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, 2019

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)

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

Title of each class:	Trading Symbol (s)	Name of each exchange on which registered:
Common Stock, $0.0001 par value	SRNE	The Nasdaq Stock Market LLC

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 every Interactive Data File required to be submitted 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 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	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 October 22, 2019 was 141,871,384.

Sorrento Therapeutics, Inc.

Form 10-Q for the Quarter Ended September 30, 2019

Table of Contents

Part I	Financial Information	
Item 1.	Consolidated Financial Statements (Unaudited)	
	Consolidated Balance Sheets (Unaudited) as of September 30, 2019 and December 31, 2018	1
	Consolidated Statements of Operations (Unaudited) for the Three and Nine Months Ended September 30, 2019 and 2018	3
	Consolidated Statements of Comprehensive Loss (Unaudited) for the Three and Nine Months Ended September 30, 2019 and 2018	4
	Consolidated Statements of Stockholders' Equity (Unaudited) for the Three and Nine Months Ended September 30, 2019 and 2018	5
	Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2019 and 2018	7
	Notes to Consolidated Financial Statements (Unaudited)	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	35
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	44
Item 4.	Controls and Procedures	45
Part II	Other Information	47
Item 1.	Legal Proceedings	47
Item 1A.	Risk Factors	48
Item 5.	Other Information	53
Item 6.	Exhibits	54
Signatures		56

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

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

ASSETS	September 30, 2019	December 31, 2018
Current assets:		
Cash and cash equivalents	$ 34,649	$ 158,738
Restricted cash	9,592	9,592
Marketable securities	94	297
Accounts receivables, net	11,560	3,833
Inventory	4,335	2,898
Income tax receivable	216	526
Prepaid expenses and other	7,122	3,680
Total current assets	67,568	179,564
Property and equipment, net	30,338	24,384
Operating lease right-of-use assets	47,799	—
Intangibles, net	64,299	66,283
Goodwill	38,298	38,298
Cost method investments	237,008	237,008
Equity method investments	25,240	27,980
Restricted cash	45,150	45,000
Other, net	5,175	5,570
Total assets	$ 560,875	$ 624,087
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 26,750	$ 13,817
Accrued payroll and related benefits	14,665	10,236
Accrued expenses	18,478	13,403
Current portion of deferred revenue	3,613	2,703
Acquisition consideration payable	11,312	11,312
Current portion of derivative liabilities	9,000	—
Current portion of debt	25,877	10,150
Current portion of operating lease liabilities	3,018	—
Total current liabilities	112,713	61,621
Long-term debt, net of discount	234,370	223,136
Deferred tax liabilities, net	8,634	9,416
Deferred revenue	114,783	116,274
Derivative liabilities	29,500	—
Operating lease liabilities	53,378	—
Deferred rent and other	828	6,140
Total liabilities	$ 554,206	$ 416,587
Commitments and contingencies (See Note 13)		
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 131,001,293 and 122,280,092 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	13	13
Additional paid-in capital	692,473	626,658
Accumulated other comprehensive (loss) income	(129)	15
Accumulated deficit	(596,998)	(367,750)
Treasury stock, 7,568,182 shares at cost at September 30, 2019, and December 31, 2018	(49,464)	(49,464)
Total Sorrento Therapeutics, Inc. stockholders' equity	45,895	209,472
Noncontrolling interests	(39,226)	(1,972)
Total equity	6,669	207,500
Total liabilities and stockholders' equity	$ 560,875	$ 624,087

See accompanying notes to unaudited consolidated financial statements

SORRENTO THERAPEUTICS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except for per share amounts; unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Net product revenues	$ 3,810	$ 1,121	$ 11,868	$ 1,982
Service revenues	1,968	2,984	6,530	12,282
Total revenues	5,778	4,105	18,398	14,264
Operating costs and expenses:				
Cost of products sold	2,839	662	3,868	663
Cost of services	2,387	1,515	6,947	4,052
Research and development	27,573	19,567	77,916	52,124
Acquired in-process research and development	—	9,478	75,301	9,478
Selling, general and administrative	25,234	20,102	78,128	41,102
Intangible amortization	991	655	2,949	1,974
Loss on contingent liabilities and acquisition consideration payable	37	33	103	13,696
Total operating costs and expenses	59,061	52,012	245,212	123,089
Loss from operations	(53,283)	(47,907)	(226,814)	(108,825)
Loss on trading securities	(221)	(26)	(203)	(144)
Loss on derivative liabilities	(10,700)	—	(35,792)	—
(Loss) gain on foreign currency exchange	(521)	18	(619)	(551)
Interest expense	(9,459)	(2,684)	(28,059)	(48,744)
Interest income	182	219	1,021	229
Loss before income tax	(74,002)	(50,380)	(290,466)	(158,035)
Income tax benefit	(221)	(826)	(782)	(3,152)
Loss on equity method investments	(1,431)	(900)	(3,902)	(3,926)
Net loss	(75,212)	(50,454)	(293,586)	(158,809)
Net loss attributable to noncontrolling interests	(10,797)	(3,126)	(64,338)	(5,045)
Net loss attributable to Sorrento	$ (64,415)	$ (47,328)	$ (229,248)	$ (153,764)
Net loss per share - basic per share attributable to Sorrento	$ (0.49)	$ (0.40)	$ (1.83)	$ (1.52)
Net loss per share - diluted per share attributable to Sorrento	$ (0.50)	$ (0.40)	$ (2.00)	$ (1.52)
Weighted-average shares used during period - basic per share attributable to Sorrento	130,800	117,021	125,240	100,959
Weighted-average shares used during period - diluted per share attributable to Sorrento	140,445	117,021	132,265	100,959

See accompanying notes to unaudited consolidated financial statements

SORRENTO THERAPEUTICS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands; unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net loss	$ (75,212)	$ (50,454)	$ (293,586)	$ (158,809)
Other comprehensive gain (loss):				
Foreign currency translation adjustments	(177)	(74)	(144)	(163)
Total other comprehensive loss	(177)	(74)	(144)	(163)
Comprehensive loss	(75,389)	(50,528)	(293,730)	(158,972)
Comprehensive loss attributable to noncontrolling interests	(10,797)	(3,126)	(64,338)	(5,045)
Comprehensive loss attributable to Sorrento	$ (64,592)	$ (47,402)	$ (229,392)	$ (153,927)

See accompanying notes to unaudited consolidated financial statements

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

Nine Months Ended September 30, 2019

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount					
Balance, December 31, 2018	122,280,092	$ 13	7,568,182	$ (49,464)	$ 626,658	$ 15	$ (367,750)	$ (1,972)	$ 207,500
Issuance of common stock upon exercise of stock options	158,699	—	—	—	289	—	—	—	289
Issuance of common stock for public placement, net	229,168	—	—	—	947	—	—	—	947
Equity contribution related to Semnur acquisition	—	—	—	—	27,991	—	—	26,600	54,591
Stock-based compensation	—	—	—	—	8,978	—	—	—	8,978
Issuance of 2019 Warrants	—	—	—	—	4,288	—	—	—	4,288
2019 Public Offering of common stock and warrants, net of issuance costs	8,333,334	—	—	—	23,322	—	—	—	23,322
Adjustment to noncontrolling interest	—	—	—	—	—	—	—	484	484
Foreign currency translation adjustment	—	—	—	—	—	(144)		—	(144)
Net loss	—	—	—	—	—	—	(229,248)	(64,338)	(293,586)
Balance, September 30, 2019	131,001,293	$ 13	7,568,182	$ (49,464)	$ 692,473	$ (129)	$ (596,998)	$ (39,226)	$ 6,669

Three Months Ended September 30, 2019

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount					
Balance, June 30, 2019	122,645,334	$ 13	7,568,182	$ (49,464)	$ 665,515	$ 48	$ (532,583)	$ (28,913)	$ 54,616
Issuance of common stock upon exercise of stock options	22,625	—	—	—	30	—	—	—	30
Equity contribution related to Semnur acquisition	—	—	—	—	(409)	—	—	—	(409)
Stock-based compensation	—	—	—	—	4,015	—	—	—	4,015
Issuance of 2019 Warrants	—	—	—	—	—	—	—	—	—
2019 Public Offering of common stock and warrants, net of issuance costs	8,333,334	—	—	—	23,322	—	—	—	23,322
Adjustment to noncontrolling interest	—	—	—	—	—	—	—	484	484
Foreign currency translation adjustment	—	—	—	—	—	(177)	—	—	(177)
Net loss	—	—	—	—	—	—	(64,415)	(10,797)	(75,212)
Balance, September 30, 2019	131,001,293	$ 13	7,568,182	$ (49,464)	$ 692,473	$ (129)	$ (596,998)	$ (39,226)	$ 6,669

Nine Months Ended September 30, 2018

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount					
Balance, December 31, 2017	82,903,567	$ 9	7,568,182	$ (49,464)	$ 413,901	$ 242	$ (165,120)	$ 7,042	$ 206,610
Adoption impact of ASC 606	—	—	—	—	—	—	910	—	910
Issuance of common stock upon exercise of stock options	42,565	—	—	—	302	—	—	—	302
Issuance of common stock for BDL settlement	309,916	—	—	—	2,340	—	—	—	2,340
Issuance of common stock for Scilex settlement	1,381,346	—	—	—	13,744	—	—	—	13,744
Issuance of common stock for public placement and investments, net	10,396,489	2	—	—	71,475	—	—	—	71,477
Issuance of common stock for Virttu settlement	1,795,011	—	—	—	11,308	—	—	—	11,308
Issuance of common stock related to conversion of notes payable	22,038,565	2	—	—	49,998	—	—	—	50,000
Beneficial conversion feature recorded on convertible notes	—	—	—	—	12,006	—	—	—	12,006
Warrants issued in connection with convertible notes	—	—	—	—	9,646	—	—	—	9,646
Stock-based compensation	—	—	—	—	4,218	—	—	(29)	4,189
Foreign currency translation adjustment	—	—	—	—	—	(163)	—	—	(163)
Net loss	—	—	—	—	—	—	(153,764)	(5,045)	(158,809)
Balance, September 30, 2018	118,867,459	$ 13	7,568,182	$ (49,464)	$ 588,938	$ 79	$ (317,974)	$ 1,968	$ 223,560

Three Months Ended September 30, 2018

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount					
Balance, June 30, 2018	116,240,963	$ 12	7,568,182	$ (49,464)	$ 574,316	$ 153	$ (270,646)	$ 5,094	$ 259,465
Issuance of common stock upon exercise of stock options	16,750	—	—	—	141	—	—	—	141
Issuance of common stock for public placement and investments, net	2,609,746	1	—	—	13,204	—	—	—	13,205
Issuance of common stock for Virttu settlement	—	—	—	—	—	—	—	—	—
Issuance of common stock related to conversion of notes payable	—	—	—	—	—	—	—	—	—
Beneficial conversion feature recorded on convertible notes	—	—	—	—	—	—	—	—	—
Warrants issued in connection with convertible notes	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	1,277	—	—	—	1,277
Foreign currency translation adjustment	—	—	—	—	—	(74)	—	—	(74)
Net loss	—	—	—	—	—	—	(47,328)	(3,126)	(50,454)
Balance, September 30, 2018	118,867,459	$ 13	7,568,182	$ (49,464)	$ 588,938	$ 79	$ (317,974)	$ 1,968	$ 223,560

See accompanying notes to unaudited consolidated financial statements

SORRENTO THERAPEUTICS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands; unaudited)

	Nine Months Ended September 30,	
Operating activities	**2019**	**2018**
Net loss	$ (293,586)	$ (158,809)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	8,248	6,192
Non-cash operating lease cost	3,069	—
Non-cash interest expense	15,964	44,272
Acquisition-related IPR&D	75,301	9,478
Amortization of debt issuance costs	1,590	2,634
Loss on trading securities	203	144
Stock-based compensation	8,978	4,188
Loss on derivative liabilities	35,792	—
Loss on equity method investments	3,902	3,926
Loss on contingent liabilities and acquisition consideration payable	103	13,696
Deferred tax provision	(782)	(3,062)
Changes in operating assets and liabilities, excluding effect of acquisitions:		
Accounts receivable	(7,727)	(67)
Accrued payroll	4,429	3,683
Prepaid expenses and other	(3,699)	(99)
Accounts payable	8,782	7,233
Deferred revenue	(581)	(3,482)
Other	(97)	(359)
Acquisition consideration payable for Scilex	—	(2,020)
Accrued expenses and other liabilities	3,137	5,663
Net cash used in operating activities	(136,974)	(66,789)
Investing activities		
Purchases of property and equipment	(9,582)	(5,748)
Purchase of assets related to Semnur, net of cash acquired	(17,040)	—
Purchase of assets related to Sofusa	—	(10,000)
Contributions to joint venture	(1,162)	—
Net cash used in investing activities	(27,784)	(15,748)
Financing activities		
Proceeds from public offering, net of issuance costs	23,322	—
Proceeds from Early Conditional Loan, net of issuance costs	18,858	—
Proceeds from bridge loan for Scilex regulatory milestone	—	20,000
Repayment of bridge loan for Scilex regulatory milestone	—	(20,000)
Proceeds from loan agreement	—	1,586
Short-term bridge loan, net of issuance costs	—	19,675
Short-term loan repayment	(740)	—
Scilex consideration for regulatory milestone	—	(22,466)
Payment on Scilex Notes	(1,701)	—
Proceeds from issuance of common stock, net	947	71,481
Proceeds from issuance of Scilex notes, net of issuance costs	—	134,275
Proceeds from issuance of convertible notes	—	37,849
Proceeds from exercise of stock options	289	303

Net cash provided by financing activities		40,975		242,703
Net change in cash, cash equivalents and restricted cash		(123,783)		160,166
Net effect of exchange rate changes on cash		(156)		(154)
Cash, cash equivalents and restricted cash at beginning of period		213,330		20,429
Cash, cash equivalents and restricted cash at end of period	$	89,391	$	180,441
Supplemental disclosures:				
Cash paid during the period for:				
Income taxes	$	13	$	15
Interest paid	$	10,046	$	1,453
Supplemental disclosures of non-cash investing and financing activities:				
Semnur acquisition consideration paid in equity	$	54,591	$	—
Semnur acquisition costs incurred but not paid	$	601	$	—
BDL non-cash consideration	$	—	$	2,340
Property and equipment costs incurred but not paid	$	1,408	$	59
Scilex non-cash consideration for regulatory milestone	$	—	$	13,744
Conversion of convertible notes	$	—	$	50,000
Reconciliation of cash, cash equivalents and restricted cash within the Company's consolidated balance sheets:				
Cash and cash equivalents		34,649		135,441
Restricted cash		54,742		45,000
Cash, cash equivalents, and restricted cash	$	89,391	$	180,441

See accompanying notes to unaudited consolidated financial statements

SORRENTO THERAPEUTICS, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2019

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 and commercial biopharma company focused on delivering innovative and clinically meaningful therapies to patients and their families, globally, to address unmet medical needs. The Company primarily focuses on therapeutic areas in Immuno-Oncology and Non-Opioid Pain Management. The Company also has programs assessing the use of its technologies and products in auto-immune, inflammatory and neurodegenerative diseases.

At its core, the Company is an antibody-centric company and leverages its proprietary G-MAB™ library and targeted delivery modalities to generate the next generation of cancer therapeutics. The Company's fully human antibodies include PD-1, PD-L1, CD38, CD123, CD47, c-MET, VEGFR2, CCR2 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 chimeric antigen receptor T-cell therapy ("CAR-T"), dimeric antigen receptor T-cell therapy ("DAR-T") and antibody drug conjugates ("ADCs"), as well as bispecific antibody approaches. The Company acquired Sofusa®, a revolutionary drug delivery system, in July 2018, which delivers biologics directly into the lymphatic system to potentially achieve improved efficacy and fewer adverse effects than standard parenteral immunotherapy. Additionally, the Company's majority owned subsidiary, Scilex Holding Company ("Scilex Holding"), acquired the assets of Semnur Pharmaceuticals, Inc. ("Semnur") in March 2019. Semnur's SEMDEXA™ (SP-102) compound is expected to be the first FDA-approved non-opioid corticosteroid formulated as a viscous gel injection in development for the treatment of lumbosacral radicular pain/sciatica, containing no neurotoxic preservatives, surfactants, solvents or particulates.

With each of the Company's clinical and pre-clinical programs, it 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 it 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 close to entering the clinic. These include cellular therapies, an oncolytic virus and a palliative care program targeted to treat intractable cancer pain.

Through September 30, 2019, the Company had devoted substantially all of its efforts to developing products, raising capital and building infrastructure.

The Company has reclassified historically presented revenue and cost of revenue to conform to the current period presentation. The reclassification had no impact on previously reported results of operations or financial position.

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

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 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, 2018. Operating results for interim periods are not expected to be indicative of operating results for the Company's 2019 fiscal year, or any subsequent period.

2. Liquidity and Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has recurring losses from operations, recurring negative cash flows from operations and substantial cumulative net

losses to date 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.

The Company has plans in place to obtain sufficient additional funds to fulfill its operating and capital requirements for the next 12 months. 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, 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 conclude that such plans will be effectively implemented within one year after the date that the financial statements are issued. As a result, management has concluded that the aforementioned conditions, among others, raise substantial doubt about the Company's ability to continue as a going concern within one year after the date the financial statements are issued.

As of September 30, 2019, the Company had $356.5 million of long term debt outstanding, comprised of convertible notes issued pursuant to the March 2018 Securities Purchase Agreement (as defined below), the 2018 Purchase Agreements (as defined below) and the Indenture (as defined below) for Scilex Pharmaceuticals Inc. ("Scilex Pharma") and the Loan Agreement (as defined below) (collectively, the "Debt Arrangements") (See Note 10).

Each of the Debt Arrangements provides that, upon the occurrence of an event of default, the Purchasers or Lenders thereof (as applicable) may, by written notice to the Company, declare all of the outstanding principal and interest under such Debt Arrangement immediately due and payable. For purposes of the Debt Arrangements, an event of default includes, among other things, (i) the failure to pay outstanding indebtedness when due, (ii) the Company's breach of certain representations, warranties, covenants or obligations under the documents relating to the Debt Arrangements, or (iii) the occurrence of certain insolvency events involving the Company. The Company believes that it is not probable that the material adverse event clause under the Debt Arrangements will be exercised.

If the Company is unable to raise additional capital in sufficient amounts or on terms acceptable, the Company may have to significantly delay, scale back or discontinue the development or commercialization of one or more of its product candidates. The Company may also seek collaborators for one or more of its current or future product candidates at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available. The consolidated financial statements do not reflect any adjustments that might be necessary if the Company is unable to continue as a going concern.

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 consolidated 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.

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.

Inventory

The Company determines inventory cost on a first-in, first-out basis. The Company reduces the carrying value of inventories to a lower of cost or net realizable value for those items that are potentially excess, obsolete or slow-moving. The Company considers the need for allowances for excess and obsolete inventory based upon historical experience, sales trends, and specific categories of inventory and age of on-hand inventory. As of September 30, 2019, the Company's inventory is primarily comprised of finished goods, and the related allowance for excess inventory was $2.2 million.

Research and Development Costs

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 or drug delivery devices, as well as future milestone payments associated with asset acquisitions that do not meet the definition of a derivative and are deemed probable to achieve the milestones, are immediately expensed as acquired in-process research and development provided that the drug has not obtained regulatory approval for marketing and, absent obtaining such approval, have no alternative future use. The acquired in-process research and development related to the business combination of Virttu Biologics Limited ("Virttu"), 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 consolidated balance sheets. The Company commenced amortization of acquired in-process research and development related to the business combination of Scilex Pharma upon commercialization of ZTlido® (lidocaine topical system) 1.8% in October 2018. Capitalized 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. (See Note 4 for further discussion of acquired in-process research and development expense related to the acquisition of Semnur).

Revenue Recognition

As of September 30, 2019, the future performance obligations for royalty and license revenues relate to the license agreements with ImmuneOncia Therapeutics, LLC ("ImmuneOncia") and NantCell, Inc. ("NantCell"). The Company considers both of these entities as related parties and accounts for them as equity method and cost method investments, respectively.

The total consideration for the ImmuneOncia license performance obligation, effective September 1, 2016, represented $9.6 million. The estimated revenue expected to be recognized for future performance obligations, as of September 30, 2019, was approximately $8.1 million. The Company expects to recognize license revenue of approximately $0.5 million of the remaining performance obligation annually through the remaining term. The Company applied judgment in estimating the 20-year contract term, analogous to the expected life of the patent, over which revenue is recognized over time given the ongoing performance obligation related to the Company's participation on a steering committee for the technologies under the agreement.

As of September 30, 2019, the NantCell license agreement, effective April 21, 2015, represented $10.0 million of contract liabilities reflected in long-term deferred revenue. See Note 9 for additional information regarding the remaining performance obligation for the agreement.

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which it recognizes revenue at the amount to which it has the right to

invoice for services performed. The Company applied the practical expedient in Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* to the revenue contracts for Concortis Biosystems Corp. ("Concortis") sales and services and materials and supply agreements due to the general short-term length of such contracts.

The following table shows revenue disaggregated by product and services type for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Scilex Pharma product sales	$ 3,770	$ —	$ 11,289	$ —
Other product sales	40	1,121	579	1,982
Net product revenue	$ 3,810	$ 1,121	$ 11,868	$ 1,982
Concortis Biosystems Corporation	$ 1,607	$ 1,042	$ 4,622	$ 3,400
Bioserv Corporation	233	1,528	1,540	4,895
Joint development agreement	—	—	—	3,333
Other revenue	128	414	368	654
Service revenue	$ 1,968	$ 2,984	$ 6,530	$ 12,282

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.

Scilex Holding

The Company's revenue is generated from product sales within the United States. The Company does not have significant costs associated with costs to obtain contract with its customer. Substantially all of the Company's revenue and accounts receivable result from a sole customer.

Revenue from product sales is fully comprised of sales of ZTlido® (lidocaine topical system) 1.8%. The Company's performance obligation with respect to sales of ZTlido® (lidocaine topical system) 1.8% is satisfied at a point in time, which transfers control upon delivery of product to the customer. The Company considers control to have transferred upon delivery because the customer has legal title to the asset, physical possession of the asset has been transferred to the customer, the customer has significant risks and rewards of ownership of the asset, and the Company has a present right to payment at that time. The Company identified a single performance obligation. Invoicing typically occurs upon shipment and the length of time between invoicing and when payment is due is not significant. The aggregate dollar value of unfulfilled orders as of September 30, 2019 was not material.

For product sales, the Company records gross-to-net sales adjustments for government and managed care rebates, chargebacks, wholesaler and distributor fees, sales returns and prompt payment discounts. Such variable consideration are estimated in the period of the sale and are estimated using a most likely amount approach based primarily upon provisions included in the Company's customer contract, customary industry practices and current government regulations. There were no significant changes in estimates of variable consideration during the nine months ended September 30, 2019.

Concortis Biosystems Corporation ("Concortis")

Revenues for Concortis operations are comprised of contract manufacturing associated with sales of customized reagents and relate to providing synthetic expertise to a customers' synthesis of reagents by delivering proprietary cytotoxins, linkers and linker-toxins and ADC service using industry standard toxins and antibodies provided by customers. Revenues are recognized at a point in time upon the transfer of control, which is generally upon shipment given the short contract terms which are generally three months or less.

Bioserv Corporation ("Bioserv")

Contract manufacturing services associated with the Company's Bioserv operations related to finish and fill activities for drug products and reagents are recognized ratably over the contract term based on a time-based measure which reflects the transfer of services to the customer because the manufactured products are highly customized and do not have an alternative use

to the Company. As of December 31, 2018 and September 30, 2019, the estimated revenue expected to be recognized for future performance obligations associated with contract manufacturing services was approximately $1.6 million and $1.2 million, respectively.

The following table includes Bioserv sales and services revenue expected to be recognized in the future related to performance obligations that are undelivered or partially delivered at the end of the reporting period and do not include contracts with original durations of one year or less (in thousands):

	Remainder of 2019	2020	2021 and thereafter
Contract manufacturing services	$403	$701	$109

Joint Development Agreement

On September 26, 2017, the Company entered into a joint development agreement with Celularity Inc. ("Celularity") whereby the Company agreed to provide research services to Celularity through June 30, 2018 in exchange for an upfront payment of $5.0 million. The revenue related to the joint development agreement of $5.0 million was recognized over the length of the service agreement as services were performed. The Company recorded sales and services revenues under the joint development agreement of $3.3 million during the nine months ended September 30, 2018. The Company recordedno sales and services revenues under the joint development agreement during the nine months ended September 30, 2019 as such arrangement is complete.

Reorganization of Segments

Starting on January 1, 2019, the Company re-segmented its business intotwo new operating segments: the Sorrento Therapeutics segment and the Scilex segment.

