledge, we (the "Company") 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.

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

Derivative Action Litigation

On April 25, 2016, Wildcat Liquid Alpha, LLC ("WLA") filed a complaint in the Court of Chancery of the State of Delaware seeking an order compelling the Company to provide WLA with certain documents, books and records for inspection and copying pursuant to an April 11, 2016 demand made by WLA (the "Inspection Demand Action"). On May 13, 2016, WLA filed a derivative action in the Court of Chancery of the State of Delaware (the "WLA Action" and, together with the Inspection Demand Action, the "Actions") against each of the members of the Company's board of directors at the time, Henry Ji, William S. Marth, Kim D. Janda, Jaisim Shah, David H. Deming, and Douglas Ebersole (the "Prior Board") and against the Company as nominal defendant. After the members of the Prior Board and the Company moved to dismiss, on August 12, 2016, WLA filed an amended complaint containing both direct and derivative claims against each of the members of the Prior Board and against the Company as nominal defendant, alleging, among other things: (1) breach of fiduciary duty with respect to the formation of, and certain options and warrants issued by, certain of the Company's subsidiaries to Dr. Ji and members of the Prior Board (the "Subsidiary Options Claim"); (2) breach of fiduciary duty with respect to the Company's prior announcement that it had entered into a voting agreement with Yuhan Corporation ("Yuhan") in connection with a transaction through which it purchased $10 million of shares of the Company's common stock and warrants (the "Yuhan Agreement Claim"); (3) waste of corporate assets regarding the foregoing; (4) unjust enrichment regarding the foregoing; and (5) violation of 8 Del. C. § 160 based on the Yuhan voting agreement.

On March 17, 2017, the Company, the members of the Prior Board and WLA entered into a confidential settlement agreement and release (the "Settlement Agreement") pursuant to which, among other things, each party agreed to forever release and not to sue the other party with respect to the claims asserted in the Actions and WLA agreed to take all actions to seek to dismiss the Actions without prejudice within ten business days following the execution of the Settlement Agreement. As part of the Settlement Agreement, the Company also agreed (1) to terminate all options and warrants currently outstanding in Company subsidiaries that have been granted to Dr. Ji and any other director of the Company no later than 60 days after the Company's next annual meeting of stockholders, (2) to grant WLA the right to designate a representative to attend all meetings of the Company's board of directors in a nonvoting observer capacity, (3) to act in good faith to attempt to add two additional independent directors to the Company's board of directors, and (4) to pay $400,000 as reimbursement for WLA's out of pocket fees and expenses. In addition, WLA agreed to comply with a two-year standstill period, during which WLA is prohibited from engaging in certain actions relating to controlling or influencing the management of the Company. On August 29, 2017, the options and warrants were canceled in accordance with the terms of the Settlement Agreement.

On May 31, 2017, the Court of Chancery of the State of Delaware entered an order providing for dismissal of the Actions without prejudice pursuant to the terms of the Settlement Agreement, to be effective upon the Company submitting to the Court of Chancery of the State of Delaware a notice of the filing of a Current Report on Form 8-K with the Securities and Exchange Commission, which was filed on June 1, 2017.

On September 8, 2016, Yvonne Williams filed an action both derivatively and on behalf of a purported class of stockholders in the Court of Chancery of the State of Delaware against each of the members of the Prior Board; George Ng, the Company's Executive Vice President, Chief Administrative Officer, and Chief Legal Officer; Jeffrey Su, the Company's Executive Vice President & Chief Operating Officer; and the Company as nominal defendant, alleging: (1) breach of fiduciary duty with respect to the Subsidiary Options Claim; and (2) breach of fiduciary duty with respect to the Yuhan Agreement Claim (the "Williams Action"). The Company is unable to determine whether any loss will occur with respect to the Williams Action or to estimate the range of such potential loss; therefore, no amount of loss has been accrued by the Company as of the date of filing of this Quarterly Report on Form 10-Q. Furthermore, there is no guarantee that the Company will prevail in this suit or receive any relief if it does prevail.

Immunomedics Litigation

On June 26, 2015, Immunomedics, Inc. ("Immunomedics") filed a complaint in the United States District Court for the District of New Jersey (the "Immunomedics Action") against the Board of Directors of Roger Williams Medical Center, Dr.