Recent Accounting Pronouncements

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. 2016-2 is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. In July 2018, the FASB issued ASU No. 2018-11, which allows for an optional transition method to adopt the lease standard by recognizing a cumulative-effect adjustment to the opening balance sheet of retained earnings in the period of adoption, with no adjustment to prior comparative periods. In March 2019, the FASB issued ASU No. 2019-01, which clarifies that entities are not subject to the transition disclosure requirements in Accounting Standards Codification ("ASC") Topic 250-10-50-3 related to the effect of an accounting change on certain interim period financial information. ASU No. 2016-02 and all subsequent amendments (collectively, "ASC 842") were effective for public entities for annual reporting periods beginning after December 15, 2018, including interim periods therein. The Company adopted ASC 842 during the first quarter of 2019 and elected to apply the cumulative-effect adjustment to the opening balance sheet and optional transition method to not present comparable prior periods as allowed under ASU No. 2018-11. The Company made the following practical expedients elections: (1) elected the short-term lease exception, (2) did not elect hindsight, and (3) elected to not separate its non-lease components from lease components. The Company adopted the transitional practical expedients, which allowed the Company to carry forward its historical assessment of whether existing agreements contained a lease and the classification of the Company's existing operating leases, and also allowed the Company to not reassess initial direct costs. The adoption of ASC 842 resulted in the recording of $44.9 million in operating lease right-of-use ("ROU") assets and $2.6 million and $47.8 million in current portion of operating lease liabilities and non-current operating lease liabilities, respectively. Deferred rent, recorded in other current liabilities and other non-current liabilities, was derecognized. There were no adjustments to retained earnings. The Company reports financial information for fiscal years ending on or before December 31, 2018 under the previous lease accounting standard.

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 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 the Company's consolidated financial position, results of operations or cash flows.

In July 2019, the FASB issued ASU No. 2019-07,*Codification Updates to SEC Sections - Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization and Miscellaneous Updates (SEC Update) ("ASU 2019-07").* ASU 2019-07 aligns the guidance in various sections of the ASC with the requirements of certain final rules of the Securities and Exchange Commission. ASU 2019-07 was effective immediately. The adoption of ASU 2019-07 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

4. Acquisitions

Acquisition of Semnur Pharmaceuticals, Inc.

On March 18, 2019, the Company, for limited purposes, entered into an Agreement and Plan of Merger (the "Merger Agreement") with Semnur, Scilex Holding, Sigma Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of Scilex Holding ("Merger Sub"), and Fortis Advisors LLC, solely as representative of the holders of Semnur equity (the "Equityholders' Representative"). Pursuant to the Merger Agreement, Merger Sub merged with and into Semnur (the "Merger"), with Semnur surviving as a wholly owned subsidiary of Scilex Holding.

Concurrently with the execution of the Merger Agreement, the Company and each of the other holders of outstanding shares of capital stock of Scilex Pharma, the Company's majority-owned subsidiary, contributed each share of Scilex Pharma capital stock that the Company or it owned to Scilex Holding in exchange for one share of Scilex Holding common stock (the "Contribution"). In connection with the Contribution, the Company provided Scilex Holding with a loan with an initial principal amount of $16.5 million in the form of a note payable, which loan was used to fund the acquisition of Semnur. As a result of the Contribution, and prior to the consummation of the Merger, Scilex Pharma became a wholly-owned subsidiary of Scilex Holding and the Company became the owner of approximately 77% of Scilex Holding's issued and outstanding capital stock.

At the closing of the Semnur acquisition, Scilex Holding issued to the holders of Semnur's capital stock and options to purchase Semnur's common stock (collectively, the "Semnur Equityholders") upfront consideration with a value of approximately $70.0 million. The upfront consideration was comprised of the following: (a) a cash payment of approximately $15.0 million, and (b) $55.0 million of shares of Scilex Holding common stock (47,039,315 shares issued and 352,972 shares issuable, valued at $1.16 per share) (the "Stock Consideration").

On August 7, 2019, Scilex Holding entered into an amendment to the Merger Agreement to provide that, following the consummation of Scilex Holding's first bona fide equity financing with one or more third-party financing sources on an arms' length basis with gross proceeds to Scilex Holding of at least $40.0 million, certain of the former Semnur Equityholders will be paid cash in lieu of: (a) the 352,972 shares of the Company's common stock otherwise issuable to such Semnur Equityholders pursuant to the Merger Agreement, and (b) any shares that would otherwise be issued to such Semnur Equityholders upon release of shares held in escrow pursuant to the Merger Agreement, with such shares in each case valued at $1.16 per share. The amendment resulted in a reclassification of $0.4 million from additional paid-in capital to accrued liabilities.

A portion of the cash consideration otherwise payable to the Semnur Equityholders was set aside for expenses incurred by the Equityholders' Representative, and 4,749,095 shares of Scilex Holding common stock otherwise issuable to Semnur Equityholders were placed in escrow with a third party as security for the indemnification obligations of the Semnur Equityholders under the Merger Agreement, including in respect of breaches of representations and warranties of Semnur included in the Merger Agreement. The Semnur Equityholders that receive the Stock Consideration were required to sign an exchange and registration rights agreement with the Company (the "Exchange Agreement"), which is further described below.

Following the issuance of the Stock Consideration, the Company's ownership in Scilex Holding was diluted to approximately58% of Scilex Holding's issued and outstanding capital stock. Pursuant to the Merger Agreement, and upon the terms and subject to the conditions contained therein, Scilex Holding also agreed to pay the Semnur Equityholders up to $280.0 million in aggregate contingent cash consideration based on the achievement of certain milestones, which is comprised of a $40.0 million payment that will be due upon obtaining the first approval of a New Drug Application of a Semnur product by the U.S. Food and Drug Administration (the "FDA") and additional payments that will be due upon the achievement of certain amounts of net sales of Semnur products as follows: (a) a $20.0 million payment upon the achievement of $100.0 million in cumulative net sales of a Semnur product, (b) a $20.0 million payment upon the achievement of $250.0 million in cumulative net sales of a Semnur product, (c) a $50.0 million payment upon the achievement of $500.0 million in cumulative net sales of a

Semnur product, and (d) a $150.0 million payment upon the achievement of $750.0 million in cumulative net sales of a Semnur product.

Pursuant to the Exchange Agreement, and upon the terms and subject to the conditions contained therein, if within 18 months following the closing of the Merger (the "Merger Closing"), 100% of the outstanding equity of Scilex Holding has not been acquired by a third party and Scilex Holding has not entered into a definitive agreement with respect to, or otherwise consummated, a firmly underwritten offering of Scilex Holding capital stock on a major stock exchange that meets certain requirements and includes the Stock Consideration, then holders of the Stock Consideration may collectively elect to exchange, during the 60-day period commencing the date that is the 18 month anniversary of the Merger Closing (the "Share Exchange"), the Stock Consideration for shares of the Company's common stock with a value of $55.0 million based on a price per share of the Company's common stock equal to the greater of (a) the 30-day trailing volume weighted average price of one share of the Company's common stock as reported on The Nasdaq Stock Market LLC as of the consummation of the Share Exchange and (b) $5.55 (subject to adjustment for any stock dividend, stock split, stock combination, reclassification or similar transaction).

Pursuant to the terms of the Exchange Agreement, and subject to the limitations contained therein, within 30 days following consummation of the Share Exchange (if it occurs at all), the Company agreed to prepare and file with the SEC a registration statement to enable the public resale on a delayed or continuous basis of the shares of the Company's common stock issued in the Share Exchange (the "Registration Statement") and use its commercially reasonable efforts to maintain the effectiveness of such Registration Statement for up to three years thereafter. In the Exchange Agreement, the Company has also agreed to indemnify the applicable Semnur Equityholders and their affiliates for certain liabilities related to such Registration Statement, including certain liabilities arising under the Securities Act of 1933, as amended (the "Securities Act"), and the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Jaisim Shah, a member of the Company's Board of Directors, was Semnur's Chief Executive Officer, a member of its Board of Directors and a stockholder of Semnur prior to the acquisition transaction.

The transaction was accounted for as an asset acquisition since substantially all the value of the gross assets was concentrated in a single asset. Under the Merger Agreement, Scilex Holding acquired the Semnur SEMDEXA™ (SP-102) technology for consideration valued at approximately $70.0 million, excluding contingent consideration, transaction costs of $3.1 million and liabilities assumed of $4.2 million, which was allocated based on the relative fair value of the assets acquired. The $70.0 million of consideration consisted of $15.0 million in cash and shares of Scilex Holding valued at $55.0 million. No contingent consideration was recorded as of September 30, 2019 since the related regulatory approval milestones are not deemed probable until they actually occur. As a result, approximately $75.3 million was expensed as a component of acquired in-process research and development.

5. Fair Value Measurements

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, 2019			
	Balance	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 34,649	$ 34,649	$ —	$ —
Restricted cash	54,742	54,742	—	—
Marketable securities	94	81	—	13
Total assets	$ 89,485	$ 89,472	$ —	$ 13
Liabilities:				
Derivative liabilities	$ 9,000	$ —	$ —	$ 9,000
Derivative liabilities - Non-current	29,500	—	—	29,500
Acquisition consideration payable	11,312	—	—	11,312
Acquisition consideration payable - Non-current	828	—	—	828
Total liabilities	$ 50,640	$ —	$ —	$ 50,640

	Fair Value Measurements at December 31, 2018			
	Balance	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 158,738	$ 158,738	$ —	$ —
Restricted cash	54,592	54,592	—	—
Marketable securities	297	247	—	50
Total assets	$ 213,627	$ 213,577	$ —	$ 50
Liabilities:				
Acquisition consideration payable	$ 11,312	$ —	$ —	$ 11,312
Acquisition consideration payable - Non-current	725	—	—	725
Total liabilities	$ 12,037	$ —	$ —	$ 12,037

The Company's financial assets and liabilities carried at fair value are comprised of cash, cash equivalents, restricted cash, marketable securities and acquisition consideration payable. 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 fair value of the contingent consideration is measured 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.

(in thousands)	Fair Value
Beginning balance at December 31, 2018	$ 12,037
Re-measurement of Fair Value	103
Ending balance at September 30, 2019	$ 12,140

As of September 30, 2019, $9.9 million of the Virttu contingent liability remains to be paid in cash.

The principal significant unobservable inputs used in the valuations of the contingent considerations are the discount rates, and probabilities assigned to scenario outcomes.

The Company recorded a loss on derivative liabilities of $9.6 million and $29.5 million for the three and nine months ended September 30, 2019, respectively, which was primarily attributed to revised probabilities related to the timing of marketing approval for ZTlido® (lidocaine topical system) 5.4% ("SP-103"), revised sales forecasts and tax indemnification obligations with respect to foreign note holders. The fair value of the derivative liabilities is estimated using the discounted cash flow method under the income approach combined with a Monte Carlo simulation model, which involves significant Level 3 inputs and assumptions including a discount rate of approximately 19.6%, net sales forecasts and estimated probabilities of 55% and 95% of not obtaining marketing approval before predetermined dates as of September 30, 2019.

The Company determined that the contingent acceleration feature of the Early Conditional Loan (as defined in Note 10) represents an embedded derivative liability that met the criteria for bifurcation under ASU No. 2017-12, *Derivatives and hedging*. The fair value of the derivative liability involved significant Level 3 inputs and assumptions, including estimated probabilities of satisfying certain commercial and financial milestones between August 7, 2019 and November 7, 2019 and is estimated using a with and without discounted cash flow approach. The Company recorded a debt discount for the fair value of the derivative liability of $7.0 million on the issuance date. The debt discount attributed to the derivative liability is being amortized over the remaining term of the Term Loans (as defined in Note 10) and is recorded as interest expense in the consolidated statement of operations. The Company performs a mark-to-market assessment for the derivative liability related to the contingent acceleration feature of the Early Conditional Loan each reporting period and recorded a loss on derivative liabilities of $1.1 million and $2.0 million for the three and nine months ended September 30, 2019, respectively. The Company also recorded a loss on derivative liabilities associated with the 2019 Warrants (as defined in Note 10) of $4.3 million on the issuance date, as the Conditional Warrants were issued with the Amendment (See Note 10). Further, the derivative liability associated with the 2019 Warrants was reclassified to additional-paid-in-capital upon issuance of the 2019 Warrants.

The following table includes a summary of the derivative liabilities measured at fair value using significant unobservable inputs (Level 3) during the nine months ended September 30, 2019:

(in thousands)	Fair Value
Beginning Balance at December 31, 2018	$ —
Additions	6,996
Re-measurement of Fair Value	31,504
Ending Balance at September 30, 2019	$ 38,500

Non-financial assets and liabilities measured on a nonrecurring basis

Certain non-financial assets and liabilities are measured at fair value, usually with Level 3 inputs including the discounted cash flow method or cost method, on a nonrecurring basis in accordance with authoritative guidance. These include items such as non-financial assets and liabilities initially measured at fair value in a business combination and non-financial long-lived assets measured at fair value for an impairment assessment. In general, non-financial assets, including goodwill, intangible assets and property and equipment, are measured at fair value when there is an indication of impairment and are recorded at fair value only when any impairment is recognized.

6. Property and Equipment

Property and equipment consisted of the following as of September 30, 2019 and December 31, 2018 (in thousands):

	September 30, 2019	December 31, 2018
Furniture and fixtures	$ 1,240	$ 1,127
Office equipment	659	632
Machinery and lab equipment	30,675	27,690
Leasehold improvements	9,716	9,001
Construction in progress	8,654	1,221
	50,944	39,671
Less accumulated depreciation	(20,606)	(15,287)
	$ 30,338	$ 24,384

Depreciation expense for the three months ended September 30, 2019 and 2018 was $1.3 million and $1.5 million, respectively. Depreciation expense for the nine months ended September 30, 2019 and 2018 was $5.3 million and $4.1 million, respectively.

7. Investments

As of September 30, 2019 and December 31, 2018, 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, NantBioScience, Inc. ("NantBioScience"), Globavir Biosciences, Inc., Brink Biologics, Inc., Coneksis, Inc., and Celularity. No impairment losses were recorded during the nine months ended September 30, 2019.

NANTibody

In 2013, the Company acquired IgDraSol Inc. ("IgDraSol"), a private company focused on the development of oncologic agents for the treatment of cancer, from a third party unrelated to the NantWorks, LLC ("NantWorks") affiliated entities for 3.0 million shares of the Company's common stock and $380,000 of cash for a total purchase price of $29.1 million. This transaction included the acquisition of IgDraSol's lead compound, CynviloqTM, a micellar diblock copolymeric paclitaxel formulation drug product.

In May 2015, the Company entered into an agreement with NantPharma, LLC ("NantPharma"), a NantWorks company, pursuant to which the Company sold to NantPharma all of its equity interests in IgDraSol, which continued to hold the rights to CynviloqTM. Pursuant to the agreement, NantPharma paid the Company an upfront fee of $90.1 million, of which $60.0 million was required to be used by the Company to fundtwo joint ventures, as described below.

In April 2015, the Company and NantCell, a subsidiary of NantWorks, LLC ("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 contribute its portion of the initial joint funding of $40.0 million to NANTibody from the proceeds of the sale of IgDraSol. Additionally, the Company and NantCell were allowed to appoint two and three representatives, respectively, to NANTibody's five-member Board of Directors. 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.

NANTibody had been formed to advance pre-clinical and clinical immunology assets contributed by the Company and NantCell. The Company continues to hold 40% of the outstanding equity of NANTibody and NantCell holds the remaining 60%. Until July 2, 2017, NANTibody held approximately $100.0 million of cash and cash equivalents, and the Company recorded its investment in NANTibody at approximately $40.0 million. As an equity method investment, the Company's ratable portion of 40% of money expended for the development of intellectual property assets held by NANTibody would be reflected within income (loss) on equity method investments in its statement of operations. As a result of limited spending at NANTibody, the cash on hand at NANTibody remained at approximately $100.0 million since the inception of the NANTibody joint venture until July 2, 2017. Further, the Company's equity method investment in NANTibody remained at approximately $40.0 million until July 2, 2017.

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.

In February 2018, NANTibody notified the Company that on July 2, 2017, NANTibody acquired all of the outstanding equity of IgDraSol in exchange for $90.1 million in cash. NANTibody purchased IgDraSol from NantPharma, which is controlled by NantWorks, an entity with a controlling interest in NantCell and NantPharma.

Although the Company has had a designee serving on the Board of Directors of NANTibody since the formation of NANTibody in April 2015, and although the Company has held 40% of the outstanding equity of NANTibody since NANTibody's formation, neither the Company nor its director designee was given any advance notice of NANTibody's purchase of IgDraSol or of any board meeting or action to approve such purchase. As such, the Company's designee on NANTibody's Board of Directors was not given an opportunity to consider or vote on the transaction as a director and the Company was not given an opportunity to consider or vote on the transaction in its position as a significant (40%) equity holder of NANTibody.

As a result of the July 2, 2017 purchase of IgDraSol, NANTibody's cash and cash equivalents were reduced from $99.6 million as of June 30, 2017 to $9.5 million as of September 30, 2017, and NANTibody's contributed capital was reduced from $100.0 million as of June 30, 2017 to $10.0 million as of September 30, 2017, to effect the transfer of IgDraSol from NantPharma to NANTibody. No additional information was provided to the Company to explain why NANTibody's total assets as of September 30, 2017 were reduced by approximately $90.1 million. The Company requested, but did not receive, additional information from NANTibody for purposes of supporting the value of IgDraSol, including any information regarding clinical advancements in the entity since the sale of IgDraSol by the Company in May 2015.

Prior to the communication of the transfer of IgDraSol from NantPharma to NANTibody, the Company relied on the cash and cash equivalents of NANTibody for purposes of determining the value of its investment in NANTibody, which capital was expended by NANTibody to acquire IgDraSol on July 2, 2017. As a result of the transfer of IgDraSol, the Company reassessed the recoverability of its equity method investment in NANTibody as of July 2, 2017. In doing so, the Company considered the expected outcomes for the intellectual property assets held by NANTibody as of July 2, 2017. As a result of the lack of evidence of any development activity associated with any of the assets held in NANTibody, given the passage of time since the formation of the joint venture, many competitive products from other drug developers worldwide have advanced and/or commercialized for the targeted disease indications of the assets held in NANTibody, and given the Company's minority interest in NANTibody (the investee), the Company concluded that it does not have the ability to recover the carrying amount of the investment and an other-than-temporary decline in the value of the investment had occurred. Accordingly, an impairment was recorded to the Company's equity method investment in NANTibody for the three and nine months ended September 30, 2017. The fair value of the Company's investment in NANTibody was measured at fair value on July 2, 2017 using significant unobservable inputs (Level 3) due to the determination of fair value requiring significant judgment, including the potential outcomes of the intellectual property assets held by NANTibody. For these reasons, fair value was determined by applying the Company's 40% equity interest in NANTibody to the remaining cash and cash equivalents, which resulted in an impairment of $36.0 million. The impairment resulted in a revised carrying value of the Company's investment in NANTibody of $3.7 million which approximated its ratable 40% ownership of the cash maintained by NANTibody expected to be used for future research and development. As of September 30, 2019, the carrying value of the Company's investment in NANTibody was approximately $2.5 million. As of September 30, 2018, the carrying value of the Company's investment in NANTibody was approximately $3.4 million.

NANTibody recorded a net loss of $1.7 million and $66 thousand for the three months ended June 30, 2019 and 2018, respectively. The Company recorded its portion of loss from NANTibody in loss on equity method investments on its consolidated statements of operations for the three and nine months ended September 30, 2019 and 2018. As of June 30, 2019, NANTibody had $7.7 million in current assets and $1.2 million in current liabilities and no noncurrent assets or noncurrent liabilities. As of June 30, 2018, NANTibody had $9.6 million in current assets, $1.6 million in current liabilities and no noncurrent assets or noncurrent liabilities.

NantStem

In July 2015, the Company and NantBioScience 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, L.P. ("Cambridge"), a related party to NantBioScience.

A loss related to other-than-temporary impairment of $0.5 million was recognized for the equity investment in NantStem for the nine months ended September 30, 2018, and no loss related to other-than-temporary impairment recognized for the equity investment in NantStem for the three months ended September 30, 2018. There were no losses related to other-than-temporary impairment recognized for the equity investment in NantStem for the three and nine months ended September 30, 2019.

The Company is accounting for its interest in NantStem as an equity method investment, due to the significant influence the Company has over the operations of NantStem through its board representation and 20% voting interest. The Company's investment in NantStem is reported in equity method investments on its consolidated balance sheets and its share of NantStem's loss is recorded in loss on equity method investments on its consolidated statement of operations. As of September 30, 2019,

the carrying value of the Company's investment in NantStem was approximately $17.8 million. As of September 30, 2018, the carrying value of the Company's investment in NantStem was approximately $18.0 million.

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 a net loss of $289 thousand and $621 thousand for the three months ended June 30, 2019 and 2018, respectively. The Company recorded its portion of loss from NantStem in income (loss) on equity method investments on its consolidated statements of operations for the three and nine months ended September 30, 2019 and 2018. As of June 30, 2019, NantStem had $74.7 million in current assets, $187 thousand in current liabilities, $5.4 million in noncurrent assets and no noncurrent liabilities. As of June 30, 2018, NantStem had $74.0 million in current assets and $119 thousand in current liabilities, $7.8 million in noncurrent assets and no noncurrent liabilities.

The Company records its portion of losses from other equity method investments in loss on equity method investments on its consolidated statements of operations for the three and nine months ended September 30, 2019 and 2018.

8. Goodwill and Intangible Assets

At each of September 30, 2019 and December 31, 2018, the Company had recorded goodwill of $38.3 million.

Starting on January 1, 2019, the Company re-segmented its business intotwo new operating segments: the Sorrento Therapeutics segment and the Scilex segment. These segments are the Company's reporting units, and are the level at which the Company conducts its goodwill impairment evaluations. Goodwill was allocated to the Sorrento Therapeutics and the Scilex operating segments on a relative fair value basis. Goodwill for the Sorrento Therapeutics segment and Scilex segment was $31.6 million and $6.7 million, respectively, as of September 30, 2019.

Amortization for the intangible assets that have finite useful lives is generally recorded on a straight-line basis over their useful lives. Intangible assets with indefinite useful lives totaling $14.4 million are included in acquired in-process research and development in the table below.A summary of the Company's identifiable intangible assets as of September 30, 2019 and December 31, 2018 is as follows (in thousands, in years):

September 30, 2019	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net
Customer relationships	6	$ 1,585	$ 1,394	$ 191
Acquired technology	19	3,410	1,016	2,394
Acquired in-process research and development	15	36,299	1,463	34,836
Patent rights	15	32,720	6,376	26,344
Assembled workforce	5	$ 605	$ 71	$ 534
Total intangible assets		$ 74,619	$ 10,320	$ 64,299

December 31, 2018	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net
Customer relationships	6	$ 1,585	$ 1,373	$ 212
Acquired technology	19	3,410	885	2,525
Acquired in-process research and development	15	35,834	366	35,468
Patent rights	15	32,720	4,742	27,978
Assembled workforce	5	105	5	100
Total intangible assets		$ 73,654	$ 7,371	$ 66,283

As of September 30, 2019, the weighted average amortization period for identifiable intangible assets is14.9 years. Aggregate amortization expense was $1.0 million and $0.7 million for the three months ended September 30, 2019 and 2018, respectively. Aggregate amortization expense was $2.9 million and $2.0 million for the nine months ended September 30, 2019 and 2018, respectively.

Estimated future amortization expense related to intangible assets at September 30, 2019 is as follows (in thousands):

Years Ending December 31,	Amount
2019 (Remaining three months)	$ 992
2020	3,966
2021	5,020
2022	5,020
2023	5,015
2024	4,924
Thereafter	39,362
Total expected future amortization	$ 64,299

9. Significant Agreements and Contracts

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, 2019, the Company had not yet provided all of the items noted in the agreement, including research services for and on behalf of NantCell, and therefore has recorded the entire upfront payment and value of the equity interest received as deferred revenue. Specifically, only a portion of the materials associated with the licensed assets have been delivered while the majority of the licensed assets remain undelivered and the related research activities are still to be performed. The Company will recognize the upfront payment and the value of the equity interest received over the period beginning with the commencement of the last item delivered. The Company's ownership interest in NantCell does not provide the Company with control or the ability to exercise significant influence; therefore the $100.0 million investment is carried at cost in the consolidated balance sheets and evaluated for other-than-temporary impairment on a quarterly basis.

10. Debt

2018 Securities Purchase Agreement in Private Placement and Amendment to Warrants

On March 26, 2018, the Company entered into a Securities Purchase Agreement (the "March 2018 Securities Purchase Agreement") with certain accredited investors (the "March 2018 Purchasers"). Pursuant to the March 2018 Securities Purchase Agreement, the Company agreed to issue and sell to the March 2018 Purchasers, in a Private Placement (the "March 2018 Private Placement"), (1) convertible promissory notes in an aggregate principal amount of $120,500,000 (the "Notes"), and (2) warrants to purchase 8,591,794 shares of the common stock of the Company (the "Warrants"). On June 13, 2018, the Company entered into an amendment (the "June 2018 Amendment") to the March 2018 Securities Purchase Agreement. Under the terms of the June 2018 Amendment, the Company and the March 2018 Purchasers agreed that the aggregate principal amount of the Notes was reduced to $37,848,750 and that the aggregate number of shares of Common Stock issuable upon exercise of the Warrants was reduced to 2,698,662, and also agreed to certain other adjustments to the threshold principal amount of the Notes required to remain outstanding in order for certain rights and obligations to apply to the Notes.

On June 13, 2018, the Company issued and sold to the March 2018 Purchasers (1) Notes in an aggregate principal amount of $37,848,750, and (2) Warrants to purchase an aggregate of 2,698,662 shares of Common Stock. The Notes accrue interest at a rate equal to 5.0% per annum and mature upon the earlier to occur of June 13, 2023 and the date of the closing of a change of control (the "Maturity Date"). In connection with the issuance of the Notes and the Warrants, the Company recorded a debt discount of approximately $21.6 million based on an allocation of proceeds to the Warrants of approximately $9.6 million and a beneficial conversion feature of approximately $12.0 million, before issuance costs.

On November 7, 2018, the Company entered into an Agreement and Consent (the "Agreement and Consent") with the March 2018 Purchasers and agreed to amend the Warrants to reduce the exercise price per share of its common stock thereunder from $8.77 to $3.28. The amendment of the Warrants resulted in a loss on debt extinguishment of $1.9 million

representing the incremental fair value of the modified Warrants along with the difference between the fair value and carrying value of the Notes at the modification date of November 7, 2018.

The Company determined that the amendment of the Warrants resulted in an extinguishment at the modification date. As a result, the Company recorded a loss on debt extinguishment for the difference between the fair value of $23.1 million and the carrying value of $17.0 million, or $6.1 million. The Company recorded the loss as of the date of modification, or November 7, 2018. As of September 30, 2019, the estimated Level 3 fair value of the Notes was approximately $17.6 million, compared to the carrying value of $25.2 million. The fair value of the Notes was estimated using a lattice model with Level 3 inputs including the historical stock price volatility, risk-free interest rate and debt yield.

Borrowings under the Notes consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Face value of loan	$ 37,849	$ 37,849
Unamortized debt discount	(14,288)	(14,804)
Accretion of debt discount	1,684	515
Ending balance	$ 25,245	$ 23,560

Interest expense recognized for stated interest on the Notes for the three and nine months ended September 30, 2019 totaled $0.5 million and $1.4 million, respectively. The amount of debt discount and debt issuance costs included in interest expense for the three and nine months ended September 30, 2019 was approximately $0.6 million and $1.7 million, respectively.

The Company identified a number of embedded derivatives that require bifurcation from the Notes and separate accounting as a single compound derivative. The current fair value attributed to the bifurcated compound derivative is immaterial. The Company will re-evaluate this assessment each reporting period.

2018 Purchase Agreements and Indenture for Scilex

On September 7, 2018, Scilex Pharma entered into Purchase Agreements (the "2018 Purchase Agreements") with certain investors (collectively, the "Scilex Note Purchasers") and the Company. Pursuant to the 2018 Purchase Agreements, on September 7, 2018, Scilex Pharma, among other things, issued and sold to the Scilex Note Purchasers senior secured notes due 2026 in an aggregate principal amount of $224.0 million (the "Scilex Notes") for an aggregate purchase price of $140.0 million (the "Scilex Notes Offering"). In connection with the Scilex Notes Offering, Scilex Pharma also entered into an Indenture (the "Indenture") governing the Scilex Notes with U.S. Bank National Association, a national banking association, as trustee (the "Trustee") and collateral agent (the "Collateral Agent"), and the Company. Pursuant to the Indenture, the Company agreed to irrevocably and unconditionally guarantee, on a senior unsecured basis, the punctual performance and payment when due of all obligations of Scilex Pharma under the Indenture.

The net proceeds of the Scilex Notes Offering were approximately $89.3 million, after deducting the Scilex Notes Offering expenses payable by Scilex Pharma and funding a segregated reserve account with $20.0 million (the "Reserve Account") and a segregated collateral account with $25.0 million (the "Collateral Account") pursuant to the terms of the Indenture. Funds in the Reserve Account will be released to Scilex Pharma upon receipt by the Trustee of an officer's certificate under the Indenture from Scilex Pharma confirming receipt of a marketing approval letter from the FDA with respect to SP-103 (the "Marketing Approval Letter") on or prior to July 1, 2023. Funds in the Collateral Account will be released upon receipt of a written consent authorizing such release from the holders of a majority in principal amount of the Scilex Notes issued, upon the occurrence and during the continuance of an event of default at the direction of the holders of a majority in principal amount of the Scilex Notes issued or upon the repayment in full of all amounts owed under the Scilex Notes.

The holders of the Scilex Notes will be entitled to receive quarterly payments of principal of the Scilex Notes equal to a percentage, in the range of 10% to 20% of the net sales of ZTlido® (lidocaine topical system) 1.8% for the prior fiscal quarter, beginning on February 15, 2019. If Scilex Pharma has not received the Marketing Approval Letter by March 31, 2021, the percentage of net sales payable shall be increased to be in the range of 15% to 25%. If actual cumulative net sales of ZTlido® (lidocaine topical system) 1.8% from October 1, 2022 through September 30, 2023 are less than 60% of a predetermined target sales threshold for such period, then Scilex Pharma will be obligated to pay an additional installment of principal of the Scilex Notes each quarter in an amount equal to an amount to be determined by reference to the amount of such deficiency.

The aggregate principal amount due under the Scilex Notes shall be increased by $28,000,000 on February 15, 2022 if actual cumulative net sales of ZTlido® (lidocaine topical system) 1.8% from the issue date of the Scilex Notes through December 31, 2021 do not equal or exceed 95% of a predetermined target sales threshold for such period. If actual cumulative net sales of ZTlido® (lidocaine topical system) 1.8% for the period from October 1, 2022 through September 30, 2023 do not equal or exceed 80% of a predetermined target sales threshold for such period, the aggregate principal amount shall also be increased on November 15, 2023 by an amount equal to an amount to be determined by reference to the amount of such deficiency.

The final maturity date of the Scilex Notes will be August 15, 2026. The Scilex Notes may be redeemed in whole at any time upon 30 days' written notice at Scilex Pharma's option prior to August 15, 2026 at a redemption price equal to 100% of the then-outstanding principal amount of the Scilex Notes. In addition, upon a change of control of Scilex Pharma (as defined in the Indenture), each holder of a Scilex Note shall have the right to require Scilex Pharma to repurchase all or any part of such holder's Scilex Note at a repurchase price in cash equal to 101% of the then-outstanding principal amount thereof.

Pursuant to the terms of the Indenture, the Company issued an irrevocable standby letter of credit to Scilex Pharma (the "Letter of Credit"), which provides that, in the event that (1) Scilex Pharma does not hold at least $35,000,000 in unrestricted cash as of the end of any calendar month during the term of the Scilex Notes, (2) actual cumulative net sales of ZTlido® (lidocaine topical system) 1.8% from the issue date of the Scilex Notes through December 31, 2021 are less than a specified sales threshold for such period, or (3) actual cumulative net sales of ZTlido® (lidocaine topical system) 1.8% for any calendar year during the term of the Scilex Notes, beginning with the 2022 calendar year, are less than a specified sales threshold for such calendar year, Scilex Pharma, as beneficiary of the Letter of Credit, will draw, and the Company will pay to Scilex Pharma, $35,000,000 in a single lump-sum amount as a subordinated loan, and upon receipt by Scilex Pharma of the subordinated loan, the holders of the Scilex Notes shall have the one-time right to require the Company to purchase up to an aggregate of $25,000,000 of the Scilex Notes then outstanding. The Letter of Credit will terminate upon the earliest to occur of: (a) the repayment of the Scilex Notes in full, (b) the actual net sales of ZTlido® (lidocaine topical system) 1.8% for any calendar year during the term of the Scilex Notes exceeding a certain threshold, (c) the consummation of an initial public offering on a major international stock exchange by Scilex Pharma that satisfies certain valuation thresholds, and (d) the replacement of the Letter of Credit with another letter of credit in form and substance, including as to the identity and creditworthiness of issuer, reasonably acceptable to the holders of at least 80% in principal amount of outstanding Scilex Notes.

On October 1, 2019, Scilex Pharma, the Company, the Trustee and the Agent, and the beneficial owners of the Scilex Notes and the holders of such Scilex Notes listed on the signature pages thereto (the "Holders") entered into an omnibus amendment (the "Omnibus Amendment") to: (i) the Indenture, and (ii) that certain Irrevocable Standby Letter of Credit issued by the Company to Scilex Pharma as further described in Note 18.

As of September 30, 2019, the estimated fair value of the Scilex Notes was approximately $144.4 million compared to the carrying value of $151.4 million. The Company uses the discounted cash flow method under the income approach, which involves significant Level 3 inputs and assumptions, combined with a Monte Carlo simulation, as appropriate. The value of the debt instrument is based on the present value of future principal payments and the discounted rate of return reflective of the Company's credit risk.

Borrowings of the 2018 Purchase Agreements and Indenture consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Face value of loan	$ 224,000	$ 224,000
Unamortized debt discount	(77,624)	(84,000)
Capitalized debt issuance costs	(5,313)	(5,748)
Accretion of debt discount	11,266	6,376
Amortization of debt issuance cost	773	435
Payments	(1,701)	—
Ending balance	$ 151,401	$ 141,063

Future minimum payments under the Scilex Notes, based on a percentage of projected net sales of ZTlido® (lidocaine topical system) 1.8% are estimated as follows (in thousands):

Year Ending December 31,	
2019 (Remaining three months)	$ 633
2020	6,788
2021	15,996
2022	27,130
2023	31,433
2024	43,058
Thereafter	97,261
Total future minimum payments	222,299
Unamortized debt discount	(66,358)
Unamortized capitalized debt issuance costs	(4,540)
Total Scilex Notes	151,401
Current portion	(5,177)
Long-term portion of Scilex Notes	$ 146,224

Debt discount and debt issuance costs, which are presented as a direct reduction of the Scilex Notes in the consolidated balance sheets, are amortized as interest expense using the effective interest method. As principal repayments on the Scilex Notes are based on a percentage of net sales of ZTlido® (lidocaine topical system) 1.8% and SP-103, if a marketing approval letter from the FDA with respect to SP-103 is received, the Company has elected to account for changes in estimated cash flows from future net sales prospectively. Specifically, a new effective interest rate will be determined based on revised estimates of remaining cash flows and changes in expected cash flows will be recognized prospectively. The imputed effective interest rate at September 30, 2019 was 8.49%. The amount of debt discount and debt issuance costs included in interest expense for the three and nine months ended September 30, 2019 was approximately $3.2 million and $12.0 million, respectively.

The Company identified a number of embedded derivatives that require bifurcation from the Scilex Notes and separate accounting as a compound derivative. Certain of these embedded features include default interest provisions, contingent rate increases, contingent put options, optional and automatic acceleration provisions and indemnified taxes. The Company recorded this derivative within its consolidated financial statements (See Note 5). The Company re-evaluates this assessment each reporting period.

2018 Oaktree Term Loan Agreement

On November 7, 2018, the Company and certain of its domestic subsidiaries (the "Guarantors") entered into a Term Loan Agreement (the "Loan Agreement") with certain funds and accounts managed by Oaktree Capital Management, L.P. (collectively, the "Lenders") and Oaktree Fund Administration, LLC, as administrative and collateral agent (the "Agent"), for an initial term loan of $100.0 million (the "Initial Loan") and a second tranche of $50.0 million, subject to the achievement of certain commercial and financial milestones between August 7, 2019 and November 7, 2019 and the satisfaction of certain customary conditions (the "Conditional Loan"). The Initial Loan matures on November 7, 2023 (the "Maturity Date") and bears interest at a rate equal to the London Interbank Offered Rate ("LIBOR") plus the applicable margin, or 7%. The net proceeds of the Initial Loan were approximately $91.3 million, after deducting estimated loan costs, commissions, fees and expenses and funding a debt service reserve account with approximately $9.6 million (the "Debt Service Reserve Account"), and will be used for general corporate purposes. In connection with the Loan Agreement, the Company and the Guarantors entered into a Collateral Agreement with the Agent (the "Collateral Agreement"). The Collateral Agreement provides that the Initial Loan and the Conditional Loan are secured by substantially all of the Company's and the Guarantors' assets and a pledge of 100% of the equity interests in other entities that each of the Company and the Guarantors holds (subject to certain exceptions and other than equity interests held by the Company or a Guarantor in certain foreign subsidiaries, which is limited to 65% of such voting equity interests). In connection with the Loan Agreement, on November 7, 2018, the Company issued to the Lenders warrants to purchase 6,288,985 shares of the Company's common stock (the "Initial Warrants"). The Initial Warrants have an exercise price per share of $3.28, subject to adjustment for stock splits, reverse stock splits, stock dividends and similar transactions, will be exercisable from May 7, 2019 through May 7, 2029 and will be exercisable on a cash basis, unless there is not an effective registration statement covering the resale of the shares issuable upon exercise of the Initial Warrants (the "Initial Warrant Shares"), in which case the Initial Warrants shall also be exercisable on a cashless exercise basis. In connection with the Loan Agreement, on November 7, 2018, the Company and the Lenders entered into a Registration Rights Agreement (the "Registration Rights Agreement") pursuant to which, among other things, the Company agreed to file one or more registration

statements with the SEC for the purpose of registering for resale the Initial Warrant Shares and the shares of common stock issuable upon exercise of warrants that may be issued in connection with the Conditional Loan (the "Conditional Warrants"). Under the Registration Rights Agreement, the Company agreed to file a registration statement with the SEC registering all of the Initial Warrant Shares and the shares of common stock issuable upon exercise of the Conditional Warrants for resale by no later than the 45th day following the issuance of the Initial Warrants and the Conditional Warrants, respectively.

On May 3, 2019, the Company, the Guarantors and the Lenders and the Agent entered into an amendment (the "Amendment") to the Loan Agreement. Under the terms of the Amendment, among other things, the Lenders agreed to make available to the Company $20.0 million of the Conditional Loan, notwithstanding that the commercial and financial milestones had not occurred (the "Early Conditional Loan"). The Lenders also agreed to loan the Company the remaining $30.0 million of the Conditional Loan upon the satisfaction of the commercial and financial milestones between August 7, 2019 and November 7, 2019 (the "Remaining Conditional Loan" and, together with the Initial Loan and the Early Conditional Loan, the "Term Loans"). The Term Loans, other than the Early Conditional Loan, will mature on November 7, 2023. The Early Conditional Loan will mature on May 3, 2020; however, if the commercial and financial milestones have occurred on or prior to such date, the Early Conditional Loan will mature on November 7, 2023. The Term Loans may be prepaid by the Company, in whole or in part at any time, subject to a prepayment fee. Upon any prepayment or repayment of all or a portion of the Term Loans (including the Early Conditional Loan and the Remaining Conditional Loan), the Company has agreed to pay the Lenders an exit fee equal to 1.25% of the principal amount paid or prepaid amounting to approximately $1.5 million. The Early Conditional Loan was funded on May 3, 2019.

The Company accounted for the Amendment as a debt modification and not a debt extinguishment under ASC Topic 470-50, as the terms of the Early Conditional Loan were not substantially different from those of the Initial Loan. The Company incurred approximately $0.8 million in fees directly related to the Amendment which were expensed as incurred during the three months ended June 30, 2019.

In connection with the Amendment, on May 3, 2019, the Company issued to the Lenders warrants to purchase an aggregate of1,333,304 shares of the Company's common stock (the "2019 Warrants"). The 2019 Warrants have an exercise price per share of $3.94, subject to adjustment for stock splits, reverse stock splits, stock dividends and similar transactions, will be exercisable from November 3, 2019 through November 3, 2029 and will be exercisable on a cash basis, unless there is not an effective registration statement covering the resale of the shares issuable upon exercise of the 2019 Warrants (the "2019 Warrant Shares"), in which case the 2019 Warrants shall also be exercisable on a cashless exercise basis. The Company recorded a loss on derivative liabilities associated with the 2019 Warrants of $4.3 million on the issuance date, as the 2019 Warrants were issued with the Amendment.

The fair value of the Term Loans was estimated using a discounted cash flow model with Level 3 inputs with key inputs that include debt yield, coupon rate and maturity dates. As of September 30, 2019, the estimated fair value of the Term Loans was approximately $58.2 million. Borrowings under the Initial Loan and the Early Conditional Loan consisted of the following (in thousands):

	September 30, 2019	December 31, 2018
Face value of loan	$ 120,000	$ 100,000
Debt discount - warrants	(26,248)	(26,659)
Debt discount - derivative	(6,996)	—
Capitalized debt issuance costs	(7,685)	(6,658)
Accretion of debt discount	3,014	411
Amortization of debt issuance costs	817	115
Ending balance	$ 82,902	$ 67,209

Interest expense recognized for stated interest on the Term Loans totaled $2.9 million and $7.9 million for the three and nine months ended September 30, 2019, respectively. The amount of debt discount and debt issuance costs included in interest expense on the Term Loans for the three and nine months ended September 30, 2019 was approximately $1.4 million and $3.8 million, respectively.

The Company identified a number of embedded derivatives that require bifurcation from the Initial Loan and separate accounting as a compound derivative. As the current fair value attributed to the bifurcated compound derivative is immaterial, the Company has not recorded this derivative within its consolidated financial statements. The Company re-evaluates this assessment each reporting period.

The Company identified certain embedded derivatives that require bifurcation from the Early Conditional Loan and separate accounting as a compound derivative. Certain of these embedded features include a contingent accelerated repayment feature. The Company deems the contingent accelerated repayment feature derivative to be material and recorded it within its consolidated financial statements (See Note 5). The Company re-evaluates this assessment each reporting period.

11. Shareholder Equity

2019 Public Offering of Common Stock and Warrants

On June 28, 2019, the Company entered into an underwriting agreement (the "Underwriting Agreement") with JMP Securities LLC (the "Representative"), as representative of the several underwriters named therein (the "Underwriters"), relating to a firm commitment underwritten public offering (the "June 2019 Offering") of 8,333,334 shares of the Company's common stock ("Common Stock"), Series A warrants to purchase up to an aggregate of 8,333,334 shares of Common Stock (the "Series A Warrants"), Series B warrants to purchase up to an aggregate of 8,333,334 shares of Common Stock (the "Series B Warrants") and Series C warrants to purchase up to an aggregate of 8,333,334 shares of Common Stock (the "Series C Warrants" and, together with the Series A Warrants and the Series B Warrants, the "Offering Warrants"). The public offering price was $3.00 per share of Common Stock and accompanying Offering Warrants and the Underwriters purchased the Common Stock and accompanying Offering Warrants at a price of $2.82 per share and accompanying Offering Warrants. The Series A Warrants will be exercisable six months from the date of issuance, will expire on the 10-year anniversary of the date of issuance and will have an exercise price of $3.75. The Series B warrants were immediately exercisable upon issuance, will expire on the date that is nine months from the date of issuance and will have an exercise price of $3.00 per share. The Series C Warrants will be exercisable six months from the date of issuance and only to the extent and in proportion to a holder of the Series C Warrants exercising its Series B Warrants, will expire on the 10-year anniversary of the date of issuance and will have an exercise price of $3.75 per share.

Under the terms of the Underwriting Agreement, the Company 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 Underwriting Agreement, to purchase up to an additional 1,250,000 shares of Common Stock ("Additional Shares") and/or 1,250,000 combinations of Offering Warrants (comprised of an aggregate of 1,250,000 Series A Warrants, 1,250,000 Series B Warrants and 1,250,000 Series C Warrants) ("Warrant Combinations"), at the public offering price of $2.99 per Additional Share and the public offering price per Warrant Combination of $0.01, less underwriting discounts and commissions.

The net proceeds from the June 2019 Offering were approximately $23.3 million, after deducting underwriting discounts and commissions and other estimated offering expenses, and were received in July 2019.

As of the firm commitment date of June 28, 2019, the Company entered into a forward contract to issue and sell a fixed number of shares of common stock and warrants in exchange for a stated purchase price payable on July 2, 2019, issued options to purchase a fixed number of shares of common stock for a fixed purchase price (subject to certain adjustments for dividends and similar distributions), and issued options to purchase additional warrants in exchange for a stated purchase price. Management determined that these instruments were freestanding financial instruments and qualified for equity classification as of the firm commitment date.

12. Stock Incentive Plans

Stock Option Activity

In September 2019, the Company's stockholders approved the Sorrento Therapeutics, Inc. 2019 Stock Incentive Plan (the "2019 Plan"). The 2019 Plan replaced and superseded the Company's Amended and Restated 2009 Stock Incentive Plan (the "2009 Plan") and no further awards will be granted under the 2009 Plan. The following table summarizes stock option activity as of September 30, 2019 under the 2019 Plan, the 2009 Plan and the Company's Non-Employee Director Plan, and the changes for the period then ended (dollar values in thousands, other than weighted-average exercise price):

	Options Outstanding	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2018	10,523,075	$ 4.91	$ 1,723
Options Granted	2,666,800	$ 3.84	
Options Canceled	(708,325)	$ 1.85	
Options Exercised	(158,699)	$ 5.15	
Outstanding at September 30, 2019	12,322,851	$ 4.70	$ 896

The Company uses the Black-Scholes valuation model to calculate the fair value of stock options.The fair value of employee and director stock options was estimated at the grant date using the following assumptions:

	Nine Months Ended September 30,	
	2019	2018
Weighted-average grant date fair value	$ 3.05	$ 3.79
Dividend yield	— %	— %
Volatility	100 %	81 %
Risk-free interest rate	1.87 %	2.93 %
Expected life of options	6.1 years	6.1 years

The total employee and director stock-based compensation recorded as operating expenses was $2.0 million and $1.2 million for the three months ended September 30, 2019 and 2018, respectively, and $5.5 million and $3.4 million for the nine months ended September 30, 2019 and 2018, respectively.

The total unrecognized compensation cost related to unvested employee and director stock option grants as of September 30, 2019 was $17.5 million and the weighted average period over which these grants are expected to vest is 1.5 years.

Stock-based compensation expense related to non-employee consultants recorded as operating expenses was $0.4 million and $0.1 million for the three months ended September 30, 2019 and 2018, respectively, and $0.6 million and $0.3 million for the nine months ended September 30, 2019 and 2018, respectively.

Common Stock Reserved for Future Issuance

Common stock reserved for future issuance consists of the following at September 30, 2019:

Common stock warrants outstanding under the loan and security agreements	7,688,181
Common stock warrants outstanding under the Hercules securities agreement	306,748
Common stock warrants outstanding under the convertible notes	14,819,872
Common stock warrants outstanding under the 2019 Public Offering of Common Stock and Warrants	25,000,002
Common stock options outstanding under the Non-Employee Director Plan	3,200
Authorized for future grant or issuance under the 2019 Stock Incentive Plan	10,000,000
Shares issuable upon the conversion of the 2018 Notes	5,397,325
Sorrento common stock issuable upon Share Exchange to Semnur Equityholders	9,836,136
Issuable under assignment agreement based upon achievement of certain milestones	80,000
	73,131,464

Scilex Pharmaceuticals Inc. 2017 Equity Incentive Plan

In June 2017, the Company's subsidiary, Scilex Pharma, adopted the Scilex Pharmaceuticals Inc. 2017 Equity Incentive Plan (the "Scilex Pharma 2017 Plan"). The Scilex Pharma 2017 Plan reserved 24.0 million shares of Scilex Pharma common stock. Stock options granted under the Scilex Pharma 2017 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. The Scilex Pharma 2017 Plan was amended and restated on July 5, 2018.

Upon the Merger Closing, the Scilex Pharma 2017 Equity Incentive Plan was terminated, and each option to purchase Scilex Pharma's common stock outstanding and unexercised immediately prior to the Merger Closing were cancelled and substituted for that number of options to acquire common stock of Scilex Holding, as further described in Note 4.

Total employee and director stock-based compensation expense recorded as operating expenses was $1.0 million and $1.4 million for the three and nine months ended September 30, 2019, respectively. Total employee and director stock-based compensation expense recorded as operating expenses was $0.1 million for the nine months ended September 30, 2018 and was immaterial for the three months ended September 30, 2018.

Stock-based compensation expense related to non-employee consultants recorded as operating expenses was $0.6 million and $1.2 million for the three and nine months ended September 30, 2019, respectively. Stock-based compensation expense related to non-employee consultants was immaterial for the three and nine months ended September 30, 2018.

Scilex Holding Company 2019 Stock Option Plan

The board of directors of Scilex Holding adopted the Scilex Holding Company 2019 Stock Option Plan (the "2019 Stock Option Plan") on May 28, 2019. The 2019 Stock Option Plan was approved by the stockholders of Scilex Holding on June 7, 2019. 30.0 million shares of common stock of Scilex Holding were reserved for issuance pursuant to the 2019 Stock Option Plan.

As of September 30, 2019, options to purchase 25,078,260 shares of the common stock of Scilex Holding were outstanding, which is comprised of options to purchase 20,738,260 shares of common stock that were outstanding under the 2019 Stock Option Plan and options to purchase 4,340,000 shares of common stock that were outstanding pursuant to options previously granted under the Scilex Pharma 2017 Plan. As of September 30, 2019, 9,261,740 shares were reserved for awards available for future issuance under the 2019 Stock Option Plan.