Richard P. Junghans, Dr. Steven C. Katz, the Office of the Board of Advisors of Tufts University School of Medicine, and one or more individuals or entities to be identified later. This complaint (the "Initial Complaint") alleged, among other things: (1) breach of contract; (2) breach of covenant of good faith and fair dealing; (3) tortious interference with prospective economic gain; (4) tortious interference with contracts; (5) misappropriation; (6) conversion; (7) bailment; (8) negligence; (9) vicarious liability; and (10) patent infringement. Overall, the allegations in the Initial Complaint were generally directed to an alleged material transfer agreement dated December 2008 and Immunomedics' alleged request for the return of certain alleged research material, as well as the alleged improper use and conversion of such research materials outside the scope of the material transfer agreement.

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

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

Item 1A. Risk Factors.

Our Annual Report on Form 10-K for the year ended December 31, 2016, Part I –Item 1A, 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 Quarterly Report on Form 10-Q or presented elsewhere by management from time to time. Except as set forth below, there have been no material changes in our risk factors since the filing of our Annual Report on Form 10-K for the year ended December 31, 2016. 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.

Risks Related to Our Business and Industry

We are heavily dependent on the success of our technologies and product candidates, and we cannot give any assurance that any of our product candidates will receive regulatory approval, which is necessary before they can be commercialized.

To date, we have invested a significant portion of our efforts and financial resources in the acquisition and development of our product candidates. We have not demonstrated our ability to perform the functions necessary for the successful acquisition, development or commercialization of the technologies we are seeking to develop. As an early stage company, we have limited experience and have not yet demonstrated an ability to successfully overcome many of the risks and uncertainties frequently encountered by companies in new and rapidly evolving fields, particularly in the biopharmaceutical area. Our future success is substantially dependent on our ability to successfully develop, obtain regulatory approval for, and then successfully commercialize such product candidates. Our product candidates are currently in preclinical development or in clinical trials. Our business depends entirely on the successful development and commercialization of our product candidates, which may never occur. We currently generate no revenues from sales of any drugs, and we may never be able to develop or commercialize a marketable drug.

The successful development, and any commercialization, of our technologies and any product candidates would require us to successfully perform a variety of functions, including:

- developing our technology platform;
- seeking and obtaining intellectual property and/or proprietary rights to our technology and/or the technology of others;
- identifying, developing, manufacturing and commercializing product candidates;
- entering into successful licensing and other arrangements with product development partners;
- participating in regulatory approval processes;
- formulating and manufacturing products; and
- conducting sales and marketing activities.

Our operations have been limited to organizing our company, acquiring, developing and securing our proprietary technology and identifying and obtaining early preclinical data or clinical data for various product candidates. These operations provide a limited basis for you to assess our ability to continue to develop our technology, identify product candidates, develop and commercialize any product candidates we are able to identify and enter into successful collaborative arrangements with other companies, as well as for you to assess the advisability of investing in our securities. Each of these requirements will require substantial time, effort and financial resources.

Each of our product candidates will require additional preclinical or clinical development, management of preclinical, clinical and manufacturing activities, regulatory approval in multiple jurisdictions, obtaining manufacturing supply, building of a commercial organization, and significant marketing efforts before we generate any revenues from product sales. We are not permitted to market or promote any of our product candidates before we receive regulatory approval from the U.S. Food and Drug Administration (the "FDA"), the United Kingdom's Medicines and Healthcare Products Regulatory Agency (the "MHRA"), the European Medicines Agency ("EMA") or comparable foreign regulatory authorities, and we may never receive such regulatory approval for any of our product candidates. In addition, our product development programs contemplate the development of companion diagnostics by our third-party collaborators. Companion diagnostics are subject to regulation as medical devices and must themselves be approved for marketing by the FDA, the MHRA, the EMA or certain other foreign regulatory agencies before we may commercialize our product candidates.

The regulatory approval processes of the FDA, the MHRA, the EMA and comparable foreign authorities are lengthy, time consuming and inherently unpredictable, and if we are ultimately unable to obtain regulatory approval for our product candidates, our business will be substantially harmed.

The time required to obtain approval from the FDA, the MHRA, the EMA and comparable foreign authorities is unpredictable but typically takes many years following the commencement of clinical trials and depends upon numerous factors, including the substantial discretion of the regulatory authorities. In addition, approval policies, regulations, or the type and amount of clinical data necessary to gain approval may change during the course of a product candidate's clinical development and may vary among jurisdictions. We have not obtained regulatory approval for any product candidate and it is possible that none of our existing product candidates or any product candidates we may seek to develop in the future will ever obtain regulatory approval.