13. Commitments and Contingencies

Litigation

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

On April 3, 2019, the Company filed two legal actions against, among others, Patrick Soon-Shiong and entities controlled by him, asserting claims for, among other things, fraud and breach of contract, arising out of Dr. Soon-Shiong's purchase of the drug Cynviloq™ from the Company in May 2015. The actions allege that Dr. Soon-Shiong and the other defendants, among other things, acquired the drug Cynviloq™ for the purpose of halting its progression to the market. Specifically, the Company has filed:

- An arbitration demand with the American Arbitration Association in Los Angeles, California against NantPharma, LLC and Chief Executive Officer Patrick Soon-Shiong, seeking damages in excess of $1.0 billion, as well as additional punitive damages, related to alleged fraud and breaches of the Stock Sale and Purchase Agreement, dated May 14, 2015, entered into between NantPharma, LLC and the Company, included as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission (the "SEC") on August 7, 2015. On May 24, 2019, NantCell, Inc., Dr. Soon-Shiong and Immunotherapy NANTibody LLC ("NANTibody") General Counsel Charles Kim filed a motion in the Los Angeles Superior Court to stay or dismiss the Company's arbitration demand. On October 9, 2019, the Los Angeles Superior Court denied the motion to stay or dismiss the arbitration demand, and the arbitration is ongoing; and

- An action in the Los Angeles Superior Court derivatively on behalf of NANTibody against NantCell, Inc., NANTibody Board Member and NantCell, Inc. Chief Executive Officer Patrick Soon-Shiong, and NANTibody officer Charles Kim, related to several breaches of the June 11, 2015 Limited Liability Company Agreement for NANTibody entered into between the Company and NantCell, Inc. The suit also alleges breaches of fiduciary duties and seeks, inter alia, a declaration that the Assignment Agreement entered into on July 2, 2017, between NantPharma, LLC and NANTibody is void and an equitable unwinding of the Assignment Agreement. The suit calls for the restoration of $90.05 million to the NANTibody capital account, thereby restoring the Company's equity method investment in NANTibody to its invested amount as of June 30, 2017 of $40.0 million. On May 24, 2019, NantCell, Inc. and Dr. Soon-Shiong filed a cross-complaint against the Company and Dr. Ji, seeking unspecified damages, as well as additional punitive damages and specific performance, related to alleged fraud, alleged breaches of the Exclusive License Agreement for certain antibodies (dated April 21, 2015 and entered into between NantCell, Inc. and the Company), and tortious interference with contract. On May 24, 2019, NANTibody and NantPharma, LLC filed a new complaint in the action against the Company and Dr. Ji, seeking unspecified damages, as well as additional punitive damages and specific performance, related to alleged fraud, alleged breaches of the Stock Sale and Purchase Agreement, alleged breaches of the Exclusive License Agreement for certain antibodies (dated April 21, 2015 and entered into between NantCell, Inc. and the Company), and tortious interference with contract. On July 8, 2019, the Company and Dr. Ji filed motions to compel the cross-complaint and new action to arbitration. On October 9, 2019, the Los Angeles Superior Court granted the motions to compel to arbitration all of the claims brought by NANTibody, NantCell, Inc. and NantPharma, LLC, and denied the motions to compel as to the claims brought by Dr. Soon-Shiong. Subsequently, NANTibody, NantCell, Inc., and NantPharma, LLC have re-filed their claims in arbitration. The claims against Dr. Soon-Shiong have been stayed pending resolution of the claims filed in arbitration. The original derivative action is no longer stayed, and the parties are currently engaged in discovery in the suit.

Operating Leases

The Company leases administrative, research and development, sales and marketing and manufacturing facilities under various non-cancelable lease agreements. Facility leases generally provide for periodic rent increases, and many contain escalation clauses and renewal options. As of September 30, 2019, the Company's leases have remaining lease terms of approximately 0.7 to 10.2 years, some of which include options to extend the lease terms for up tofive years, and some of which allow for early termination. In calculating the lease liability, lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise such options. Many of the Company's leases are subject to variable lease payments. Variable lease payments are recognized in the period in which the obligation for those payments are incurred, are not included in the measurement of the ROU assets or lease liabilities and are immaterial. Additionally, certain leases may be subject to annual changes in the consumer price index ("CPI"). Changes in the CPI are treated as variable lease payments and do not result in a remeasurement of the ROU assets or lease liabilities.

As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The Company calculates the associated lease liability and corresponding ROU asset upon lease commencement using a discount rate based on a credit-adjusted secured borrowing rate commensurate with the term of the lease. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. As of September 30, 2019, the Company has no finance leases.

Operating lease costs were approximately $2.6 million and $7.4 million for the three and nine months ended September 30, 2019, respectively, and were primarily comprised of long-term operating lease costs. Short-term operating lease costs were immaterial.

Supplemental quantitative information related to leases includes the following (in thousands):

	Three months ended September 30, 2019	Nine months ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 1,712	$ 5,057
ROU assets obtained in exchange for new and amended operating lease liabilities	$ 2,030	$ 6,777
Weighted average remaining lease term in years - operating leases	9.5 years	9.5 years
Weighted average discount rate - operating leases	12.2 %	12.2 %

During the third quarter of 2019, Scilex Holding entered a new lease in Palo Alto, CA for approximately6,000 square feet of corporate office space, which expires in November 2024. In connection with the lease, the Company executed a Guaranty of Lease, guaranteeing the performance of the Scilex Holding's obligations under the lease.

During the second quarter of 2019, Scilex Holding amended its Mission Viejo, CA lease resulting in an extended term through 2024 and approximately 4,000 square feet of additional office space.

During the second quarter of 2019, the Company amended its cGMP fill and finish and storage lease resulting in an extended term through 2029 and approximately 21,300 square feet of additional space expected to be added in the first quarter of 2020.

Maturities of lease liabilities were as follows (in thousands):

Years ending December 31,	Operating leases
2019 (Remaining three months)	$ 2,043
2020	10,233
2021	9,627
2022	9,649
2023	9,875
2024	9,921
Thereafter	47,027
Total lease payments	98,375
Less imputed interest	(41,979)
Total lease liabilities as of September 30, 2019	$ 56,396

14. 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.

The Company's income tax benefit of $0.8 million and $3.2 million reflect effective tax rates of 0.27% and 2.0% for the nine months ended September 30, 2019 and 2018, respectively. The Company's income tax benefit of $0.2 million and $0.8 million reflect effective tax rates of 0.30% and 1.64% for the three months ended September 30, 2019 and 2018, respectively.

The difference between the expected statutory federal tax expense of 21% and the0.27% effective tax expense for the nine months ended September 30, 2019 was primarily attributable to the valuation allowance against most of the Company's deferred tax assets. For the nine months ended September 30, 2019, when compared to the same period in 2018, the decrease in the tax benefit and change in effective income tax rate was primarily attributable to the increased valuation allowance in 2019.

The Company is subject to taxation in the U.S. and various state and foreign 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.

15. Related Party Agreements

As further discussed in Note 4, on March 18, 2019, the Company entered into a Merger Agreement with Semnur, Scilex Holding, Merger Sub and Fortis Advisors LLC, solely as representative of the Equityholders' Representative. Pursuant to the Merger Agreement, Merger Sub merged with and into Semnur, with Semnur surviving as a wholly owned subsidiary of Scilex Holding. Jaisim Shah, a member of the Company's Board of Directors, was Semnur's Chief Executive Officer, a member of its Board of Directors and a stockholder of Semnur prior to the acquisition transaction. Following the issuance of the Stock Consideration as discussed in Note 4, the Company is the owner of approximately 58% of Scilex Holding's issued and outstanding capital stock.

Semnur is party to an Assignment Agreement with Shah Investor LP, pursuant to which Shah Investor LP assigned certain intellectual property to Semnur and Semnur agreed to pay Shah Investor LP a contingent quarterly royalty in the low-single digits based on quarterly net sales of any pharmaceutical formulations for local delivery of steroids by injection developed using such intellectual property, which would include SEMDEXA. Mahendra Shah, Ph.D., who has served on the board of directors of Scilex Holding since March 2019, is the managing partner of Shah Investor LP.

As of September 30, 2019, approximately 15% of the outstanding capital stock of Scilex Holding represents a noncontrolling interest and continues to be held by ITOCHU CHEMICAL FRONTIER Corporation. Scilex Pharma has entered into a product development agreement with ITOCHU CHEMICAL FRONTIER Corporation, which serves as the sole manufacturer and supplier to Scilex Pharma for the ZTlido® product. During the three and nine months ended September 30, 2019, Scilex Pharma purchased approximately $1.7 million and $7.1 million, respectively, of inventory from ITOCHU CHEMICAL FRONTIER Corporation.

16. Loss Per Share

For the three and nine months ended September 30, 2019 and 2018, basic loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted loss per common share is calculated to give effect to all dilutive securities, using the treasury stock method.

The following table sets forth the reconciliation of basic and diluted loss per share for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Numerator				
Net loss attributable to Sorrento	$ (64,415)	$ (47,328)	$ (229,248)	$ (153,764)
Net loss attributable to Semnur holders of Scilex Holding	(6,205)	—	(34,819)	—
Net loss used for diluted earnings per share	$ (70,620)	$ (47,328)	$ (264,067)	$ (153,764)
Denominator for Basic Loss Per Share	130,800	117,021	125,240	100,959
Potentially dilutive shares of Sorrento common stock issuable upon Share Exchange	9,645	—	7,025	—
Denominator for Diluted Loss Per Share	140,445	117,021	132,265	100,959
Basic Loss Per Share	$ (0.49)	$ (0.40)	$ (1.83)	$ (1.52)
Diluted Loss Per Share	$ (0.50)	$ (0.40)	$ (2.00)	$ (1.52)

The potentially dilutive stock options that would have been excluded because the effect would have been anti-dilutive for the nine months ended September 30, 2019 and 2018 were 9.7 million and 3.6 million, respectively. The potentially dilutive warrants that would have been excluded because the effect would have been anti-dilutive for the nine months ended September 30, 2019 and 2018 were 47.8 million and 5.6 million, respectively.

17. Segment Information

During the quarter ended March 31, 2019, the Company realigned its businesses intotwo operating and reportable segments, Sorrento Therapeutics and Scilex. The Company reports segment information based on the management approach. The management approach designates the internal reporting used by the Chief Operating Decision Maker ("CODM"), which is the Company's Chief Executive Officer, for making decisions and assessing performance as the source of the Company's reportable segments. The CODM allocates resources and assesses the performance of each operating segment based on licensing, sales and services revenue, operating expenses, and operating income (loss) before interest and taxes. The Company has determined its reportable segments to be Sorrento Therapeutics and Scilex based on the information used by the CODM.

Sorrento Therapeutics. The Sorrento Therapeutics segment is organized around the Company's Immuno-Oncology therapeutic area, leveraging its proprietary G-MAB™ antibody library and targeted delivery modalities to generate the next generation of cancer therapeutics. These modalities include proprietary CAR-T, DAR-T, ADCs as well as bispecific antibody approaches. Additionally, this segment also includes Sofusa®, a revolutionary drug delivery system that delivers biologics directly into the lymphatic system to potentially achieve improved efficacy and fewer adverse effects than standard parenteral immunotherapy, and resiniferatoxin ("RTX"), which is a non-opioid-based neurotoxin and is currently in clinical trials for late stage cancer pain and osteoarthritis.

Scilex. The Scilex segment is largely organized around the Company's non-opioid pain management operations. As of September 30, 2019, revenues from the Scilex segment are exclusively derived from the sale of ZTlido® (lidocaine topical system) 1.8%.

- In October 2018, Scilex Pharma commercially launched its ZTlido® (lidocaine topical system) 1.8% product and began recognizing revenue in the fourth quarter of 2018.

- Semnur's SEMDEXA™ (SP-102) compound is the first non-opioid corticosteroid formulated as a viscous gel injection in development for the treatment of lumbosacral radicular pain/sciatica, containing no neurotoxic preservatives, surfactants, solvents or particulates. SEMDEXA™ has been awarded fast track status by the FDA. See Note 4 for further detail on the Semnur acquisition.

The Company manages its assets on a company basis, not by segments, as many of its assets are shared or commingled. The Company's CODM does not regularly review asset information by reportable segment and, therefore, it does not report asset information by reportable segment. The majority of long-lived assets for both segments are located in the United States.

The following table presents information about the Company's reportable segments for the three and nine months ended September 30, 2019 and 2018 (in thousands):

	Three Months Ended September 30,					
	2019			2018		
(in thousands)	Sorrento Therapeutics	Scilex	Total	Sorrento Therapeutics	Scilex	Total
External revenues	$ 2,007	$ 3,771	$ 5,778	$ 4,105	$ —	$ 4,105
Operating expenses	34,480	24,581	59,061	41,641	10,371	52,012
Operating loss	(32,473)	(20,810)	(53,283)	(37,536)	(10,371)	(47,907)

	Nine Months Ended September 30,					
	2019			2018		
(in thousands)	Sorrento Therapeutics	Scilex	Total	Sorrento Therapeutics	Scilex	Total
External revenues	$ 7,109	$ 11,289	$ 18,398	$ 14,264	$ —	$ 14,264
Operating expenses	105,912	139,300	245,212	105,419	17,670	123,089
Operating loss	(98,803)	(128,011)	(226,814)	(91,155)	(17,670)	(108,825)

18. Subsequent Events

2019 Registered Direct Offering

On October 9, 2019, the Company announced the closing of its previously announced registered direct offering of10,869,566 shares of its common stock and warrants to purchase up to 10,869,566 shares of its common stock, at a combined purchase price of $2.30 per share and related warrant. The net proceeds from this offering were approximately $23.4 million, after deducting the placement agent's fees and other estimated offering expenses, and were received in October 2019. The Company currently intends to use the net proceeds from the offering for the continued clinical development of its RTX and CD38 CAR-T programs and general research and development, working capital and general corporate purposes.

2019 Equity Distribution Agreement

In October 2019, the Company entered into an Equity Distribution Agreement (the "Distribution Agreement") with JMP Securities LLC, as sales agent (the "Sales Agent"), pursuant to which the Company may offer and sell, from time to time, through or to the Sales Agent, as sales agent or principal (the "Offering"), up to $75.0 million in shares of its common stock (the "Shares"). Any Shares offered and sold in the Offering will be issued pursuant to the Company's Registration Statement on Form S-3 (File No. 333-221443) filed with the SEC on November 9, 2017, as amended on December 1, 2017 and declared effective on December 6, 2017 (the "Form S-3"), the base prospectus dated December 6, 2017 included in the Form S-3 and the prospectus supplement relating to the Offering filed with the SEC on October 1, 2019.

Under the terms of the Distribution Agreement, the Sales Agent will be entitled to a commission at a fixed rate of3.0% of the gross proceeds from each sale of Shares under the Distribution Agreement. The Company will also reimburse the Sales Agent for certain expenses incurred in connection with the Distribution Agreement, and agreed to provide indemnification and contribution to the Sales Agent with respect to certain liabilities, including liabilities under the Securities Act and the Securities Exchange Act of 1934, as amended. The Company currently intends to use any net proceeds from the Offering for working capital and general corporate purposes.

Omnibus Amendment No. 1 to Indenture and Letter of Credit

On October 1, 2019, Scilex Pharma, the Company, U.S. Bank National Association, as trustee (the "Trustee") and collateral agent (the "Agent"), and the beneficial owners of the Scilex Notes and the holders of such Scilex Notes listed on the signature pages thereto (the "Holders") entered into an omnibus amendment (the "Omnibus Amendment") to: (i) the Indenture, and (ii) that certain Irrevocable Standby Letter of Credit issued by the Company to Scilex Pharma in the maximum aggregate amount of $35.0 million, with a date of issuance of September 7, 2018 (the "Letter of Credit").

Under the terms of the Omnibus Amendment, among other things, the defined term "Change of Control" was revised to include, in addition to certain events described in the Indenture, (i) prior to the consummation of an initial public offering by Scilex Holding (the "Scilex Holding IPO"), the Company ceasing to own, directly or indirectly, a majority of the total voting and economic power of the issued and outstanding capital stock that is entitled to vote in the election of the Board of Directors (the "Voting Stock") of Scilex Pharma, (ii) at any time following the consummation of the Scilex Holding IPO, Scilex Pharma becoming aware of the acquisition by any person or group acquiring, in a single or in a related series of transactions, by way of merger, amalgamation, consolidation or other business combination or purchase of beneficial ownership of a majority of the total voting power of the issued and outstanding Voting Stock of Scilex Pharma or Scilex Holding, and (iii) Scilex Holding failing at any time to own 100% of the capital stock of Scilex Pharma. The Omnibus Amendment also provides that Scilex Pharma will agree not to engage in or enter into any business other than the research, development, manufacture, sale, distribution, marketing, detailing, promotion, selling and securing of reimbursement of ZTlido® (lidocaine topical system) 1.8% and any future iterations, improvements or modifications thereof (the "Product"), on a worldwide basis (exclusive of Japan), and activities that are necessary for, or otherwise relevant to, the same, subject to certain exceptions. The Omnibus Amendment further provides that, if Scilex Holding fails to contribute $25.0 million of the proceeds of any Scilex Holding IPO to Scilex Pharma within three business days following the closing of the issuance and sale of Scilex Holding's capital stock in the Scilex Holding IPO, such failure shall constitute an "Event of Default" under the Indenture.

In connection with the Omnibus Amendment, in the event of consummation of a Scilex Holding IPO that satisfies certain valuation thresholds, Scilex Pharma agreed to repurchase, from each holder of Scilex Notes, Scilex Notes in a principal amount equal to (i) $20.0 million multiplied by (ii) a fraction the numerator of which will be the then outstanding principal amount of the Scilex Notes held by such holder and the denominator of which will be the then outstanding principal amount of all of the outstanding Scilex Notes, at a purchase price in cash equal to 100% of the principal amount thereof (such repurchase, the "Effective Date Repurchase"). Pursuant to the Omnibus Amendment, the Holders agreed to release the funds in the reserve

account for the purpose of consummating the Effective Date Repurchase and the remaining funds in the reserve account after the consummation of the Effective Date Repurchase will be released to Scilex Pharma by the Trustee and Agent. After the consummation of the Effective Date Repurchase, the right of the holders of the Scilex Notes to require Scilex Pharma to repurchase $20.0 million principal amount upon failure to receive a marketing approval letter from the FDA with respect to SP-103 by July 1, 2023 shall have no further force and effect and the Reserve Account shall be closed.

The Omnibus Amendment also modifies the Letter of Credit to provide that one of the conditions that will terminate the Letter of Credit will be the consummation of a Scilex Holding IPO that satisfies certain valuation thresholds. The Omnibus Amendment will be effective upon the satisfaction of certain terms and conditions, including the consummation of the Effective Date Repurchase. The Omnibus Amendment will terminate if the Omnibus Amendment does not become effective on or prior to October 1, 2020.

Note Conversion Agreement

On November 8, 2019, the Company entered into a note conversion agreement (the "Conversion Agreement") with the holders (the "Convertible Noteholders") of convertible promissory notes issued by the Company on June 13, 2018 (the "Convertible Notes") pursuant to the March 2018 Securities Purchase Agreement. The Convertible Notes accrued simple interest at a rate equal to 5.0% per annum and would mature upon the earlier to occur of (a) June 13, 2023, and (b) the date of the closing of a change in control of the Company (the "Maturity Date"). Pursuant to the terms of the Convertible Notes, at any time and from time to time before the Maturity Date, each March 2018 Purchaser had the option to convert any portion of the outstanding principal amount of such March 2018 Purchaser's Convertible Note into shares of the Company's common stock at a price per share equal to $7.0125. Upon conversion of any of the principal amount of a Convertible Note, all accrued and unpaid interest on such portion of the principal amount would become due and payable in cash.

Pursuant to the Conversion Agreement, the Convertible Notes were amended to provide that (a) the conversion price for the Convertible Notes was reduced from $7.0125 per share to $1.70 per share, and (b) upon the conversion of any portion of the outstanding principal amount of a Convertible Note, all accrued but unpaid interest on such portion of the principal amount being converted shall also be converted into shares of the Company's common stock at $1.70 per share (collectively, the "Amendment"). In connection with the Amendment, each of the Convertible Noteholders further agreed to convert the full principal amount, plus all accrued but unpaid interest, under such Convertible Noteholder's Convertible Note, as amended by the Amendment, into shares of the Company's common stock on November 8, 2019. As of November 8, 2019, the aggregate outstanding principal amount of the Convertible Notes was $37,848,750 (the "Principal Amount") and the aggregate accrued interest under the Convertible Notes was $674,018.84 (the "Accrued Interest").

Pursuant to the Conversion Agreement, on November 8, 2019,22,660,449 shares of the Company's common stock were issued to the Convertible Noteholders upon the conversion of the full Principal Amount and the Accrued Interest (the "Conversion Shares"). None of the Conversion Shares were registered under the Securities Act of 1933, as amended (the "Securities Act").

In connection with the March 2018 Securities Purchase Agreement, the Company previously registered5,397,325 of the Conversion Shares for resale under the Securities Act pursuant to the Company's Registration Statement on Form S-3 (File No. 333-229609) filed with the SEC on February 11, 2019, as amended by Amendment No. 1 thereto filed with the SEC on May 3, 2019, and declared effective on May 7, 2019 (the "Prior Registration Statement"). Pursuant to the Conversion Agreement, the Company agreed to prepare and file by no later than December 9, 2019 a registration statement with the SEC for the purpose of registering for resale the remaining 17,263,124 Conversion Shares that were not covered under the Prior Registration Statement.

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

Sorrento Therapeutics, Inc. (Nasdaq: SRNE), together with its subsidiaries (collectively, the "Company", "we", "us" and "our") is a clinical stage and commercial biopharma company focused on delivering innovative and clinically meaningful therapies to patients and their families, globally, to address unmet medical needs. We primarily focus on therapeutic areas in Immuno-Oncology and Non-Opioid Pain Management. We also have programs assessing the use of our technologies and products in autoimmune, inflammatory and neurodegenerative diseases.

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 fully human antibodies include PD-1, PD-L1, CD38, CD123, CD47, c-MET, VEGFR2, CCR2 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 chimeric antigen receptor T-cell therapy ("CAR-T"), dimeric antigen receptor T-cell therapy ("DAR-T"), antibody drug conjugates ("ADCs") as well as bispecific antibody approaches. Additionally, we acquired Sofusa®, a revolutionary drug delivery system, in July 2018, which delivers biologics directly into the lymphatic system to potentially achieve improved efficacy and fewer adverse effects than standard parenteral immunotherapy.

With each of our clinical and pre-clinical programs, we aim to tailor our therapies to treat specific stages in the evolution of cancer, from elimination, to equilibrium and escape. In addition, our objective is to focus on tumors that are resistant to current treatments and where we can design focused trials based on a genetic signature or biomarker to ensure patients have the best chance of a durable and significant response. We have several immuno-oncology programs that are in or close to entering the clinic. These include cellular therapies, an oncolytic virus and a palliative care program targeted to treat intractable cancer pain. Our cellular therapy programs focus on CAR-T for adoptive cellular immunotherapy to treat both solid and liquid tumors. We have reported early data from Phase I trials of our carcinoembryonic antigen ("CEA")-directed CAR-T program. We have treated five patients with stage 4, unresectable adenocarcinoma (four with pancreatic and one with colorectal cancer) and CEA-positive liver metastases with anti-CEA CAR-T and are currently expanding this study. We successfully submitted an Investigational New Drug application ("IND") for anti-CD38 CAR-T (autologous) for the treatment of refractory or relapsed multiple myeloma and obtained approval from the U.S. Food and Drug Administration (the "FDA") to commence a human clinical trial for this indication in early 2018. We have dosed five patients for the Phase I clinical trial and are continuing the enrollment of additional patients. The data-readout for this Phase I clinical trial is expected during the fourth quarter of 2019 or first quarter of 2020. We expect to file an IND for CD38 ADC in the second half of 2019, an IND for CD38 DAR-T (allogenic) in the second half of 2019 and an IND for CD38/CD3 bispecific antibody ("BsAb") in the second half of 2020.

Broadly speaking, we are one of the world's leading CAR-T companies today due to our investments in technology and infrastructure, which have enabled significant progress in developing our next-generation non-viral, "off-the-shelf" allogeneic CAR-T solutions. With "off-the-shelf" solutions, CAR-T therapy can truly become a drug product rather than a treatment procedure. One of the approaches we have taken to develop the "off-the-shelf" allogeneic CAR-T solutions is through Celularity, Inc. ("Celularity"), our joint venture with Celgene, United Therapeutics and others. Celularity focuses on developing cell therapies with placenta-derived and cord blood T cells, which have natural allogeneic "off-the-shelf" characteristics. We are the single largest shareholder of Celularity with a stake of approximately 25%.

Outside of immuno-oncology programs, as part of our global aim to provide a wide range of therapeutic products to meet underserved markets, we have made investments in non-opioid pain management. These include resiniferatoxin ("RTX"), which is a non-opioid-based neurotoxin that specifically ablates nerves that conduct pain signals while leaving other nerve functions intact and is being studied for chronic pain treatment. RTX has been granted orphan drug status for the treatment of intractable pain with end-stage cancer. A Phase I trial with the National Institutes of Health ("NIH") for intrathecal administration and a Phase I trial for epidural administration are both expected to conclude in 2019. A Phase Ib trial studying tolerance and efficacy of RTX for the control of osteoarthritis knee pain was initiated in late 2018 and preliminary results have shown strong efficacy with no significant adverse effects. The Phase Ib trial is expected to conclude in 2019, and two Phase III pivotal trials in the U.S. and Asia-Pacific are expected to commence in the first quarter of 2020. We expect to file an IND for RTX for the delay/prevention of total knee arthroplasty in the fourth quarter of 2019 or first quarter of 2020, which may be eligible for breakthrough therapy designation from the FDA.

Also in the area of non-opioid pain management, we have acquired proprietary technologies to responsibly develop next generation, branded pharmaceutical products to better manage patients' medical conditions and maximize the quality of life of patients and healthcare providers. The flagship product of our majority-owned subsidiary, Scilex Holding Company ("Scilex Holding"), ZTlido® (lidocaine topical system) 1.8%, is a next-generation lidocaine delivery system which was approved by the FDA for the treatment of pain associated with postherpetic neuralgia, a severe neuropathic pain condition, in February 2018, and was commercially launched in late October 2018. Scilex Holding now has built a full commercial organization, which includes sales, marketing, market access, and medical affairs. ZTlido® is positioned as a best-in-class product with superior adhesion compared to Lidoderm and is manufactured by our Japanese partner in their state-of-the-art manufacturing facility. We expect to commence a Phase II clinical trial for ZTlido® (lidocaine topical system) 5.4% ("SP-103") for chronic low back pain in the first half of 2020.

Scilex Holding's other lead compound, SP-102, has been awarded fast track designation by the FDA. It is the first non-opioid corticosteroid formulated as a viscous gel injection in development for the treatment of lumbar radicular pain/sciatica, containing no neurotoxic preservatives, surfactants, solvents or particulates. The FDA's fast track program was implemented to expedite the development and regulatory review of therapeutic programs that seek to address significant unmet medical needs. SP-102 is currently in a pivotal trial, "Corticosteroid Lumbar Epidural Analgesia for Radiculopathy (C.L.E.A.R.)." The CLEAR trial is a randomized, double-blind, placebo-controlled Phase III trial that is expected to enroll 400 patients with lumbar radicular pain at 40+ sites across the U.S. The primary endpoint is mean change in the Numerical Pain Rating Scale for leg pain in patients receiving SP-102 compared to intramuscular injection of placebo over four weeks. The secondary endpoints include other measures of pain at 4 and 12 weeks as well as time to repeat injection of SP-102, safety and function. The trial includes an open-label extension to build the safety database of patients treated with SP-102. Topline pivotal data for the Phase III trial is expected during the second half of 2020.

Recent Developments

Re-segmentation

Beginning in the quarter ended March 31, 2019, we re-segmented our business into two new operating segments: the Sorrento Therapeutics segment and the Scilex segment.

Acquisition of Semnur Pharmaceuticals, Inc.

On March 18, 2019, we, for limited purposes, entered into an Agreement and Plan of Merger (the "Merger Agreement") with Semnur Pharmaceuticals, Inc., a Delaware corporation ("Semnur"), Scilex Holding Company, a Delaware corporation ("Scilex Holding"), Sigma Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of Scilex Holding ("Merger Sub"), and Fortis Advisors LLC, solely as representative of the holders of Semnur equity (the "Equityholders' Representative"). Pursuant to the Merger Agreement, Merger Sub merged with and into Semnur (the "Merger"), with Semnur surviving as a wholly owned subsidiary of Scilex Holding. Semnur is included under the Scilex operating segment.

At the closing of the Semnur acquisition, Scilex Holding issued to the holders of Semnur's capital stock and options to purchase Semnur's common stock (collectively, the "Semnur Equityholders") upfront consideration with a value of approximately $70.0 million. The upfront consideration was comprised of the following: (a) a cash payment of approximately $15.0 million, and (b) $55.0 million of shares of Scilex Holding common stock (47,039,315 shares issued and 352,972 shares issuable, valued at $1.16 per share) (the "Stock Consideration").

On August 7, 2019, Scilex Holding entered into an amendment to the Merger Agreement to provide that, following the consummation of Scilex Holding's first bona fide equity financing with one or more third-party financing sources on an arms' length basis with gross proceeds to Scilex Holding of at least $40.0 million, certain of the former Semnur Equityholders will be

paid cash in lieu of: (a) the 352,972 shares of our common stock otherwise issuable to such Semnur Equityholders pursuant to the Merger Agreement, and (b) any shares that would otherwise be issued to such Semnur Equityholders upon release of shares held in escrow pursuant to the Merger Agreement, with such shares in each case valued at $1.16 per share. The amendment resulted in a reclassification of $0.4 million from additional paid-in capital to accrued liabilities.

The Semnur Equityholders that receive the Stock Consideration are required to sign an exchange and registration rights agreement with us (the "Exchange Agreement"), which is further described in Note 4 of the accompanying notes to the consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements which are prepared in accordance with GAAP. The preparation of these 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 debt with detachable warrants, derivative liabilities, revenue recognition, leases, acquisition consideration payable, 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, 2019, there were no significant changes to the items that we disclosed as our critical accounting policies and estimates in Note 4 to our consolidated financial statements for the year ended December 31, 2018 contained in our Annual Report on Form 10-K for the year ended December 31, 2018, as amended, as filed with the SEC, except as described below.

Leases

We determine if an arrangement is a lease at inception. Operating lease right-of-use ("ROU") assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and is reduced by lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Results of Operations

Comparison of the Three Months Ended September 30, 2019 and 2018

Revenues. Revenues were $5.8 million for the three months ended September 30, 2019, as compared to $4.1 million for the three months ended September 30, 2018.

Revenue in our Sorrento Therapeutics segment decreased from $4.1 million to $2.0 million for the three months ended September 30, 2019, compared to the prior fiscal year. The decrease of $2.1 million is primarily attributable to lower contract manufacturing and service revenues compared to the prior year.

Our Scilex segment recognized revenues of $3.8 million for the three months ended September 30, 2019. The Scilex segment recognized no revenues for the three months ended September 30, 2018, as sales of ZTlido® (lidocaine topical system) 1.8% did not commence until October 2018.

We expect that any revenue we generate will fluctuate from year to year 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.

Cost of revenues. Cost of revenues for the three months ended September 30, 2019 and 2018 were $5.2 million and $2.2 million, respectively, and relate to product sales, the sale of customized reagents and providing contract manufacturing services. The costs generally include employee-related expenses including salary and benefits, direct materials, purchased finished goods and overhead costs including rent, depreciation, utilities, facility maintenance and insurance.

Cost of revenues for our Sorrento Therapeutics segment remained relatively consistent with the same quarter of the prior year.

Cost of revenues for our Scilex segment increased by $2.8 million as compared to the same quarter of the prior year as sales of ZTlido® (lidocaine topical system) 1.8% did not commence until October 2018.

Research and Development Expenses. Research and development expenses for the three months ended September 30, 2019 and 2018 were $27.6 million and $19.6 million, respectively. Research and development expenses include expenses associated with the ramp up of ZTlido® (lidocaine topical system) 1.8% as well as the costs related to our RTX program activities towards entering into future clinical trials, costs to identify, isolate and advance human antibody drug candidates derived from our libraries as well as advancing our ADC preclinical drug candidates and preclinical testing expenses. 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.

R&D expense for our Sorrento Therapeutics segment increased by $4.3 million as compared to the same quarter of the prior year and was primarily attributable to increased clinical activities related to consulting and lab supply costs incurred in connection with our expanded research and development activities and activities to advance RTX and CAR-T into clinical trials.

R&D expense for our Scilex segment increased by $3.7 million as compared to the same quarter of the prior year and was primarily driven by activities associated with our product pipeline and was partially offset by lower clinical trial costs associated with ZTlido® (lidocaine topical system) 1.8%, which obtained FDA approval in February 2018.

Acquired In-process Research and Development Expenses. We did not have acquired in-process research and development expenses during the three months ended September 30, 2019. We recognized $9.5 million of expense related to acquired in-process research and development associated with the Sofusa Purchase Agreement (as defined below) for the three months ended September 30, 2018.

Selling, General and Administrative Expenses ("SG&A") General and administrative expenses for the three months ended September 30, 2019 and 2018 were $25.2 million and $20.1 million, respectively, or an increase of $5.1 million and consisted 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.

SG&A expense for our Sorrento Therapeutics segment decreased by approximately $2.1 million and was primarily attributed to lower legal and corporate expenses compared to the same period of the prior year.

SG&A expense for our Scilex segment increased by approximately $7.2 million year over year primarily due to increased sales activities associated with the commercialization of ZTlido® (lidocaine topical system) 1.8%.

Intangible Amortization. Intangible amortization for the three months ended September 30, 2019 and 2018 was $1.0 million and $0.7 million, respectively.

Amortization expense for our Sorrento Therapeutics segment remained relatively consistent with the prior year.

Amortization expense for our Scilex segment increased by approximately $0.4 million due to the amortization of acquired in-process research and development upon commercialization of ZTlido® (lidocaine topical system) 1.8% that occurred in the fourth quarter of 2018.

Loss on Derivative Liabilities. Loss on derivative liabilities for the three months ended September 30, 2019 was $10.7 million compared to no loss on derivative liabilities in the same period in 2018.

Loss on derivative liabilities for our Sorrento Therapeutics segment totaled $9.2 million. $8.1 million of the increase was driven by revised sales forecasts of ZTlido® (lidocaine topical system) 1.8%. $1.1 million of the increase was attributed to the contingent acceleration feature of the Early Conditional Loan (as defined below) as further described in Note 5 of the accompanying notes to the consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Loss on derivative liabilities for our Scilex segment was $1.5 million and was primarily attributed to revised probabilities related to timing of marketing approval for SP-103 and revised sales forecasts as further described in Note 5 of the accompanying notes to the consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Interest Expense. Interest expense for the three months ended September 30, 2019 and 2018 was $9.5 million and $2.7 million, respectively. The increase in interest expense of $6.8 million as compared to the same period in 2018 resulted primarily from interest expense associated with the loan agreement entered into during the fourth quarter of 2018 with certain funds and accounts managed by Oaktree Capital Management, L.P. and Oaktree Fund Administration, LLC, as administrative and collateral agent as well as the senior secured notes due 2026 in an aggregate principal amount of $224.0 million entered into in September 2018.

Income Tax Expense (Benefit). Income tax benefit for the three months ended September 30, 2019 and September 30, 2018 was $(0.2) million and $(0.8) million, respectively. The decrease in income tax benefit was primarily attributed to the increased valuation allowance in 2019.

Net Loss. Net loss for the three months ended September 30, 2019 and 2018 was $75.2 million and $50.5 million, respectively.

Comparison of the Nine Months Ended September 30, 2019 and 2018

Revenues. Revenues were $18.4 million for the nine months ended September 30, 2019, as compared to $14.3 million for the nine months ended September 30, 2018.

Revenue in our Sorrento Therapeutics segment decreased from $14.3 million to $7.1 million for the nine months ended September 30, 2019, compared to the prior fiscal year. The decrease of $7.2 million is primarily attributable to higher revenues from the joint development agreement with Celularity in the prior year as well as lower contract manufacturing and service revenues compared to the prior year.

Our Scilex segment recognized revenues of $11.3 million for the nine months ended September 30, 2019. The Scilex segment recognized no revenues for the nine months ended September 30, 2018, as sales of ZTlido® (lidocaine topical system) 1.8% did not commence until October 2018.

We expect that any revenue we generate will fluctuate from year to year 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.

Cost of revenues. Cost of revenues for the nine months ended September 30, 2019 and 2018 were $10.8 million and $4.7 million, respectively, and relate to product sales, the sale of customized reagents and providing contract manufacturing 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.

Cost of revenues for our Sorrento Therapeutics segment increased by $2.4 million and is primarily attributable to indirect costs associated with our investments in contract manufacturing capacity expansion.

Cost of revenues for our Scilex segment increased by $3.7 million as compared to the same period quarter of the prior year as sales of ZTlido® (lidocaine topical system) 1.8% did not commence until October 2018.

Research and Development Expenses. Research and development expenses for the nine months ended September 30, 2019 and 2018 were $77.9 million and $52.1 million, respectively. Research and development expenses include expenses associated with the ramp up of ZTlido® (lidocaine topical system) 1.8% as well as the costs related to our RTX program activities towards entering into future clinical trials, costs to identify, isolate and advance human antibody drug candidates derived from our libraries as well as advancing our ADC preclinical drug candidates and preclinical testing expenses. 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.

R&D expense for our Sorrento Therapeutics segment increased by $21.8 million as compared to the same period of the prior fiscal year and was primarily attributed to increased clinical activities related to consulting and lab supply costs incurred in connection with our expanded research and development activities and activities to advance RTX and CAR-T into clinical trials.

R&D expense for our Scilex segment increased by $4.0 million as compared to the same period of the prior fiscal year and was primarily driven by activities totaling $5.4 million associated with our product pipeline and was partially offset by lower clinical trial costs associated with ZTlido® (lidocaine topical system) 1.8%, which obtained FDA approval in February 2018.

Acquired In-process Research and Development Expenses. Acquired in-process research and development expenses for the nine months ended September 30, 2019 were $75.3 million were due to acquired in-process research and development expenses associated with the acquisition of Semnur in March 2019. We recognized $9.5 million of expense related to acquired in-process research and development associated with the Sofusa Purchase Agreement for the nine months ended September 30, 2018.

Selling, General and Administrative Expenses. General and administrative expenses for the nine months ended September 30, 2019 and 2018 were $78.1 million and $41.1 million, respectively, or an increase of $37.0 million.

SG&A expense for our Sorrento Therapeutics segment decreased by approximately $0.4 million as compared to the same period of the prior fiscal year and consisted 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.

SG&A expense for our Scilex segment increased by approximately $37.4 million as compared to the same period of the prior fiscal year, and was primarily due to increased sales activities associated with the commercialization of ZTlido® (lidocaine topical system) 1.8%.

Intangible Amortization. Intangible amortization for the nine months ended September 30, 2019 and 2018 was $2.9 million and $2.0 million, respectively.

Amortization expense for our Sorrento Therapeutics segment remained relatively consistent with the prior year.

Amortization expense for our Scilex segment increased by approximately $1.1 million as compared to the same period of the prior fiscal year, and was primarily due to the amortization of acquired in-process research and development upon commercialization of ZTlido® (lidocaine topical system) 1.8% that occurred in the fourth quarter of 2018.

Loss on Derivative Liabilities. Loss on derivative liabilities for the nine months ended September 30, 2019 was $35.8 million compared to no loss on derivative liability in the same period in 2018.

Loss on derivative liabilities for our Sorrento Therapeutics segment totaled $14.4 million. $8.1 million of the increase was driven by revised sales forecasts of ZTlido® (lidocaine topical system) 1.8%. $6.3 million of the increase was attributed to the warrants to purchase an aggregate of 1,333,304 shares of our common stock issued to certain funds and accounts managed by Oaktree Capital Management, L.P. (collectively, the "Lenders") as further described in Note 10 of the accompanying notes to the consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Loss on derivative liabilities for our Scilex segment was $21.4 million and was primarily attributed to revised probabilities related to timing of marketing approval for SP-103 and revised sales forecasts as further described in Note 5 of the accompanying notes to the consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Contingent Liabilities and Acquisition Consideration Payable. Changes in acquisition consideration payable for the nine months ended September 30, 2019 and 2018 resulted in a loss of approximately $0.1 million and $13.7 million, respectively.

The loss resulting from the change in acquisition consideration payable for the nine months ended September 30, 2018 relates primarily to changes in the fair value of contingent consideration from the Scilex Pharma and Virttu acquisitions of $6.0 million and $6.4 million, respectively.

Interest Expense. Interest expense for the nine months ended September 30, 2019 and 2018 was $28.1 million and $48.7 million, respectively. The decrease in interest expense of $20.7 million as compared to the same period in 2018 resulted primarily from the conversion of the convertible notes issued in December 2017 that occurred in the second quarter of 2018.

The decrease in interest expense compared to the same period in prior year was partially offset by interest expense associated with the loan agreement entered into with the Lenders and Oaktree Fund Administration, LLC, as administrative and collateral agent (the "Agent"), and the Scilex Notes entered into in the second half of fiscal year 2018.

Income Tax (Benefit) Expense. Income tax benefit for the nine months ended September 30, 2019 and 2018 was $(0.8) million and $(3.2) million, respectively. The decrease in income tax benefit was primarily attributed to the increased valuation allowance in 2019.

Loss on Equity Method Investments. Loss on equity method investments for the nine months ended September 30, 2019 and 2018 was $3.9 million and $3.9 million, respectively. (See Note 7 of the accompanying notes to the consolidated financial statements in Part I, Item 1 of this Form 10-Q for additional information.)

Net Loss. Net loss for the nine months ended September 30, 2019 and 2018 was $293.6 million and $158.8 million, respectively.

Liquidity and Capital Resources

As of September 30, 2019, we had $34.6 million in cash and cash equivalents attributable in part to the following financing arrangements (See Notes 10 and 11 of the accompanying notes to the consolidated financial statements in Part I, Item 1 of this Form 10-Q for additional information):

On July 2, 2018, we entered into an Asset Purchase Agreement (the "Sofusa Purchase Agreement") with Kimberly-Clark Corporation ("KCC"), Kimberly-Clark Global Sales, LLC ("KCCGS"), and Kimberly-Clark Worldwide, Inc. ("KCCW" and together with KCC and KCCGS, "Kimberly-Clark") pursuant to which, among other things, we acquired certain of Kimberly-Clark's assets related to micro-needle drug delivery system, including the Sofusa® platform (the "Sofusa Assets") and related fixed assets, and assumed certain of Kimberly-Clark's liabilities related to the Sofusa Assets (the "Sofusa Acquisition"). The closing of the Sofusa Acquisition (the "Sofusa Closing") occurred on July 2, 2018. At the Sofusa Closing, we paid $10 million and agreed to pay additional consideration to Kimberly-Clark upon the achievement of certain regulatory and net sales milestones, as well as a percentage in the low double-digits of any non-royalty amounts received by us in connection with any license, sale or other grant of rights by us to develop or commercialize the Sofusa Assets (all such additional consideration, the "Sofusa Contingent Consideration"). Under the Sofusa Purchase Agreement, the aggregate amount of the Sofusa Contingent Consideration payable by us will not exceed $300.0 million. We also agreed to pay Kimberly-Clark a low single-digit royalty on all net sales with respect to the first five products developed by us or our licensees that utilizes intellectual property included in the Sofusa Assets.

On September 7, 2018, Scilex Pharma entered into purchase agreements (the "2018 Purchase Agreements") with the certain investors (the "Purchasers") and us. Pursuant to the 2018 Purchase Agreements, on September 7, 2018, Scilex Pharma, among other things, issued and sold to the Purchasers the Scilex Notes with an aggregate principal of $224.0 million for an aggregate purchase price of $140.0 million (the "Offering"). The net proceeds of the Offering were approximately $89.3 million, after deducting the Offering expenses payable by Scilex Pharma and funding a segregated reserve account ($20.0 million) and a segregated collateral account ($25.0 million) pursuant to the terms of an indenture governing the Scilex Notes (the "Indenture"). The net proceeds of the Offering will be used by Scilex Pharma to support the commercialization of ZTlido® (lidocaine topical system) 1.8%, for working capital and general corporate purposes in respect of the commercialization of ZTlido® (lidocaine topical system) 1.8%. In connection with the Offering, Scilex Pharma also entered into the Indenture governing the Scilex Notes with U.S. Bank National Association, as trustee (the "Trustee") and collateral agent (the "Agent"), and us. Pursuant to the Indenture, we agreed to irrevocably and unconditionally guarantee, on a senior unsecured basis, the punctual performance and payment when due of all obligations of Scilex Pharma under the Indenture.

Pursuant to the terms of the Indenture, we issued an irrevocable standby letter of credit to Scilex Pharma (the "Letter of Credit"), which provides that, in the event that (1) Scilex Pharma does not hold at least $35,000,000 in unrestricted cash as of the end of any calendar month during the term of the Scilex Notes, (2) actual cumulative net sales of ZTlido® (lidocaine topical system) 1.8% from the issue date of the Scilex Notes through December 31, 2021 are less than a specified sales threshold for such period, or (3) actual cumulative net sales of ZTlido® (lidocaine topical system) 1.8% for any calendar year during the term of the Scilex Notes, beginning with the 2022 calendar year, are less than a specified sales threshold for such calendar year, Scilex Pharma, as beneficiary of the Letter of Credit, will draw, and we will pay to Scilex Pharma, $35,000,000 in a single lump-sum amount as a subordinated loan, and upon receipt by Scilex Pharma of the subordinated loan, the holders of the Scilex Notes shall have the one-time right to require us to purchase up to an aggregate of $25,000,000 of the Scilex Notes then outstanding. The Letter of Credit will terminate upon the earliest to occur of: (a) the repayment of the Scilex Notes in full, (b) the actual net sales of ZTlido® (lidocaine topical system) 1.8% for any calendar year during the term of the Scilex Notes exceeding a certain threshold, (c) the consummation of an initial public offering on a major international stock exchange by Scilex that satisfies certain valuation thresholds, and (d) the replacement of the Letter of Credit with another letter of credit in form and substance, including as to the identity and creditworthiness of issuer, reasonably acceptable to the holders of at least 80% in principal amount of outstanding Scilex Notes.

The holders of the Scilex Notes will be entitled to receive quarterly payments of principal of the Scilex Notes equal to a percentage, in the range of 10% to 20% of the net sales of ZTlido® (lidocaine topical system) 1.8% for the prior fiscal quarter, beginning on February 15, 2019. If Scilex Pharma has not received a marketing approval letter from the FDA with respect to ZTlido® (lidocaine topical system) 5.4% or a similar product with a concentration of not less than 5% by March 31, 2021, the percentage of net sales payable shall be increased to be in the range of 15% to 25%. If actual cumulative net sales of ZTlido® (lidocaine topical system) 1.8% from October 1, 2022 through September 30, 2023 are less than 60% of a predetermined target sales threshold for such period, then Scilex Pharma will be obligated to pay an additional installment of principal of the Scilex

Notes each quarter in an amount equal to an amount to be determined by reference to the amount of such deficiency. The aggregate principal amount due under the Scilex Notes shall be increased by $28,000,000 on February 15, 2022 if actual cumulative net sales of ZTlido® (lidocaine topical system) 1.8% from the issue date of the Scilex Notes through December 31, 2021 do not equal or exceed 95% of a predetermined target sales threshold for such period. If actual cumulative net sales of ZTlido® (lidocaine topical system) 1.8% for the period from October 1, 2022 through September 30, 2023 do not equal or exceed 80% of a predetermined target sales threshold for such period, the aggregate principal amount shall also be increased on November 15, 2023 by an amount equal to an amount to be determined by reference to the amount of such deficiency.

On October 1, 2019, Scilex Pharma, us, the Trustee, the Agent and the beneficial owners of the Scilex Notes and the holders of such Scilex Notes listed on the signature pages thereto (the "Holders") entered into an omnibus amendment (the "Omnibus Amendment") to: (i) the Indenture, and (ii) that certain Irrevocable Standby Letter of Credit issued by us to Scilex Pharma in the maximum aggregate amount of $35.0 million, with a date of issuance of September 7, 2018 (the "Letter of Credit").

In connection with the Omnibus Amendment, in the event of consummation of a Scilex Holding IPO that satisfies certain valuation thresholds, Scilex Pharma agreed to repurchase, from each holder of Scilex Notes, Scilex Notes in a principal amount equal to (i) $20.0 million multiplied by (ii) a fraction the numerator of which will be the then outstanding principal amount of the Scilex Notes held by such holder and the denominator of which will be the then outstanding principal amount of all of the outstanding Scilex Notes, at a purchase price in cash equal to 100% of the principal amount thereof (such repurchase, the "Effective Date Repurchase"). Pursuant to the Omnibus Amendment, the Holders agreed to release the funds in the reserve account for the purpose of consummating the Effective Date Repurchase and the remaining funds in the reserve account after the consummation of the Effective Date Repurchase will be released to Scilex Pharma by the Trustee and Agent.

The Omnibus Amendment also modifies the Letter of Credit to provide that one of the conditions that will terminate the Letter of Credit will be the consummation of a Scilex Holding IPO that satisfies certain valuation thresholds. The Omnibus Amendment will be effective upon the satisfaction of certain terms and conditions, including the consummation of the Effective Date Repurchase. The Omnibus Amendment will terminate if the Omnibus Amendment does not become effective on or prior to October 1, 2020.

On November 7, 2018, we and certain of our domestic subsidiaries (the "Guarantors") entered into the Loan Agreement with the Lenders and the Agent, for an initial term loan of $100.0 million (the "Initial Loan") and a second tranche of $50.0 million, subject to the achievement of certain commercial and financial milestones between August 7, 2019 and November 7, 2019, and the satisfaction of certain customary conditions (the "Conditional Loan"). The Initial Loan was funded on November 7, 2018. The net proceeds of the Initial Loan were approximately $91.3 million, after deducting estimated loan costs, commissions, fees and expenses.

On May 3, 2019, we, the Guarantors and the Lenders and the Agent entered into an amendment (the "Amendment") to the Loan Agreement. Under the terms of the Amendment, among other things, the Lenders agreed to make available to us $20.0 million of the Conditional Loan with a probable maturity of May 3, 2020 absent the occurrence of certain qualifying events, notwithstanding that the commercial and financial milestones had not occurred (the "Early Conditional Loan"). The net proceeds of the Early Conditional Loan were approximately $18.9 million, after deducting estimated loan costs, commission, fees and expenses.

On March 18, 2019, we, for limited purposes, entered into the Merger Agreement with Semnur, Scilex Holding, Merger Sub, and the Equityholders' Representative. Pursuant to the Merger Agreement, and upon the terms and subject to the conditions contained therein, Scilex Holding agreed to pay the Semnur Equityholders up to $280.0 million in aggregate contingent cash consideration based on the achievement of certain milestones, including obtaining the first approval of a New Drug Application of a Semnur product by the FDA and the achievement of certain amounts of net sales of Semnur products.

On June 28, 2019, we entered into an underwriting agreement (the "Underwriting Agreement") with JMP Securities LLC, as representative of the several underwriters named therein (the "Underwriters"), relating to a firm commitment underwritten public offering. The net proceeds from this offering were approximately $23.3 million, after deducting underwriting discounts and commissions and other estimated offering expenses, and were received in July 2019.