We may fail to receive regulatory approval for our product candidates for many reasons, including the following:

- the FDA, the MHRA, the EMA or comparable foreign regulatory authorities may disagree with the design or implementation of our clinical trials;
- we may be unable to demonstrate to the satisfaction of the FDA, the MHRA, the EMA or comparable foreign regulatory authorities that a product candidate is safe and effective for its proposed indication;
- the results of clinical trials may not meet the level of statistical significance required for approval by the FDA, the MHRA, the EMA or comparable foreign regulatory authorities;
- the FDA, the MHRA, the EMA or comparable foreign regulatory authorities may disagree with our interpretation of data from preclinical studies or clinical trials;
- the data collected from clinical trials of our product candidates may not be sufficient to support the submission of an NDA, a marketing authorization application ("MAA") or other submission or to obtain regulatory approval in the U.S., the United Kingdom, the European Union or elsewhere;
- the FDA, the MHRA, the EMA or comparable foreign regulatory authorities may fail to approve the manufacturing processes or facilities of third-party manufacturers with which we contract for clinical and commercial supplies;
- the FDA, the MHRA, the EMA or comparable foreign regulatory authorities may fail to approve the companion diagnostics we contemplate developing with partners; and
- the approval policies or regulations of the FDA, the MHRA, the EMA or comparable foreign regulatory authorities may significantly change in a manner rendering our clinical data insufficient for approval.

This lengthy approval process as well as the unpredictability of future clinical trial results may result in our failing to obtain regulatory approval to market our product candidates, which would significantly harm our business, results of operations and prospects.

In addition, even if we were to obtain approval, regulatory authorities may approve any of our product candidates for fewer or more limited indications than we request, may not approve the price we intend to charge for our products, may grant approval contingent on the performance of costly post-marketing clinical trials, or may approve a product candidate with a label that does not include the labeling claims necessary or desirable for the successful commercialization of that product candidate. Any of the foregoing scenarios could materially harm the commercial prospects for our product candidates.

Other than a new drug application submitted by Scilex for Scilex's lead product candidate, ZTlido™, we have not previously submitted a BLA or an NDA to the FDA, an MAA to the MHRA or the EMA or similar drug approval filings to comparable foreign authorities, for any product candidate, and we cannot be certain that any of our product candidates will be successful in clinical trials or receive regulatory approval. Further, our product candidates may not receive regulatory approval even if our clinical trials are successful. If we do not receive regulatory approvals for our product candidates, we may not be able to continue our operations. Even if we successfully obtain regulatory approvals to market one or more of our product candidates, our revenues will be dependent, in some instances, upon our collaborators' ability to obtain regulatory approval of the companion diagnostics to be used with our product candidates, as well as the size of the markets in the territories for which we gain regulatory approval and have commercial rights. If the markets for patients that we are targeting for our product candidates are not as significant as we estimate, we may not generate significant revenues from sales of such products, if approved.

We plan to seek regulatory approval to commercialize our product candidates in the U.S., the United Kingdom, the European Union and in additional foreign countries. While the scope of regulatory approval is similar in other countries, to obtain separate regulatory approval in many other countries we must comply with numerous and varying regulatory requirements of such countries regarding safety and efficacy and governing, among other things, clinical trials and commercial sales, pricing and distribution of our product candidates, and we cannot predict success in these jurisdictions. Further, the United Kingdom has voted to withdraw from the European Union. We cannot predict what consequences the withdrawal of the United Kingdom from the European Union might have on the regulatory frameworks of the United Kingdom or the European Union, or on our future operations, if any, in these jurisdictions.

We rely on third parties to conduct our preclinical and clinical trials. If these third parties do not successfully perform their contractual legal and regulatory duties or meet expected deadlines, we may not be able to obtain regulatory approval for or commercialize our product candidates and our business could be substantially harmed.

We have relied upon and plan to continue to rely upon third-party CROs to monitor and manage data for our ongoing preclinical and clinical programs. We rely on these parties for execution of our preclinical and clinical trials, and control only certain aspects of their activities. Nevertheless, we are responsible for ensuring that each of our studies is conducted in accordance with the applicable protocol, legal, regulatory and scientific standards, and our reliance on the CROs does not relieve us of our regulatory responsibilities. We and our CROs are required to comply with current good clinical practices ("cGCP"), which are regulations and guidelines enforced by the FDA, the Competent Authorities of the Member States of the European Economic Area, and comparable foreign regulatory authorities for all of our product candidates in clinical development.