In October 2019, we entered into an Equity Distribution Agreement (the "Distribution Agreement") with JMP Securities LLC, as sales agent (the "Sales Agent"), pursuant to which we may offer and sell, from time to time, through or to the Sales Agent, as sales agent or principal (the "Offering"), up to $75.0 million in shares of our common stock (the "Shares"). Any Shares offered and sold in the Offering will be issued pursuant to our Registration Statement on Form S-3 (File No. 333-221443) filed with the SEC on November 9, 2017, as amended on December 1, 2017 and declared effective on December

6, 2017 (the "Form S-3"), the base prospectus dated December 6, 2017 included in the Form S-3 and the prospectus supplement relating to the Offering filed with the SEC on October 1, 2019.

Under the terms of the Distribution Agreement, the Sales Agent will be entitled to a commission at a fixed rate of 3.0% of the gross proceeds from each sale of Shares under the Distribution Agreement. We will also reimburse the Agent for certain expenses incurred in connection with the Distribution Agreement, and agreed to provide indemnification and contribution to the Sales Agent with respect to certain liabilities, including liabilities under the Securities Act and the Securities Exchange Act of 1934, as amended. We currently intend to use any net proceeds from the Offering for working capital and general corporate purposes.

Cash Flows from Operating Activities. Net cash used for operating activities was $137.0 million for the nine months ended September 30, 2019 as compared to $66.8 million for the nine months ended September 30, 2018. Net cash used reflects a net loss of $293.6 million, which was partially offset by charges related to acquired in-process research and development of $75.3 million, as well as other non-cash reconciling items totaling approximately $77.1 million, primarily related to non-cash interest expense, depreciation and amortization, stock-based compensation and a loss on derivative liabilities.

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 pre-clinical development and research activities, support the commercial launch of our products and fund our joint ventures, collaborations, and other third party agreements.

Cash Flows from Investing Activities. Net cash used for investing activities was $27.8 million for the nine months ended September 30, 2019 as compared to $15.7 million for the nine months ended September 30, 2018. Our investing activities used $9.6 million to acquire equipment and building improvements, $1.2 million in capital contributions to joint ventures and approximately $17.0 million associated with the acquisition of Semnur-related in-process research and development and related assets during the nine months ended September 30, 2019. Cash used for investing activities included $10.0 million cash associated with the Sofusa Purchase Agreement during the same period in the prior year.

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 $41.0 million for the nine months ended September 30, 2019 as compared to net cash provided by financing of $242.7 million for the nine months ended September 30, 2018. The decrease compared to the same period in prior year is primarily attributed to lower proceeds from the issuance of common stock as well as proceeds from the issuance of the convertible notes and the Scilex Notes in the prior year.

Future Liquidity Needs. We have principally financed our operations through underwritten public offerings and private debt and equity financings, as we have not generated any significant 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. These conditions, among others, raise substantial doubt about our ability to continue as a going concern.

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 consolidated 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.

We anticipate that we will continue to incur net losses into the foreseeable future as we: (i) advance our product pipeline and other product candidates into clinical trials, (ii) continue our development of, and seek regulatory approvals for, our product candidates in clinical trials, (iii) continue our development of, and seek regulatory approvals for, our product candidates, (iv) expand our corporate infrastructure, 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.

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.

Uses of Cash. We have and plan to expand our business and intellectual property portfolio through the acquisition of new businesses and technologies as well as entering into licensing arrangements.

Contractual Obligations and Commitments

As of September 30, 2019, there were no material changes outside of the ordinary course of business, in our outstanding contractual obligations from those disclosed within "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Off-Balance Sheet Arrangements

Since our inception through September 30, 2019, 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 3, "Significant Accounting Policies," in the accompanying notes to the consolidated financial statements in Part I, Item 1 of this Form 10-Q 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 and debt securities. 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. We do not believe that we have any material exposure to interest rate risk arising from our investments.

The fair market value of our Loan Agreement is subject to interest rate risk as a portion of the interest rate fluctuates based on the LIBOR. Generally, the fair market value of the debt will vary as interest rates increase or decrease. We have determined that there was no material market risk exposure from such instruments to our consolidated financial position, results of operations or cash flows as of September 30, 2019. We are not subject to interest rate risk on the notes issued in 2018 in connection with the securities purchase agreement entered into in March 2018 (the "Notes") as the Notes have a fixed rate of 5.00%. We are not subject to interest rate risk on the Scilex Notes associated with our 2018 Purchase Agreements as repayment of the Scilex Notes is determined by projected net sales as further discussed in Note 10 in the accompanying notes to the consolidated financial statements in Part I, Item 1 of this Form 10-Q. For both the Notes and Scilex Notes, changes in interest rates will generally affect the fair value of the debt instrument, but not our earnings or cash flows.

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.

Concentration Risk. During the fiscal year ended December 31, 2018 and the nine months ended September 30, 2019, sales of ZTlido® (lidocaine topical system) 1.8% to our sole customer and third-party logistics distribution provider, Cardinal Health, represented 100% of the net revenue of our Scilex segment. This exposes us to concentration of customer risk. We monitor the financial condition of the sole customer of our Scilex segment, limit our credit exposure by setting credit limits, and have not experienced any credit losses for the year ended December 31, 2018 and the nine months ended September 30, 2019. As we continue to expand the commercialization of ZTlido® (lidocaine topical system) 1.8%, we are not limited to the current customer and have the option of expanding our distribution network with additional distributors through establishing our own affiliates, by acquiring existing third-party business or product rights or by partnering with additional third parties.

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 weaknesses described below.

In March 2018, in connection with the preparation of our 2017 financial statements, we identified that the accounting implications of terms in certain unusual or non-recurring and significant agreements were not identified and assessed on a timely basis. Further, valuation of certain associated assets or liabilities were not properly reassessed at the end of each reporting period. The material weakness did not result in a restatement of previously issued annual consolidated financial statements or condensed interim consolidated financial statements.

During 2018, we undertook remediation measures, including designing new controls and enhancing existing internal controls which, if effectively implemented, would provide reasonable assurance that we timely and precisely (1) identify and assess the accounting implications of terms in unusual or non-recurring and significant agreements and (2) reassess the valuation of associated assets or liabilities at the end of each reporting period. These included measures designed to improve centralized documentation control, improve the internal communication procedures between senior executive management, accounting personnel and related business owners, leverage external accounting experts as appropriate to perform the necessary reviews and strengthen policies and procedures related to the transferring of responsibilities and the handoff of personnel duties. However, in connection with the preparation of our consolidated financial statements for the year ended December 31, 2018 there were multiple errors identified related to management's review of significant agreements. We believe the errors identified are due to deficiencies in our internal control environment resulting from insufficient competent accounting resources, including the lack of a Chief Accounting Officer, to effectively operate internal controls over financial reporting in a timely manner.

This ineffective control environment contributed to the following material weaknesses: (i) management did not adequately evaluate the underlying assumptions associated with the accounting for key terms identified in significant agreements, which in the current year included convertible notes and debt agreements, and (ii) management did not accurately assess the significant assumptions in order to properly estimate the fair value of contingent consideration liabilities. We also identified the following deficiencies in our internal control environment resulting from insufficient accounting resources that collectively represent a material weakness: Management did not properly assess significant assumptions through the performance of precise reviews of accounting estimates including probability of occurrence and assumptions used in evaluating the fair value of embedded derivatives, fair value of indefinite-lived intangible assets and income tax related balances. Such material weaknesses could result in material misstatements of the aforementioned account balances or disclosures in the annual or interim consolidated financial statements that would not be prevented or detected.

As a result of the material weaknesses, we hired a new Chief Accounting Officer and we are in the process of implementing remediation measures including, but not limited to, performing a comprehensive assessment of accounting and finance resource requirements and hiring other personnel with sufficient accounting expertise to improve the operating effectiveness of our review controls and monitoring activities and utilizing external accounting experts as appropriate. In addition, we are in the process of implementing systems and processes to streamline business processes and improve the overall control environment. We believe that our remediation measures, if effectively implemented, will provide reasonable assurance that we timely identify terms in agreements that could have material accounting implications, assess the accounting and disclosure implications of the terms and account for such items in the financial statements appropriately. Any failure to implement these improvements to our internal control over financial reporting would result in continued material weaknesses in our internal control and could impact our ability to produce reliable financial reports, effectively manage our 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, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our plans for remediating our material weaknesses, as identified above, are still in progress and would constitute changes in our internal control over financial reporting prospectively once implemented.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

To the best of our knowledge, we are not currently 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.

On April 3, 2019, we filed two legal actions against, among others, Patrick Soon-Shiong and entities controlled by him, asserting claims for, among other things, fraud and breach of contract, arising out of Dr. Soon-Shiong's purchase of the drug Cynviloq™ from us in May 2015. The actions allege that Dr. Soon-Shiong and the other defendants, among other things, acquired the drug Cynviloq™ for the purpose of halting its progression to the market. Specifically, we have filed:

- An arbitration demand with the American Arbitration Association in Los Angeles, California against NantPharma, LLC and Chief Executive Officer Patrick Soon-Shiong, seeking damages in excess of $1 billion, as well as additional punitive damages, related to alleged fraud and breaches of the Stock Sale and Purchase Agreement, dated May 14, 2015, entered into between NantPharma LLC and us, included as Exhibit 10.2 to our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission (the "SEC") on August 7, 2015. On May 24, 2019, NantCell, Inc., Dr. Soon-Shiong and Immunotherapy NANTibody LLC ("NANTibody") General Counsel Charles Kim filed a motion in the Los Angeles Superior Court to stay or dismiss our arbitration demand. On October 9, 2019, the Los Angeles Superior Court denied the motion to stay or dismiss the arbitration demand, and the arbitration is ongoing; and

- An action in the Los Angeles Superior Court derivatively on behalf of NANTibody against NantCell, Inc., NANTibody Board Member and NantCell, Inc. Chief Executive Officer Patrick Soon-Shiong, and NANTibody officer Charles Kim, related to several breaches of the June 11, 2015 Limited Liability Company Agreement for NANTibody entered into between us and NantCell, Inc. The suit also alleges breaches of fiduciary duties and seeks, inter alia, a declaration that the Assignment Agreement entered into on July 2, 2017, between NantPharma, LLC and NANTibody is void and an equitable unwinding of the Assignment Agreement. The suit calls for the restoration of $90.05 million to the NANTibody capital account, thereby restoring our equity method investment in NANTibody to its invested amount as of June 30, 2017 of $40 million. On May 24, 2019, NantCell, Inc. and Dr. Soon-Shiong filed a cross-complaint against us and Dr. Ji, seeking unspecified damages, as well as additional punitive damages and specific performance, related to alleged fraud, alleged breaches of the Exclusive License Agreement for certain antibodies (dated April 21, 2015 and entered into between NantCell, Inc. and us), and tortious interference with contract. On May 24, 2019, NANTibody and NantPharma, LLC filed a new complaint in the action against us and Dr. Ji, seeking unspecified damages, as well as additional punitive damages and specific performance, related to alleged fraud, alleged breaches of the Stock Sale and Purchase Agreement, alleged breaches of the Exclusive License Agreement for certain antibodies (dated April 21, 2015 and entered into between NantCell, Inc. and us), and tortious interference with contract. On July 8, 2019, we and Dr. Ji filed motions to compel the cross-complaint and new action to arbitration. On October 9, 2019, the Los Angeles Superior Court granted the motions to compel to arbitration all of the claims brought by NANTibody, NantCell, Inc. and NantPharma, LLC, and denied the motions to compel as to the claims brought by Dr. Soon-Shiong. Subsequently, NANTibody, NantCell, Inc. and NantPharma, LLC have re-filed their claims in arbitration. The claims against Dr. Soon-Shiong have been stayed pending resolution of the claims filed in arbitration. The original derivative action is no longer stayed, and the parties are currently engaged in discovery in the suit.

Item 1A. Risk Factors.

Our Annual Report on Form 10-K for the year ended December 31, 2018, 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, 2018. 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 Financial Position and Capital Requirements

We are a clinical stage company subject to significant risks and uncertainties, including the risk that we or our partners may never develop, obtain regulatory approval or market any of our product candidates or generate product related revenues.

We are primarily a clinical stage biotechnology company that began operating and commenced research and development activities in 2009. Pharmaceutical product development is a highly speculative undertaking and involves a substantial degree of risk. There is no assurance that our libraries of fully-human mAbs or any of our other product candidates in development will be suitable for diagnostic or therapeutic use, or that we will be able to identify and isolate therapeutics product candidates, or develop, market and commercialize these candidates. We do not expect any of our product candidates in development, including, but not limited to, our fully-human mAbs, biosimilars/biobetters, fully human anti-PD-L1 and anti-PD-1 checkpoint inhibitors derived from our proprietary G-MAB™ library platform, antibody drug conjugates ("ADCs"), ZTlido® (lidocaine topical system) 5.4% ("SP-103"), bispecific antibodies ("BsAbs"), as well as Chimeric Antigen Receptor-T Cell ("CAR-T") for adoptive cellular immunotherapy, resiniferatoxin ("RTX") and non-opioid corticosteroid formulated as a viscous gel injection (SP-102) ("SEMDEXA™") to be commercially available for a few years, if at all. Even if we are able to commercialize our product candidates, there is no assurance that these candidates would generate revenues or that any revenues generated would be sufficient for us to become profitable or thereafter maintain profitability.

We have incurred significant losses since inception and anticipate that we will incur continued losses for the foreseeable future.

As of September 30, 2019 and December 31, 2018, we had an accumulated deficit of $597.0 million and $367.8 million, respectively. We continue to incur significant research and development and other expenses related to our ongoing operations. We have incurred operating losses since our inception, expect to continue to incur significant operating losses for the foreseeable future, and we expect these losses to increase as we: (i) advance RTX, SP-103, SEMDEXA™ and our other product candidates into further clinical trials and pursue other development, acquire, develop and manufacture clinical trial materials and increase other regulatory operating activities, (ii) incur incremental expenses associated with our efforts to further advance a number of potential product candidates into preclinical development activities, (iii) continue to identify and advance a number of fully human therapeutic antibody and ADC preclinical product candidates, (iv) incur higher salary, lab supply and infrastructure costs incurred in connection with supporting all of our programs, (v) invest in our joint ventures, collaborations or other third party agreements, (vi) incur expenses in conjunction with defending and enforcing our rights in various litigation matters, (vii) expand our corporate, development and manufacturing infrastructure, and (viii) support our subsidiaries, such as Scilex Pharmaceuticals Inc. ("Scilex Pharma") and Semnur Pharmaceuticals, Inc. ("Semnur"), in their clinical trial, development and commercialization efforts. As such, we are subject to all risks incidental to the development of new biopharmaceutical products and related companion diagnostics, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may adversely affect our business. Our prior losses, combined with expected future losses, have had and will continue to have an adverse effect on our stockholders' equity and working capital.

We will require substantial additional funding, which may not be available to us on acceptable terms, or at all. If we fail to raise the necessary additional capital, we may be unable to complete the development and commercialization of our product candidates or continue our development programs.

Our operations have consumed substantial amounts of cash since inception. We expect to significantly increase our spending to advance the preclinical and clinical development of our product candidates and launch and commercialize any product candidates for which we receive regulatory approval, including building our own commercial organization to address certain markets. We will require additional capital for the further development and commercialization of our product candidates, as well as to fund our other operating expenses and capital expenditures.

As a result of our recurring losses from operations, recurring negative cash flows from operations and substantial cumulative losses, there is uncertainty regarding our ability to maintain liquidity sufficient to operate our business effectively, which raises substantial doubt about our ability to continue as a going concern. If we are unsuccessful in our efforts to raise outside financing, we may be required to significantly reduce or cease operations. The report of our independent registered public accounting firm on our audited financial statements for the year ended December 31, 2018 included a "going concern" explanatory paragraph indicating that our recurring losses from operations, recurring negative cash flows from operations and substantial cumulative losses raise substantial doubt about our ability to continue as a going concern.

We cannot be certain that additional funding will be available on acceptable terms, or at all. 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. Any of these events could significantly harm our business, financial condition and prospects.

Our future capital requirements will depend on many factors, including:

- the progress of the development of our fully-human mAbs, including biosimilars/biobetters, fully human anti-PD-L1 and anti-PD-1 checkpoint inhibitors derived from our proprietary G-MAB™ library platform, ADCs, BsAbs, as well as CAR-T for adoptive cellular immunotherapy, RTX, SP-103 and SEMDEXA™;
- the number of product candidates we pursue;
- the time and costs involved in obtaining regulatory approvals;
- the costs involved in filing and prosecuting patent applications and enforcing or defending patent claims;
- our plans to establish sales, marketing and/or manufacturing capabilities;
- the effect of competing technological and market developments;
- the terms and timing of any collaborative, licensing and other arrangements that we may establish;
- general market conditions for offerings from biopharmaceutical companies;
- our ability to establish, enforce and maintain selected strategic alliances and activities required for product commercialization;
- our obligations under our debt arrangements; and
- our revenues, if any, from successful development and commercialization of our product candidates, including ZTlido® (lidocaine topical system) 1.8%.

In order to carry out our business plan and implement our strategy, we anticipate that we will need to obtain additional financing from time to time and may choose to raise additional funds through strategic collaborations, licensing arrangements, joint ventures, public or private equity or debt financing, bank lines of credit, asset sales, government grants or other arrangements. We cannot be sure that any additional funding, if needed, will be available on terms favorable to us, or at all. Furthermore, any additional equity or equity-related financing may be dilutive to our stockholders, and debt or equity financing, if available, may subject us to restrictive covenants and significant interest costs. If we obtain funding through a strategic collaboration or licensing arrangement, we may be required to relinquish our rights to certain of our product candidates or marketing territories.

Further, there is uncertainty related to future National Institutes of Health ("NIH") grant funding, and the NIH's plans for new grants or cooperative agreements may be re-scoped, delayed, or canceled depending on the nature of the work and the availability of resources. As a result, we cannot assure you that we will receive any additional funding under our existing NIH grants, and we may not be successful in securing additional grants from the NIH in the future.

Our inability to raise capital when needed would harm our business, financial condition and results of operations, and could cause our stock price to decline or require that we wind down our operations altogether.

Risks Related to Our Business and Industry

A fast track product designation or other designation to facilitate product candidate development may not lead to faster development or regulatory review or approval process, and it does not increase the likelihood that our product candidates will receive marketing approval.

A product sponsor may apply for fast track designation from the U.S. Food and Drug Administration ("FDA") if a product is intended for the treatment of a serious or life-threatening condition and preclinical or clinical data demonstrate the potential to address an unmet medical need for this condition ("Fast Track Designation"). The FDA has broad discretion

whether or not to grant this designation. We have received Fast Track Designation for SEMDEXA™, which is in development for the treatment of lumbosacral radicular pain. Even though SEMDEXA™ has received Fast Track Designation, we may not experience a faster process, review or approval compared to conventional FDA procedures. Fast Track Designation does not accelerate clinical trials, mean that regulatory requirements are less stringent or provide assurance of ultimate marketing approval by the FDA. Instead, Fast Track Designation provides opportunities for frequent interactions with FDA review staff, as well as eligibility for priority review, if relevant criteria are met, and rolling review. The FDA may rescind the fast track designation if it believes that the designation is no longer supported by data from our clinical development program. The FDA may also withdraw any fast track designation at any time.

Drug development involves a lengthy and expensive process with an uncertain outcome, and results of earlier studies and trials may not be predictive of future trial results.

Clinical testing is expensive and can take many years to complete, and its outcome is risky and uncertain. Failure can occur at any time during the clinical trial process. The results of preclinical studies and early clinical trials of our product candidates may not be predictive of the results of later-stage clinical trials. Product candidates in later stages of clinical trials may fail to show the desired safety and efficacy traits despite having progressed through preclinical studies and initial clinical trials. It is not uncommon for companies in the pharmaceutical industry to suffer significant setbacks in advanced clinical trials due to lack of efficacy or adverse safety profiles, notwithstanding promising results in earlier trials. Our future clinical trial results may not be successful.

This drug candidate development risk is heightened by any changes in the planned clinical trials compared to the completed clinical trials. As product candidates are developed through preclinical to early and late stage clinical trials towards approval and commercialization, it is customary that various aspects of the development program, such as manufacturing and methods of administration, are altered along the way in an effort to optimize processes and results. While these types of changes are common and are intended to optimize the product candidates for late stage clinical trials, approval and commercialization, such changes do carry the risk that they will not achieve these intended objectives.

Other than with respect to ZTlido® (lidocaine topical system) 1.8%, we have not completed a corporate-sponsored clinical trial. Phase I trials are ongoing for RTX for knee osteoarthritis, RTX for cancer-related pain, anti-CD38 CAR-T for multiple myeloma and anti-CEA CAR-T for intrahepatic CEA positive metastases and for intraperitoneal tumor implantation (malignant ascites) and a Phase III trial is ongoing for SEMDEXA™ for the treatment of lumbosacral radicular pain. Non-clinical studies are ongoing and a Phase II trial is planned to start in the fourth quarter of 2019 with higher strength SP-103. Despite this, we may not have the necessary capabilities, including adequate staffing, to successfully manage the execution and completion of any clinical trials we initiate, including our planned clinical trials of RTX, clinical trials of SP-103, clinical trials of SEMDEXA™, clinical trials of CAR-T including targeting CD38 using a CAR-T cell therapy, our biosimilar/biobetters antibodies and other product candidates, in a way that leads to our obtaining marketing approval for our product candidates in a timely manner, or at all.

In the event we are able to conduct a pivotal clinical trial of a product candidate, the results of such trial may not be adequate to support marketing approval. Because our product candidates are intended for use in life-threatening diseases, in some cases we ultimately intend to seek marketing approval for each product candidate based on the results of a single pivotal clinical trial. As a result, these trials may receive enhanced scrutiny from the FDA. For any such pivotal trial, if the FDA disagrees with our choice of primary endpoint or the results for the primary endpoint are not robust or significant relative to control, are subject to confounding factors, or are not adequately supported by other study endpoints, including possibly overall survival or complete response rate, the FDA may refuse to approve a New Drug Application, Biologics License Application or other application for marketing based on such pivotal trial. The FDA may require additional clinical trials as a condition for approving our product candidates.

The terms of our outstanding debt place restrictions on our operating and financial flexibility. If we raise additional capital through debt financing, the terms of any new debt could further restrict our ability to operate our business.

On September 7, 2018, Scilex Pharma issued and sold senior secured notes due 2026 in an aggregate principal amount of $224,000,000 (the "Scilex Notes") for an aggregate purchase price of $140,000,000 (the "Scilex Offering"). In connection with the Scilex Offering, we also entered into an indenture, as amended (the "Scilex Indenture"), governing the Scilex Notes with U.S. Bank National Association, a national banking association, as trustee (the "Trustee") and collateral agent, and Scilex Pharma. Pursuant to the Scilex Indenture, we agreed to irrevocably and unconditionally guarantee, on a senior unsecured basis, the punctual performance and payment when due of all obligations of Scilex Pharma under the Scilex Indenture.

The Scilex Indenture governing the Scilex Notes contains customary events of default with respect to the Scilex Notes (including a failure to make any payment of principal on the Scilex Notes when due and payable), and, upon certain events of default occurring and continuing, the Trustee by notice to Scilex Pharma, or the holders of at least 25% in principal amount of the outstanding Scilex Notes by notice to Scilex Pharma and the Trustee, may (subject to the provisions of the Scilex Indenture) declare 100% of the then-outstanding principal amount of the Scilex Notes to be due and payable. Upon such a declaration of acceleration, such principal will be due and payable immediately. In the case of certain events, including bankruptcy, insolvency or reorganization involving us or Scilex Pharma, the Scilex Notes will automatically become due and payable.

Pursuant to the Scilex Indenture, we and Scilex Pharma must also comply with certain covenants with respect to the commercialization of ZTlido® (lidocaine topical system) 1.8%, as well as customary additional affirmative covenants, such as furnishing financial statements to the holders of the Scilex Notes, minimum cash requirements and net sales reports, and negative covenants, including limitations on the following: the incurrence of debt, the payment of dividends, the repurchase of shares and, under certain conditions, making certain other restricted payments, the prepayment, redemption or repurchase of subordinated debt, a merger, amalgamation or consolidation involving Scilex Pharma, engaging in certain transactions with affiliates; and the making of investments other than those permitted by the Scilex Indenture.

On November 7, 2018, we and certain of our domestic subsidiaries (the "Guarantors") entered into a Term Loan Agreement (the "Initial Loan Agreement") with certain funds and accounts managed by Oaktree Capital Management, L.P. (collectively, the "Lenders") and Oaktree Fund Administration, LLC, as administrative and collateral agent (the "Agent"), for an initial term loan of $100.0 million (the "Initial Loan") and a second tranche of $50.0 million, subject to the achievement of certain commercial and financial milestones between August 7, 2019 and November 7, 2019, and the satisfaction of certain customary conditions (the "Original Delayed Draw Term Loan"). The Initial Loan was funded on November 7, 2018. On May 3, 2019, we, the Guarantors, the Lenders and the Agent entered into an amendment to the Initial Loan Agreement (the "Amendment" and, together with the Initial Loan Agreement, the "Loan Agreement"). Under the Amendment, the Lenders funded $20.0 million of the Original Delayed Draw Term Loan on May 3, 2019. The Loan Agreement contains customary affirmative and restrictive covenants and representations and warranties, including financial reporting obligations and minimum liquidity requirements and limitations on indebtedness, liens, negative pledges, certain restricted payments, subsidiary distributions, investments, fundamental transactions, dispositions of assets and transactions with affiliates. The Loan Agreement also contains other customary provisions, such as expense reimbursement and confidentiality obligations, as well as indemnification rights for the benefit of the Lenders.