Regulatory authorities enforce these cGCPs through periodic inspections of trial sponsors, principal investigators and trial sites. If we or any of our CROs fail to comply with applicable cGCPs, the clinical data generated in our clinical trials may be deemed unreliable and the FDA, the MHRA, the EMA or comparable foreign regulatory authorities may require us to perform additional clinical trials before approving our marketing applications or may not approve our marketing applications. We cannot assure you that upon inspection by a given regulatory authority, such regulatory authority will determine that any of our clinical trials comply with cGCP regulations. In addition, our clinical trials must be conducted with product produced under current good manufacturing practices ("cGMP") regulations. Our failure to comply with these regulations may require us to repeat clinical trials, which would delay the regulatory approval process.

If any of our relationships with these third-party CROs terminate, we may not be able to enter into arrangements with alternative CROs or to do so on commercially reasonable terms. In addition, our CROs are not our employees, and except for remedies available to us under our agreements with such CROs, we cannot control whether or not they devote sufficient time and resources to our on-going clinical, nonclinical and preclinical programs. If CROs do not successfully carry out their contractual duties or obligations or meet expected deadlines, if they need to be replaced or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical protocols, regulatory requirements or for

other reasons, our clinical trials may be extended, delayed or terminated and we may not be able to obtain regulatory approval for or successfully commercialize our product candidates. As a result, our results of operations and the commercial prospects for our product candidates would be harmed, our costs could increase and our ability to generate revenues could be delayed.

Switching or adding additional CROs involves additional cost and requires management time and focus. In addition, there is a natural transition period when a new CRO commences work. As a result, delays occur, which can materially impact our ability to meet our desired clinical development timelines. Though we carefully manage our relationships with our CROs, there can be no assurance that we will not encounter similar challenges or delays in the future or that these delays or challenges will not have a material adverse impact on our business, financial condition and prospects.

If we cannot compete successfully against other biotechnology and pharmaceutical companies, we may not be successful in developing and commercializing our technology and our business will suffer.

The biotechnology and pharmaceutical industries are characterized by intense competition and rapid technological advances, both in the U.S. and internationally. In addition, the competition in the oncology and pain management markets, and other relevant markets, is intense. Even if we are able to develop our product candidates, proprietary platform technology and/or additional antibody libraries, each will compete with a number of existing and future technologies and product candidates developed, manufactured and marketed by others. Specifically, we will compete against fully integrated pharmaceutical companies and smaller companies that are collaborating with larger pharmaceutical companies, academic institutions, government agencies and other public and private research organizations. Many of these competitors have validated technologies with products already FDA-approved or in various stages of development. In addition, many of these competitors, either alone or together with their collaborative partners, operate larger research and development programs and have substantially greater financial resources than we do, as well as significantly greater experience in:

- developing product candidates and technologies generally;
- undertaking preclinical testing and clinical trials;
- obtaining FDA and other regulatory approvals of product candidates;
- formulating and manufacturing product candidates; and
- launching, marketing and selling product candidates.

Many of our competitors have substantially greater financial, technical and other resources, such as larger research and development staff and experienced marketing and manufacturing organizations. Additional mergers and acquisitions in the biotechnology and pharmaceutical industries may result in even more resources being concentrated in our competitors. As a result, these companies may obtain regulatory approval more rapidly than we are able and may be more effective in selling and marketing their products as well. Smaller or early-stage companies or generic or biosimilar pharmaceutical manufacturers may also prove to be significant competitors, particularly through collaborative arrangements with large, established companies. Competition may increase further as a result of advances in the commercial applicability of technologies and greater availability of capital for investment in these industries. Our competitors may succeed in developing, acquiring or licensing on an exclusive basis drug products that are more effective or less costly than any drug candidate that we are currently developing or that we may develop. If approved, our product candidates will face competition from commercially available drugs as well as drugs that are in the development pipelines of our competitors and later enter the market.

Established pharmaceutical companies may invest heavily to accelerate discovery and development of novel compounds or to in-license novel compounds that could make our product candidates less competitive. In addition, any new product that competes with an approved product must demonstrate compelling advantages in efficacy, convenience, tolerability and safety in order to overcome price competition and to be commercially successful. Accordingly, our competitors may succeed in obtaining patent protection, receiving FDA, the MHRA, the EMA or other regulatory approval or discovering, developing and commercializing medicines before we do, which would have a material adverse impact on our business. If our technologies fail to compete effectively against third party technologies, our business will be adversely impacted.