If we raise any additional debt financing, the terms of such additional debt could further restrict our operating and financial flexibility.

We have significantly restructured our business and implemented a new segment reporting structure. Our two industry segments, designated as Sorrento Therapeutics and Scilex, have been in effect for a limited period of time and there are no assurances that we will be able to successfully operate as a restructured business.

We have traditionally focused on 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 our platform technologies.

With our previous acquisition of a majority stake in Scilex Pharma, a developer of specialty pharmaceutical products for the treatment of chronic pain, and the subsequent contribution of such stake to our majority-owned subsidiary Scilex Holding Company ("SHC") in connection with SHC's acquisition of Semnur, a pharmaceutical company developing an injectable product for the treatment of lower back pain, SHC will focus on non-opioid pain management.

Our strategy is based on a number of factors and assumptions, some of which are not within our control, such as the actions of third parties. There can be no assurance that we will be able to successfully execute all or any elements of our strategy, or that our ability to successfully execute our strategy will be unaffected by external factors. If we are unsuccessful in growing our business as planned, our financial performance could be adversely affected.

We are involved, and may become involved in the future, in disputes and other legal or regulatory proceedings that, if adversely decided or settled, could materially and adversely affect our business, financial condition and results of operations.

We are, and may in the future become, party to litigation, regulatory proceedings or other disputes. For example, on April 3, 2019, we filed two legal actions against, among others, Patrick Soon-Shiong and entities controlled by him, asserting claims for, among other things, fraud and breach of contract, arising out of Dr. Soon-Shiong's purchase of the drug Cynviloq™ from our company in May 2015. The actions allege that Dr. Soon-Shiong and the other defendants, among other things, acquired the drug Cynviloq™ for the purpose of halting its progression to the market. In general, claims made by or against us

in disputes and other legal or regulatory proceedings can be expensive and time consuming to bring or defend against, requiring us to expend significant resources and divert the efforts and attention of our management and other personnel from our business operations. Any failure to prevail in any claims made by us or any adverse determination against us in these proceedings, or even the allegations contained in the claims, regardless of whether they are ultimately found to be without merit, may also result in settlements, injunctions or damages that could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Acquisitions

We have and plan to continue to acquire assets, businesses and technologies and may fail to realize the anticipated benefits of the acquisitions, and acquisitions can be costly and dilutive.

We have and plan to continue to expand our business and intellectual property portfolio through the acquisition of new assets, businesses and technologies.

For example, in November 2016, we acquired a majority of the outstanding capital stock of Scilex Pharma, which was contributed to our majority-owned subsidiary SHC in connection with the corporate reorganization of SHC and acquisition of Semnur by SHC in March 2019. These assets, together, constitute our Scilex segment. We also acquired Virttu Biologics Limited in 2017 and Sofusa® assets, a revolutionary drug delivery system, in July 2018, and we are in the process of integrating this company and technology with ours.

The success of any acquisition depends on, among other things, our ability to combine our business with the acquired assets and businesses in a manner that does not materially disrupt existing relationships and that allows us to achieve development and operational synergies. If we are unable to achieve these objectives, the anticipated benefits of the acquisition may not be realized fully or at all or may take longer to realize than expected. In particular, the acquisition may not be accretive to our stock value or development pipeline in the near or long term.

It is possible that the integration process could result in the loss of key employees; the disruption of our ongoing business or the ongoing business of the acquired companies; or inconsistencies in standards, controls, procedures or policies that could adversely affect our ability to maintain relationships with third parties and employees or to achieve the anticipated benefits of the acquisition. Integration efforts between us and the acquired company will also divert management's attention from our core business and other opportunities that could have been beneficial to our stockholders. An inability to realize the full extent of, or any of, the anticipated benefits of the acquisition, as well as any delays encountered in the integration process, could have an adverse effect on our business and results of operations, which may affect the value of the shares of our common stock after the completion of the acquisition. If we are unable to achieve these objectives, the anticipated benefits of the acquisition may not be realized fully or at all or may take longer to realize than expected. In particular, the acquisition may not be accretive to our stock value or development pipeline in the near or long term.

We expect to incur additional costs integrating the operations of any companies we acquire, higher development and regulatory costs, and personnel, which cannot be estimated accurately at this time. If the total costs of the integration of our companies and advancement of acquired product candidates and technologies exceed the anticipated benefits of the acquisition, our financial results could be adversely affected.

In addition, we may issue shares of our common stock or other equity-linked securities in connection with future acquisitions of businesses and technologies. Any such issuances of shares of our common stock could result in material dilution to our existing stockholders.

Risks Related to Ownership of Our Common Stock

The market price of our common stock may fluctuate significantly, and investors in our common stock may lose all or a part of their investment.

The market prices for securities of biotechnology and pharmaceutical companies have historically been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. For example, from October 1, 2018 to September 30, 2019, our closing stock price ranged from $1.86 to $5.94 per share. The market price of our common stock may fluctuate significantly in response to numerous factors, some of which are beyond our control, such as:

- actual or anticipated adverse results or delays in our clinical trials;

- our failure to commercialize our product candidates, if approved;
- unanticipated serious safety concerns related to the use of any of our product candidates;
- adverse regulatory decisions;
- changes in laws or regulations applicable to our product candidates, including but not limited to clinical trial requirements for approvals;
- legal disputes or other developments relating to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our product candidates, government investigations and the results of any proceedings or lawsuits, including, but not limited to, patent or stockholder litigation;
- our decision to initiate a clinical trial, not initiate a clinical trial or to terminate an existing clinical trial;
- our dependence on third parties, including CROs;
- announcements of the introduction of new products by our competitors;
- market conditions in the pharmaceutical and biotechnology sectors;
- announcements concerning product development results or intellectual property rights of others;
- future issuances of common stock or other securities;
- the addition or departure of key personnel;
- failure to meet or exceed any financial guidance or expectations regarding development milestones that we may provide to the public;
- actual or anticipated variations in quarterly operating results;
- our failure to meet or exceed the estimates and projections of the investment community;
- overall performance of the equity markets and other factors that may be unrelated to our operating performance or the operating performance of our competitors, including changes in market valuations of similar companies;
- conditions or trends in the biotechnology and biopharmaceutical industries;
- introduction of new products offered by us or our competitors;
- announcements of significant acquisitions, strategic partnerships, joint ventures or capital commitments by us or our competitors;
- issuances of debt or equity securities;
- sales of our common stock by us or our stockholders in the future;
- trading volume of our common stock;
- ineffectiveness of our internal controls;
- publication of research reports about us or our industry or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- failure to effectively integrate the acquired companies' operations;
- general political and economic conditions;
- effects of natural or man-made catastrophic events; and
- other events or factors, many of which are beyond our control.

Further, the equity markets in general have recently experienced extreme price and volume fluctuations. Continued market fluctuations could result in extreme volatility in the price of our common stock, which could cause a decline in the value of our common stock. Price volatility of our common stock might worsen if the trading volume of our common stock is low. The realization of any of the above risks or any of a broad range of other risks, including those described in these "Risk Factors," could have a dramatic and material adverse impact on the market price of our common stock.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

On November 8, 2019, we entered into a note conversion agreement (the "Conversion Agreement") with the holders (the "Convertible Noteholders") of convertible promissory notes issued by us on June 13, 2018 (the "Convertible Notes") pursuant that certain Securities Purchase Agreement, dated as of March 26, 2018, by and among us and certain accredited investors party

thereto (the "Purchasers"), as amended by that certain Amendment No. 1 to Securities Purchase Agreement, dated as of June 13, 2018, by and among us and the purchasers identified on the signature pages thereto (as amended, the "Securities Purchase Agreement"). The Convertible Notes accrued simple interest at a rate equal to 5.0% per annum and would mature upon the earlier to occur of (a) June 13, 2023, and (b) the date of the closing of a change in control of our company (the "Maturity Date"). Pursuant to the terms of the Convertible Notes, at any time and from time to time before the Maturity Date, each Purchaser had the option to convert any portion of the outstanding principal amount of such Purchaser's Convertible Note into shares of our common stock at a price per share equal to $7.0125. Upon conversion of any of the principal amount of a Convertible Note, all accrued and unpaid interest on such portion of the principal amount would become due and payable in cash.

Pursuant to the Conversion Agreement, the Convertible Notes were amended to provide that (a) the conversion price for the Convertible Notes was reduced from $7.0125 per share to $1.70 per share, and (b) upon the conversion of any portion of the outstanding principal amount of a Convertible Note, all accrued but unpaid interest on such portion of the principal amount being converted shall also be converted into shares of our common stock at $1.70 per share (collectively, the "Amendment"). In connection with the Amendment, each of the Convertible Noteholders further agreed to convert the full principal amount, plus all accrued but unpaid interest, under such Convertible Noteholder's Convertible Note, as amended by the Amendment, into shares of our common stock on November 8, 2019. As of November 8, 2019, the aggregate outstanding principal amount of the Convertible Notes was $37,848,750 (the "Principal Amount") and the aggregate accrued interest under the Convertible Notes was $674,018.84 (the "Accrued Interest").

Pursuant to the Conversion Agreement, on November 8, 2019, 22,660,449 shares of our common stock were issued to the Convertible Noteholders upon the conversion of the full Principal Amount and the Accrued Interest (the "Conversion Shares"). None of the Conversion Shares were registered under the Securities Act of 1933, as amended (the "Securities Act").

In connection with the Securities Purchase Agreement, we previously registered 5,397,325 of the Conversion Shares for resale under the Securities Act pursuant to our Registration Statement on Form S-3 (File No. 333-229609) filed with the SEC on February 11, 2019, as amended by Amendment No. 1 thereto filed with the SEC on May 3, 2019, and declared effective on May 7, 2019 (the "Prior Registration Statement"). Pursuant to the Conversion Agreement, we agreed to prepare and file by no later than December 9, 2019 a registration statement with the SEC for the purpose of registering for resale the remaining 17,263,124 Conversion Shares that were not covered under the Prior Registration Statement.

The Conversion Agreement includes representations and warranties of the parties and other terms and conditions customary in agreements of this type. The representations, warranties and covenants contained in the Conversion Agreement were made only for purposes of such agreement and as of specific dates, were solely for the benefit of the parties to the Conversion Agreement, and may be subject to limitations agreed upon by the contracting parties. Accordingly, the Conversion Agreement is incorporated herein by reference only to provide investors with information regarding the terms of the Conversion Agreement, and not to provide investors with any other factual information regarding our company or our business, and should be read in conjunction with the disclosures in our periodic reports and other filings with the SEC.

The foregoing description of the Conversion Agreement does not purport to be complete and is qualified in its entirety by reference to the copy of the Conversion Agreement filed herewith as Exhibit 10.5.

The Conversion Shares were issued to the Convertible Noteholders pursuant to an exemption from registration under the Securities Act in reliance on Section 4(a)(2) thereof and Rule 506 of Regulation D thereunder. Each of the Convertible Noteholders represented that such Convertible Noteholder was an "accredited investor," as defined in Regulation D, and was acquiring the Conversion Shares for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof. 5,397,325 of the Conversion Shares were previously registered for resale under the Securities Act pursuant to the Prior Registration Statement. 17,263,124 of the Conversion Shares have not been registered for resale under the Securities Act and such Conversion Shares may not be offered or sold in the United States absent registration or an exemption from registration under the Securities Act and any applicable state securities laws. Neither the disclosure under this Part II, Item 5 nor Exhibit 10.5 filed herewith is an offer to sell or the solicitation of an offer to buy shares of our common stock or any of our other securities.

Item 6. Exhibits.

EXHIBIT INDEX

2.1+	Agreement and Plan of Merger, dated as of March 18, 2019, by and among Sorrento Therapeutics, Inc., Semnur Pharmaceuticals, Inc., Scilex Holding Company, Sigma Merger Sub, Inc. and Fortis Advisors LLC, solely as the Equityholders' Representative (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 22, 2019).
2.2	Amendment No. 1 to Agreement and Plan of Merger, dated as of August 7, 2019, by and between Scilex Holding Company and Fortis Advisors LLC, solely as the Equityholders' Representative.
3.1	Amended and Restated Bylaws of Sorrento Therapeutics, Inc. (incorporated by reference to Exhibit 3.3 to the Registrant's Annual Report on Form 10-K filed with the SEC on March 15, 2019).
4.1	Form of Warrant, dated May 3, 2019, issued by Sorrento Therapeutics, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on May 3, 2019).
4.2	Amendment No. 1 to the Registration Rights Agreement, dated as of May 3, 2019, by and among Sorrento Therapeutics, Inc. and the persons party thereto (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the SEC on May 3, 2019).
4.3	Form of Series A Warrant (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on June 28, 2019).
4.4	Form of Series B Warrant (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the SEC on June 28, 2019).
4.5	Form of Series C Warrant (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed with the SEC on June 28, 2019).
4.6	Form of Warrant (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 8, 2019).
10.1#	Sorrento Therapeutics, Inc. 2019 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on September 23, 2019).
10.2	Equity Distribution Agreement, dated as of October 1, 2019, by and between Sorrento Therapeutics, Inc. and JMP Securities LLC (incorporated by reference to Exhibit 1.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 1, 2019).
10.3*	Omnibus Amendment No. 1 to Indenture and Letter of Credit, dated as of October 1, 2019, by and among Scilex Pharmaceuticals, Inc.., Sorrento Therapeutics, Inc., U.S. Bank National Association, as trustee and collateral agent, and the beneficial owners of the senior secured notes due 2026 and the holders of such securities listed on the signature pages (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 1, 2019).
10.4*+	Form of Securities Purchase Agreement, dated October 7, 2019, by and between Sorrento Therapeutics, Inc. and the purchasers party thereto (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 8, 2019).
10.5	Note Conversion Agreement, dated as of November 8, 2019, by and among Sorrento Therapeutics, Inc. and the holders of convertible notes issued by Sorrento Therapeutics, Inc. as is set forth on Exhibit A thereto.
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 Jiong Shao, 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 Jiong Shao, 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

* Certain identified information has been omitted pursuant to Item 601(b)(10) of Regulation S-K because such information is both (i) not material and (ii) would likely cause competitive harm to the Registrant if publicly disclosed. The Registrant hereby undertakes to furnish supplemental copies of the unredacted exhibit upon request by the SEC.

+ Non-material schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Registrant hereby undertakes to furnish supplementally copies of any of the omitted schedules and exhibits upon request by the SEC.

# Indicates management contract or compensatory plan.

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 8, 2019

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 8, 2019

By: /s/ Jiong Shao
Jiong Shao
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

Exhibit 2.2

AMENDMENT NO. 1

TO AGREEMENT AND PLAN OF MERGER

August 7, 2019

This Amendment No. 1 (this "**Amendment**") amends that certain Agreement and Plan of Merger, dated March 18, 2019 (the "**Merger Agreement**"), by and among Semnur Pharmaceuticals, Inc., a Delaware corporation, Scilex Holding Company, a Delaware corporation ("**Parent**"), Sigma Merger Sub, Inc., a Delaware corporation and a subsidiary of Parent, Fortis Advisors LLC, solely as representative of the Equityholders (the "**Equityholders' Representative**"), and, solely with respect to Section 1.8(a), 3.11 and Article X of the Merger Agreement, Sorrento Therapeutics, Inc., a Delaware corporation. All defined terms used herein, but not defined, shall have the meanings ascribed to them in the Merger Agreement.

WHEREAS, Parent and the Equityholders' Representative wish to amend certain terms of the Merger Agreement such that holders of Company Options will receive cash consideration in lieu Parent Shares to which such holders are otherwise entitled; and

WHEREAS, pursuant to Section 10.2 of the Merger Agreement, the Merger Agreement may be amended by an instrument in writing signed by Parent and the Equityholders' Representative.

NOW, THEREFORE, in consideration of the foregoing, and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, Parent and the Equityholders' Representative hereby agree as follows:

1. Section 1.12 of the Merger Agreement is hereby amended to include the following as a new subsection (c):

"(c) Notwithstanding anything to the contrary set forth in this Section 1.12, Section 1.10 or the Escrow Agreement (collectively, the "***Parent Share Issuance Provisions***"), as soon as reasonably practicable following the consummation of the first bona fide equity financing of Parent with one or more third party financing sources on an arms' length basis with gross proceeds to Parent of at least $40.0 million occurring after the date hereof and receipt of a release of claims executed by such Company Optionholder in form and substance reasonably satisfactory to Parent, (i) Parent shall pay to such Company Optionholder an amount equal to the Parent Stock Price in lieu of the issuance of each Parent Share such Company Optionholder would otherwise be entitled to receive pursuant to the Parent Share Issuance Provisions and (ii) for the avoidance of doubt, Parent shall not be required to issue any Parent Shares to any Company Optionholder pursuant to the Parent Share Issuance Provisions."

2. This Amendment is effective as of the date hereof. From and after the effectiveness of this Amendment, each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Merger Agreement shall refer to the Merger Agreement, as amended hereby. Except as expressly set forth herein, this Amendment shall not by implication or otherwise limit, impair, constitute a waiver of or otherwise affect the rights and remedies of the parties under the Merger Agreement, and shall not alter, modify, amend or in any way affect any of the terms, conditions, obligations, covenants or agreements contained in the Merger Agreement.

3. This Amendment shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the State of Delaware.

4. This Amendment may be executed in one or more counterparts, each of which shall be enforceable against the parties to this Agreement that execute such counterparts, and all of which together shall constitute one and the same instrument. Facsimile and ".pdf" copies of signed signature pages shall be deemed binding originals and no party to this Agreement shall raise the use of facsimile machine or electronic transmission in ".pdf" as a defense to the formation of a contract.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 1 to Agreement and Plan of Merger to be duly executed, as of the date first written above.

PARENT:

Scilex Holding Company

By: /s/ Henry Ji, Ph.D.
Name: Henry Ji, Ph.D.
Title: Secretary and Treasurer

EQUITYHOLDERS' REPRESENTATIVE:

Fortis Advisors LLC

By: /s/ Richard Fink
Name: Richard Fink
Title: Managing Director

NOTE CONVERSION AGREEMENT

This **NOTE CONVERSION AGREEMENT** (this "***Agreement***") is made as of November 8, 2019, by and among Sorrento Therapeutics, Inc., a Delaware corporation (the "***Company***"), and the holders of convertible notes issued by the Company as is set forth on **Exhibit A** hereto (each, a "***Noteholder***" and collectively, the "***Noteholders***"). Capitalized terms in this Agreement but not defined herein shall have the meanings given to such terms in the Original Notes (as defined below).

RECITALS

WHEREAS, each of the Noteholders is the owner of the Convertible Note, dated June 13, 2018 (each, an "***Original Note***" and, collectively, the "***Original Notes***"), issued by the Company pursuant to that certain Securities Purchase Agreement, dated March 26, 2018 by and among the Company and the Noteholders (as may be amended or restated from time to time, the "***Securities Purchase Agreement***"), set forth opposite such Noteholder's name on **EXHIBIT A** hereto;

WHEREAS, the Company believes it is in the best interests of the Company to decrease the conversion price of the Original Notes to $1.70 per share of Common Stock (as amended, the "***Amended Notes***"), contingent upon, each Noteholder converting its Amended Note into common stock of the Company on the date of the Closing (as defined below);

WHEREAS, each of the Noteholders has agreed to convert the full outstanding Principal Amount, plus all accrued but unpaid interest thereon, of its respective Amended Note in accordance with the terms and conditions set forth in this Agreement; and

WHEREAS, Section 7 of each of the Original Notes provides that any provision of an Original Note may be amended, waived or modified upon the mutual written consent of the Company and the applicable Noteholder.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual promises, representations, warranties and covenants hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Amendments to Original Notes. On the terms and subject to the conditions of this Agreement and in reliance upon the representations, warranties and agreements contained herein, the Company hereby agrees that, effective as of the Closing (as defined below), each of the Original Notes shall be amended as follows:

(a) Section 1(f) of the each of the Original Notes shall be amended and restated in its entirety to read as follows:

""***Conversion Price***" means $1.70, subject to adjustment as set forth in Section 6."

(b) The first sentence of Section 2 of the each of the Original Notes shall be amended and restated in its entirety to read as follows:

"Upon the conversion of any portion of the Principal Amount in accordance with Section 6, all accrued but unpaid interest on such portion of the Principal Amount being converted shall also be converted into Conversion Shares as set forth in Section 6."

(c) The first sentence of Section 6(a) of the each of the Original Notes shall be amended and restated in its entirety to read as follows:

"Subject to the limitations set forth in Section 6(f), the Purchaser may, at the Purchaser's option, at any time while any Principal Amount remains outstanding, and so long as the Conversion Amount (as defined below) is equal to or greater than the lesser of: (i) $4,000,000, and (ii) the then-outstanding Principal Amount; convert the then-outstanding Principal Amount or any portion thereof, plus any accrued but unpaid interest thereon (the "***Conversion Amount***"), into the number of fully paid and non-assessable shares of Common Stock (the "***Conversion Shares***") determined by dividing the Conversion Amount by the Conversion Price then in effect."

(d) Exhibit A of the each of the Original Notes shall be amended and restated in its entirety to read as set forth on **SCHEDULE 1** hereto.

2. Conversion of the Amended Notes.

(a) On the terms and subject to the conditions of this Agreement and in reliance upon the representations, warranties and agreements contained herein, each Noteholder hereby agrees that, in consideration for the Company agreeing to amend such Noteholder's Original Note, such Noteholder shall, on the date hereof, convert the full Principal Amount, plus all accrued but unpaid interest, under such Noteholder's Amended Note into common stock of the Company by (i) delivering to the Company a duly executed conversion notice for such Noteholder's Amended Note, in the form attached hereto as **SCHEDULE 1**; and (ii) delivering to the Company the Original Note for cancellation.

(b) Within two business days following the Company's receipt of the items specified in the last sentence of Section 2(a) with respect to a Noteholder, the Company shall issue and deliver to such Noteholder a certificate or certificate(s) representing the shares of the Company's common stock issuable upon conversion of the Amended Note (the "***Note Shares***"), and will promptly thereafter deliver to such Noteholder a check representing the payment of cash in lieu of fractional shares in the amount set forth opposite such Noteholder's name on **EXHIBIT A** hereto under the heading "Cash in Lieu". The number of Note Shares set forth opposite such Noteholder's name on **EXHIBIT A** hereto under the heading "Restricted Shares" (such Note Shares, the "***Restricted Note Shares***") shall bear the legend required by Section 10(a) of the Securities Act of 1933, as amended (the "***Securities Act***").

3. Closing. The closing of each of: (a) the effectiveness of the amendments to the Original Notes as contemplated in Section 1, and (b) the conversion of the Original Notes by the Noteholders as contemplated in Section 2 (the "***Closing***"), shall be deemed to occur

simultaneously and take place at 9:00 A.M. on the date hereof, at the offices of Paul Hastings LLP, 1117 S. California Avenue, Palo Alto, California 94304, or at such other time or place as the parties hereto may mutually agree, upon the physical or electronic exchange among the parties and their counsel of all documents and deliverables required under this Agreement. From and after the Closing, the Amended Notes shall solely represent the right to receive the Note Shares hereunder, no amounts shall remain outstanding under the Amended Notes and the Amended Notes shall be cancelled and otherwise be of no further force or effect.

4. Representations and Warranties of the Noteholders. Each Noteholder hereby represents and warrants, severally and not jointly, to the Company as follows:

(a) This Agreement has been duly and validly authorized, executed and delivered by such Noteholder and constitutes the legal, valid and binding agreement of such Noteholder, enforceable against it in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws affecting the enforcement of creditors' rights generally or general principles of equity; such Noteholder has full power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby.

(b) Such Noteholder has good and valid title to the Original Note set forth opposite such Noteholder's name on **EXHIBIT A** hereto and owns and holds the entire right, title and interest in and to the Original Note, free and clear of any liens, claims or encumbrances (other than those arising as a result of this Agreement) and such Original Note is not subject to any contract, agreement, arrangement, commitment or understanding restricting or otherwise relating to the disposition of such Original Note.

(c) Such Noteholder understands that such Noteholder's Amended Note and Note Shares are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying in part upon the truth and accuracy of, and such Noteholder's compliance with, the representations, warranties, agreements, acknowledgments and understandings of such Noteholder set forth herein in order to determine the availability of such exemptions and the eligibility of such Noteholder to complete the offer and sale of such Noteholder's Amended Note and Note Shares in accordance with this Agreement.

(d) Such Noteholder understands that the certificates representing the Restricted Note Shares will bear the legend set forth in Section 6 hereof and understands that the Restricted Note Shares may not be resold or otherwise transferred except in a transaction registered under the Securities Act or unless an exemption from such registration is available.

(e) Such Noteholder has been furnished with all materials relating to the business, finances and operations of the Company and materials relating to offer and sale of such Noteholder's Amended Note and Note Shares in accordance with this Agreement which have been requested by such Noteholder. Such Noteholder has been afforded the opportunity to ask questions of the Company. Neither such inquiries nor any other due diligence investigations conducted by such Noteholder or its representatives shall modify, amend or affect such Noteholder's right to rely on the Company's representations and warranties contained herein.

Such Noteholder acknowledges that all of the documents filed by the Company with the SEC under Sections 13(a), 14(a) or 15(d) of the Exchange Act that have been posted on the SEC's EDGAR site are available to such Noteholder.

(f) Such Noteholder is an "accredited investor" as that term is defined in Rule 501 of Regulation D under the Securities Act.