We expect that our ability to compete effectively will depend upon our ability to:

- successfully and efficiently complete clinical trials and submit for and obtain all requisite regulatory approvals in a cost-effective manner;
- obtain and maintain a proprietary position for our products and manufacturing processes and other related product technology;
- attract and retain key personnel;
- develop relationships with physicians prescribing these products; and
- build an adequate sales and marketing infrastructure for our product candidates.

Because we will be competing against significantly larger companies with established track records, we will have to demonstrate that, based on experience, clinical data, side-effect profiles and other factors, our product candidates, if approved, are competitive with other products.

Our global operations are exposed to political and economic risks, commercial volatility and events beyond our control in the countries in which we operate, some of which may be enhanced by our recent acquisition of Virttu Biologics Limited.

On April 27, 2017, we acquired Virttu Biologics Limited, which is based in the United Kingdom. In addition to challenges specific to the United States, our operations, including but not limited to our operations outside of the United States, are subject to a variety of political and economic risks, including risks arising from:

- unexpected changes in international or domestic legal, regulatory or governmental requirements or regulations, including related to intellectual property or the biopharmaceutical industry;
- unexpected increases in taxes or tariffs;
- trade protection measures or import or export licensing requirements;
- the inability to obtain necessary foreign regulatory or pricing approvals of products in a timely manner;
- fluctuations in foreign currency exchange rates;
- difficulties in staffing and managing international operations;
- less favorable intellectual property or other applicable laws;
- the effects of the implementation of the United Kingdom's decision to voluntarily depart from the European Union;
- currency controls that restrict or prohibit the payment of funds or the repatriation of earnings to the United States;
- increased costs of compliance with general business and tax regulations in these countries or regions;
- divergent legal systems and regulatory frameworks; and
- political and economic instability or corruption.

These risks and others as described in our Annual Report on Form 10-K for the year ended December 31, 2016 may have a material adverse effect on our global operations and on our business and financial condition.

Item 5. Other Information.

Seventh Amendment to Loan and Security Agreement

On November 6, 2017, the Borrowers and Hercules (as defined below) entered into an amendment (the "Amendment") to the Loan Agreement. Pursuant to the terms of the Amendment, (1) we repaid Hercules, without repayment penalty, $10.0 million of the outstanding principal and unpaid interest accrued thereon on November 6, 2017, and (2) Hercules agreed to reduce the minimum amount of unrestricted cash that we must maintain under the Loan Agreement from $20.0 million to $8.0 million.

The foregoing description of the Amendment does not purport to be complete and is qualified in its entirety by reference to the Amendment, which is filed as Exhibit 10.3 to this Quarterly Report on Form 10-Q and incorporated herein by reference. Certain terms of the Amendment have been omitted from this Quarterly Report on Form 10-Q and the version of the Amendment filed as Exhibit 10.3 to this Quarterly Report on Form 10-Q pursuant to a Confidential Treatment Request submitted to the SEC.

Termination of License Agreement with Les Laboratoires Servier

Effective November 6, 2017, our license and collaboration agreement, dated July 6, 2016 (the "Servier License Agreement"), with Les Laboratoires Servier, SAS, a corporation incorporated under the laws of France, and Institut de Recherches Internationales Servier, a company duly organized and existing under the laws of France, was terminated based on mutually agreed upon terms pursuant to the Servier License Agreement.

Item 6. Exhibits.

EXHIBIT INDEX

10.1*	License and Transfer Agreement dated August 15, 2017 by and among Sorrento Therapeutics, Inc., TNK Therapeutics, Inc. and Celularity, Inc.
10.2	Amendment No. 2 to Contribution Agreement, dated as of August 10, 2017, by and among Sorrento Therapeutics, Inc., TNK Therapeutics, Inc. and Celularity, Inc.
10.3*	Seventh Amendment to Loan and Security Agreement, dated November 6, 2017, among Sorrento Therapeutics, Inc., certain of its domestic subsidiaries, and Hercules Capital, Inc.
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 Dean Ferrigno, 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 Dean Ferrigno, 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

* The Registrant has requested confidential treatment with respect to certain portions of the exhibit. Omitted portions have been filed separately with the SEC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Sorrento Therapeutics, Inc.

Date: November 9, 2017

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

Henry Ji, Ph.D.

Chairman of the Board of Directors,
Chief Executive Officer & President

(Principal Executive Officer)

Date: November 9, 2017

By: /s/ Dean Ferrigno

Dean Ferrigno

Chief Accounting Officer

(Principal Financial and Accounting Officer)