(g) Such Noteholder understands that its investment in such Noteholder's Amended Note and Note Shares involves a high degree of risk. Such Noteholder is able to bear the risk of an investment in such Noteholder's Amended Note and Note Shares including, without limitation, the risk of total loss of its investment. Such Noteholder has sought such accounting, legal and tax advice as it has considered necessary to make an informed investment decision with respect to the issuance and sale of such Noteholder's Amended Note and Note Shares in accordance with this Agreement. Such Noteholder is not relying on any advice or representation of the Company in connection with entering into this Agreement or the transactions contemplated hereunder or thereunder (other than the representations made by the Company in this Agreement) and has not received from the Company any assurance or guarantee as to the merits (whether legal, regulatory, tax, financial or otherwise) of entering into this Agreement or the performance of such Noteholder's obligations hereunder.

(h) Such Noteholder is acquiring the Restricted Note Shares for its own account, not as nominee or agent, and not with a view towards distribution thereof, and such Noteholder has no present intention of selling, granting any participation in or otherwise distributing the same in violation of the Securities Act or any applicable state securities laws. Such Noteholder is acquiring the Restricted Note Shares in the ordinary course of its business. Such Noteholder does not presently have any agreement or understanding, directly or indirectly, with any Person to distribute any of the Restricted Note Shares.

(i) Such Noteholder is not acquiring the Note Shares as a result of any advertisement, article, notice or other communication regarding the Note Shares published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general advertisement.

5 . Representations, Warranties and Covenants of the Company. The Company hereby represents and warrants to each of the Noteholders as follows:

(a) The Company has all requisite corporate power and authority to enter into this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. This Agreement has been duly and validly authorized, executed and delivered by the Company and constitutes the legal, valid and binding agreement of the Company, enforceable against it in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws affecting the enforcement of creditors' rights generally or general principles of equity.

(b) The Note Shares have been duly and validly authorized and, when issued in accordance with the terms of this Agreement and the Amended Notes, will be validly issued, fully paid and non-assessable and not subject to any preemptive rights or similar rights.

6. Legends. Each Noteholder understands that, unless and until such time as the Restricted Note Shares are registered in accordance with this Agreement or may be sold pursuant to Rule 144 of the Securities Act without any restriction as to the number of securities as of a particular date that can then be immediately sold, each Restricted Note Share (and all securities issued in exchange therefor or in substitution thereof) shall bear a restricted security legend substantially in the following form (in addition to any legend required by applicable state securities or "blue sky" laws):

> "THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS AND MAY BE OFFERED, SOLD, ASSIGNED, PLEDGED, HYPOTHECATED, TRANSFERRED OR OTHERWISE DISPOSED OF (EACH, A "TRANSFER") ONLY IF SUCH SECURITIES ARE REGISTERED UNDER THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR IF SUCH TRANSFER IS MADE PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND SUCH STATE SECURITIES LAWS AFTER PROVIDING AN OPINION OF COUNSEL TO SUCH EFFECT."

7. Resale Registration.

(a) No later than December 9. 2019, the Company shall (i) file with the Securities and Exchange Commission, or (ii) have filed with the SEC, a resale registration statement (together with any New Resale Registration Statement (as defined below), the "***Resale Registration Statement***") pursuant to Rule 415 under the Securities Act pursuant to which all of the Restricted Note Shares (the "***Registrable Securities***") shall be included (on the initial filing or by supplement or amendment thereto) to enable the public resale on a delayed or continuous basis of the Registrable Securities by the Noteholders. The Company shall file the Resale Registration Statement on such form as the Company may then utilize under the rules of the SEC and use its best efforts to have the Resale Registration Statement declared effective under the Securities Act as soon as practicable, but in no event more than the earlier of: (A) 120 days following the date of the Closing, and (B) five business days after the date the Company receives written notification from the SEC that the Resale Registration Statement will not be reviewed. The Company agrees to use its best efforts to maintain the effectiveness of the Resale Registration Statement, including by filing any necessary post-effective amendments and prospectus supplements, or, alternatively, by filing one or more new registration statements (each, a "***New Resale Registration Statement***") relating to the Registrable Securities as required by Rule 415 under the Securities Act, continuously until the date that is the earlier of (i) four (4) years following the date of effectiveness of the Resale Registration Statement, or (ii) the date on which the Noteholders no longer hold any Registrable Securities covered by such Resale Registration Statement.

8. Provisions Relating to Registration.

(a) Notwithstanding any other provisions of this Agreement to the contrary, the Company shall cause (i) the Resale Registration Statement (as of the effective date of the Resale Registration Statement), any amendment thereof (as of the effective date thereof) or supplement thereto (as of its date), (A) to comply in all material respects with the applicable requirements of the Securities Act and the rules and regulations of the SEC, and (B) not to contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading, and (ii) any related prospectus, preliminary prospectus and any amendment thereof or supplement thereto, as of its date, (1) to comply in all material respects with the applicable requirements of the Securities Act and the rules and regulations of the SEC, and (2) not to contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided*, *however*, the Company shall have no such obligations or liabilities with respect to any written information pertaining to a Noteholder and furnished to the Company by or on behalf of such Noteholder specifically for inclusion therein.

(b) The Company shall notify the Noteholders: (i) when the Resale Registration Statement, or any amendment thereto has been filed with the SEC and when the Resale Registration Statement or any post-effective amendment thereto has become effective; (ii) of any request by the SEC for amendments or supplements to the Resale Registration Statement or the prospectus included therein or for additional information; (iii) of the issuance by the SEC of any stop order suspending the effectiveness of the Resale Registration Statement or the initiation of any proceedings for that purpose and of any other action, event or failure to act that would cause the Resale Registration Statement not to remain effective; and (iv) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any Registrable Securities for sale in any jurisdiction or the initiation of any proceeding for such purpose.

(c) As promptly as practicable after becoming aware of such event, the Company shall notify the Noteholders of the happening of any event (a "***Suspension Event***"), of which the Company has knowledge, as a result of which the prospectus included in the Resale Registration Statement as then in effect, includes an untrue statement of a material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and use its best efforts promptly to prepare a supplement or amendment to the Resale Registration Statement to correct such untrue statement or omission, and deliver such number of copies of such supplement or amendment to a Noteholder as such Noteholder may reasonably request; *provided*, *however*, that, for not more than 45 consecutive trading days (or a total of not more than 120 trading days in any 12 month period), the Company may delay, to the extent permitted by and in a manner not in violation of applicable securities laws, the disclosure of material non-public information concerning the Company (as well as prospectus or Resale Registration Statement updating), the disclosure of which at the time is not, in the good faith opinion of the Company, in the best interests of the Company; *provided*, *further*, that, if the Resale Registration Statement was not filed on Form S-3, such number of days shall not include the 15 calendar days following the filing of any Current Report on Form 8-K, Quarterly Report on Form 10-Q or Annual Report on Form 10-K, or other comparable form, for purposes of filing a post-effective amendment to the Resale Registration Statement.

(d) Upon a Suspension Event, the Company shall give written notice (a "***Suspension Notice***") to the Noteholders to suspend sales of the affected Registrable Securities, and such notice shall state that such suspension shall continue only for so long as the Suspension Event or its effect is continuing and the Company is pursuing with reasonable diligence the completion of the matter giving rise to the Suspension Event or otherwise taking all reasonable steps to terminate suspension of the effectiveness or use of the Resale Registration Statement. In no event shall the Company, without the prior written consent of the applicable Noteholder, disclose to such Noteholder any of the facts or circumstances giving rise to the Suspension Event. No Noteholder shall effect any sales of the Registrable Securities pursuant to such Resale Registration Statement (or such filings), at any time after it has received a Suspension Notice and prior to receipt of an End of Suspension Notice. The Noteholders may resume effecting sales of the Registrable Securities under the Resale Registration Statement (or such filings), following further notice to such effect (an "***End of Suspension Notice***") from the Company. This End of Suspension Notice shall be given by the Company to the Noteholders in the manner described above promptly following the conclusion of any Suspension Event and its effect.

(e) Notwithstanding any provision herein to the contrary, if the Company gives a Suspension Notice pursuant to this Section 8 with respect to the Resale Registration Statement, the Company shall extend the period during which the Resale Registration Statement shall be maintained effective under this Agreement by the number of days during the period from the date of the giving of the Suspension Notice to and including the date when the Noteholders shall have received the End of Suspension Notice and copies of the supplemented or amended prospectus necessary to resume sales.

(f) The Company shall bear all Registration Expenses incurred in connection with the registration of the Registrable Securities pursuant to this Agreement. "***Registration Expenses***" shall mean any and all expenses incident to the performance of or compliance with this Agreement, including without limitation: (i) all registration and filing fees; (ii) all fees and expenses associated with a required listing of the Registrable Securities on any securities exchange; (iii) fees and expenses with respect to filings required to be made with an exchange or any securities industry self-regulatory body; (iv) fees and expenses of compliance with securities or "blue sky" laws (including reasonable fees and disbursements of counsel for the underwriters or holders of securities in connection with blue sky qualifications of the securities and determination of their eligibility for investment under the laws of such jurisdictions); (v) printing, messenger, telephone and delivery expenses of the Company; (vi) fees and disbursements of counsel for the Company and customary fees and expenses for independent certified public accountants retained by the Company (including the expenses of any comfort letters, or costs associated with the delivery by independent certified public accountants of a comfort letter or comfort letters, if such comfort letter or comfort letters is required by the managing underwriter); (vii) securities acts liability insurance, if the Company so desires; (viii) all internal expenses of the Company (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties); (ix) the expense of any annual audit; and (x) the fees and expenses of any Person, including special experts, retained by the Company; *provided*, *however* that "Registration Expenses" shall not include underwriting fees, discounts or commissions attributable to the sale of the Registrable Securities or any legal fees and expenses of counsel to the Noteholders.

(g) Notwithstanding anything to the contrary contained in this Agreement, the Company shall not be required to include Registrable Securities in the Resale Registration Statement unless the Noteholder owning the Registrable Securities to be registered on the Resale Registration Statement, following reasonable advance written request by the Company, furnishes to the Company, at least 10 business days prior to the scheduled filing date of the Resale Registration Statement, an executed stockholder questionnaire in the form attached hereto as **EXHIBIT B**.

9. Indemnification with Respect to Registration

(a) In the event of the offer and sale of the Registrable Securities held by the Noteholders under the Securities Act, the Company agrees to indemnify and hold harmless each Noteholder and its directors, officers, employees, Affiliates and agents and each Person who controls such Noteholder within the meaning of the Securities Act or the Exchange Act (collectively, the "***Noteholder Indemnified Parties***") from and against any losses, claims, damages or liabilities, joint or several, or any actions in respect thereof to which each Noteholder Indemnified Party may become subject under the Securities Act or the Exchange Act, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Resale Registration Statement or in any amendment thereof, in each case at the time such became effective under the Securities Act, or in the preliminary prospectus or other information that is deemed, under Rule 159 promulgated under the Securities Act to have been conveyed to purchasers of securities at the time of sale of such securities ("***Disclosure Package***"), in the prospectus or in any amendment thereof or supplement thereto, or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a Disclosure Package or any prospectus, in the light of the circumstances under which they were made) not misleading, and shall reimburse, as incurred, the Noteholder Indemnified Parties for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action in respect thereof; *provided*, *however*, that the Company shall not be liable in any such case to the extent that such loss, claim, damage or liability arises out of or is based upon any untrue statement or omission made in the Resale Registration Statement, the Disclosure Package, any prospectus or in any amendment thereof or supplement thereto in reliance upon and in conformity with written information pertaining to a Noteholder and furnished to the Company by or on behalf of such Noteholder Indemnified Party specifically for inclusion therein; *provided further, however*, that the Company shall not be liable in any such case to the extent that such loss, claim, damage or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in the Disclosure Package, where (A) such statement or omission had been eliminated or remedied in any subsequently filed amended prospectus or prospectus supplement (the Disclosure Package, together with such updated documents, the "***Updated Disclosure Package***"), the filing of which such Noteholder had been notified in accordance with the terms of this Agreement, (B) such Updated Disclosure Package was available at the time such Noteholder sold Registrable Securities under the Resale Registration Statement, (C) such Updated Disclosure Package was not furnished by such Noteholder to the Person asserting the loss, liability, claim, damage or liability, or an underwriter involved in the distribution of such Registrable Securities, at or prior to the time such furnishing is required by the Securities Act, and (D) the Updated Disclosure Package would have cured the defect giving

rise to such loss, liability, claim, damage or action; and *provided further*, *however*, that this indemnity agreement will be in addition to any liability that the Company may otherwise have to such Noteholder Indemnified Party. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of any Noteholder Indemnified Parties and shall survive the transfer of the Registrable Securities by any Noteholder.

(b) As a condition to including any Registrable Securities to be offered by a Noteholder in any registration statement filed pursuant to this Agreement, such Noteholder agrees to severally and not jointly indemnify and hold harmless the Company, each of its directors, each of its officers who signs the Resale Registration Statement, as well as any officers, employees, Affiliates and agents of the Company, and each Person, if any, who controls the Company within the meaning of the Securities Act or the Exchange Act (a "***Company Indemnified Party***") from and against any losses, claims, damages or liabilities or any actions in respect thereof, to which a Company Indemnified Party may become subject under the Securities Act or the Exchange Act, insofar as such losses, claims, damages, liabilities or actions arise out of or are based upon (i) any untrue statement or alleged untrue statement of a material fact contained in the Resale Registration Statement or in any amendment thereof, in each case at the time such became effective under the Securities Act, or in any Disclosure Package, prospectus or in any amendment thereof or supplement thereto, or (ii) the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of the Disclosure Package or any prospectus, in the light of the circumstances under which they were made) not misleading, but in each case only to the extent that the untrue statement or omission or alleged untrue statement or omission was made in reliance upon and in conformity with written information pertaining to such Noteholder and furnished to the Company by or on behalf of such Noteholder specifically for inclusion therein; and, subject to the limitation immediately preceding this clause, shall reimburse, as incurred, the Company Indemnified Parties for any legal or other expenses reasonably incurred by them in connection with investigating or defending any loss, claim, damage, liability or action in respect thereof. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of such Noteholder, or any such director, officer, employees, Affiliates and agents and shall survive the transfer of such Registrable Securities by such Noteholder, and such Noteholder shall reimburse the Company, and each such director, officer, employees, Affiliates and agents for any legal or other expenses reasonably incurred by them in connection with investigating, defending, or settling and such loss, claim, damage, liability, action, or proceeding; *provided, however*, that the indemnity amount contained in this Section 9(b) shall in no event exceed the gross proceeds from the offering received by such Noteholder. Such indemnity shall remain in full force and effect, regardless of any investigation made by or on behalf of the Company or any such director, officer, employees, Affiliates and agents and shall survive the transfer by a Noteholder of such Registrable Securities.

(c) Promptly after receipt by a Noteholder Indemnified Party or a Company Indemnified Party (each, an "***Indemnified Party***") of notice of the commencement of any action or proceeding (including a governmental investigation), such Indemnified Party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 9, notify the indemnifying party of the commencement thereof; but the omission to so notify the indemnifying party will not relieve the indemnifying party from liability under Sections 9(a) or 9(b) unless and to the extent it did not otherwise learn of such action and the indemnifying party has been

materially prejudiced by such failure. In case any such action is brought against any Indemnified Party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such Indemnified Party (who shall not, except with the consent of the Indemnified Party, be counsel to the indemnifying party), and after notice from the indemnifying party to such Indemnified Party of its election so to assume the defense thereof the indemnifying party will not be liable to such Indemnified Party under this Section 9 for any legal or other expenses, other than reasonable costs of investigation, subsequently incurred by such Indemnified Party in connection with the defense thereof; *provided*, *however*, if such Indemnified Party shall have been advised by counsel that there are one or more defenses available to it that are in conflict with those available to the indemnifying party (in which case the indemnifying party shall not have the right to direct the defense of such action on behalf of the Indemnified Party), the reasonable fees and expenses of such Indemnified Party's counsel shall be borne by the indemnifying party. In no event shall the indemnifying party be liable for the fees and expenses of more than one counsel (together with appropriate local counsel) at any time for any Indemnified Party in connection with any one action or separate but substantially similar or related actions arising in the same jurisdiction out of the same general allegations or circumstances. No indemnifying party shall, without the prior written consent of the Indemnified Party (not to be unreasonably withheld or delayed), effect any settlement of any pending or threatened action in respect of which any Indemnified Party is or could have been a party and indemnity could have been sought hereunder by such Indemnified Party unless such settlement (i) includes an unconditional release of such Indemnified Party from all liability on any claims that are the subject matter of such action, and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any Indemnified Party. If the indemnification provided for in this Section 9 is unavailable or insufficient to hold harmless an Indemnified Party under Sections 9(a) or 9(b), then each indemnifying party shall contribute to the amount paid or payable by such Indemnified Party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to in Sections 9(a) or 9(b) in such proportion as is appropriate to reflect the relative fault of the indemnifying party or parties on the one hand and the Indemnified Party on the other in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities (or actions in respect thereof) as well as any other relevant equitable considerations. The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or a Noteholder or Noteholder Indemnified Party, as the case may be, on the other, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid by an Indemnified Party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this Section 9(c) shall be deemed to include any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any action or claim that is the subject of this Section 9(c). The parties agree that it would not be just and equitable if contributions were determined by *pro rata* allocation (even if a Noteholder was treated as one entity for such purpose) or any other method of allocation that does not take account of the equitable considerations referred to above. Notwithstanding any other provision of this Section 9(c), no Noteholder shall be required to contribute any amount in excess of the amount by which the net proceeds received by such Noteholder from the sale of the Registrable Securities pursuant

to the Resale Registration Statement exceeds the amount of damages that such Noteholder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

(d) The agreements contained in this Section 9 shall survive the sale of the Registrable Securities pursuant to the Resale Registration Statement, and shall remain in full force and effect, regardless of any termination or cancellation of this Agreement or any investigation made by or on behalf of any Indemnified Party.

10. Notices. Any notices, consents, waivers or other communications required or permitted to be given under the terms of this Agreement shall be given in accordance with Section 16 of the Securities Purchase Agreement.

11. Governing Law. This Agreement shall be construed under the laws of the State of California, without regard to principles of conflicts of law or choice of law that would permit or require the application of the laws of another jurisdiction. All actions or proceedings arising directly or indirectly from or in connection this Agreement shall be resolved in accordance with Section 10 of the Securities Purchase Agreement.

12. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns.

13. Counterparts; ".pdf" copies. This Agreement may be executed in two or more identical counterparts, all of which shall be considered one and the same agreement and shall become effective when counterparts have been signed by each party and delivered to the other party; *provided* that a .pdf or other form of electronic signature shall be considered due execution and shall be binding upon the signatory thereto with the same force and effect as if the signature were an original, not a .pdf or other form of electronic signature.

14. No Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other Person.

15. Headings. The headings of this Agreement are for convenience of reference and shall not form part of, or affect the interpretation of, this Agreement.

16. Amendment; Waiver; Consent. No provision of this Agreement may be waived, modified, supplemented or amended except in a written instrument signed by each of the parties hereto. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either party to exercise any right hereunder in any manner impair the exercise of any such right.

17. Costs and Expenses. All expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such expenses.

18. Severability. If any provision of this Agreement shall be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of any provision of this Agreement in any other jurisdiction.

19. Further Assurances. Each party shall do and perform, or cause to be done and performed, all such further acts and things, and shall execute and deliver all such other agreements, certificates, instruments and documents, as any other party may reasonably request in order to carry out the intent and accomplish the purposes of this Agreement and the consummation of the transactions contemplated hereby.

IN WITNESS WHEREOF, the parties have executed this Note Conversion Agreement as of the date first set forth above.

THE COMPANY:

SORRENTO THERAPEUTICS,INC.

By: /s/ Henry Ji, Ph.D.
Name: Henry Ji, Ph.D.
Title: President, Chief Executive Officer and Chairman of the Board

IN WITNESS WHEREOF, the parties have executed this Note Conversion Agreement as of the date first set forth above.

NOTEHOLDER:

ASIA PACIFIC MEDTECH (BVI) LIMITED

By:/s/ Nana Gu

Name: Nana Gu

Title: Director

IN WITNESS WHEREOF, the parties have executed this Note Conversion Agreement as of the date first set forth above.

NOTEHOLDER:

FAMOUS SINO LIMITED

By: /s/ Guangze Wu

Name: Guangze Wu

Title: Director

IN WITNESS WHEREOF, the parties have executed this Note Conversion Agreement as of the date first set forth above.

NOTEHOLDER:

CHINA IN SHINE INVESTMENT LIMITED

By: /s/ Chit Fung

Name:Chit Fung

Title: Director

IN WITNESS WHEREOF, the parties have executed this Note Conversion Agreement as of the date first set forth above.

NOTEHOLDER:

HIMARK GROUP (HOLDINGS) COMPANY LIMITED

By: /s/ Na O

Name: Na O

Title: Director

IN WITNESS WHEREOF, the parties have executed this Note Conversion Agreement as of the date first set forth above.

NOTEHOLDER:

SUCCESS INDICATOR INVESTMENTS LIMITED

By: /s/ Kang Li

Name: Kang Li

Title: Director

IN WITNESS WHEREOF, the parties have executed this Note Conversion Agreement as of the date first set forth above.

NOTEHOLDER:

PIPELINE VENTURES,LLC

By: /s/ Patrick Lin

Name: Patrick Lin

Title: Partner

Exhibit A

Noteholders

Name	Principal Amount of Note Purchased	Accrued Interest (Through 11/8/19)	Total Principal and Interest	Note Shares	Registered Shares	Restricted Shares	Cash in Lieu of Fractional Shares
Asia Pacific MedTech (BVI) Limited	$10,000,000.00	$178,082.19	$10,178,082.19	5,987,107	1,426,024	4,561,083	$0.29
Famous Sino Limited	$5,610,000.00	$99,904.11	$5,709,904.11	3,358,767	800,000	2,558,767	$0.21
China In Shine Investment Limited	$7,713,750.00	$137,368.15	$7,851,118.15	4,618,304	1,100,000	3,518,304	$1.35
Himark Group (Holdings) Company Limited	$7,012,500.00	$124,880.14	$7,137,380.14	4,198,458	1,000,000	3,198,458	$1.54
Success Indicator Investments Limited	$7,012,500.00	$124,880.14	$7,137,380.14	4,198,458	1,000,000	3,198,458	$1.54
Pipeline Ventures, LLC	$500,000.00	$8,904.11	$508,904.11	299,355	71,301	228,054	$0.61
TOTAL	**$37,848,750.00**	**$674,018.84**	**$38,522,768.84**	**22,660,449**	**5,397,325**	**17,263,124**	**$ 5.54**

EXHIBIT B

FORM OF SELLING STOCKHOLDER QUESTIONNAIRE

SORRENTO THERAPEUTICS, INC.

SELLING STOCKHOLDER NOTICE AND QUESTIONNAIRE

The undersigned holder of shares of Common Stock issued by Sorrento Therapeutics, Inc. upon conversion of convertible notes (the "***Company***") understands that the Company intends to file with the Securities and Exchange Commission a registration statement on Form S-3 (the "***Resale Registration Statement***") for the registration and the resale under Rule 415 of the Securities Act of 1933, as amended (the "***Securities Act***"), of the Registrable Securities in accordance with the terms of the Note Conversion Agreement, dated November 8, 2019, by and among the Company and the several signatories thereto (the "***Note Conversion Agreement***"). All capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Note Conversion Agreement.

In order to sell or otherwise dispose of any Registrable Securities pursuant to the Resale Registration Statement, a holder of Registrable Securities generally will be required to be named as a selling stockholder in the related prospectus or a supplement thereto (as so supplemented, the "***Prospectus***"), deliver the Prospectus to purchasers of Registrable Securities (including pursuant to Rule 172 under the Securities Act) and be bound by the provisions of the Note Conversion Agreement. Holders must complete and deliver this notice and questionnaire ("***Notice and Questionnaire***") in order to be named as selling stockholders in the Prospectus. Certain legal consequences arise from being named as a selling stockholder in the Resale Registration Statement and the Prospectus. Holders of Registrable Securities are advised to consult their own securities law counsel regarding the consequences of being named or not named as a selling stockholder in the Resale Registration Statement and the Prospectus.

NOTICE

The undersigned holder (the "***Selling Stockholder***") of Registrable Securities hereby gives notice to the Company of its intention to sell or otherwise dispose of Registrable Securities owned by it and listed below in Part III(b) pursuant to the Resale Registration Statement. The undersigned, by signing and returning this Notice and Questionnaire, understands and agrees that it will be bound by the terms and conditions of this Notice and Questionnaire and the Note Conversion Agreement.

The undersigned hereby provides the following information to the Company and represents and warrants that such information is materially accurate and complete:

QUESTIONNAIRE

PART 1. Name:

1.1 Full legal name of the Selling Stockholder:

_____

1.2 Full legal name of the registered holder (if not the same as Part I(a) above) through which the Registrable Securities listed in Part III below are held:

_____

1.3 Full legal name of any natural control person (which means a natural person who directly or indirectly alone or with others has power to vote or dispose of the Registrable Securities listed in Part III below):

_____

PART II. Notices to Selling Stockholder:

(a) Address:

_____

(b) Telephone:

_____

(c) Fax:

_____

(d) Contact person:

_____

(e) E-mail address of contact person:

_____

PART III. Beneficial Ownership of Registrable Securities:

(a) Type and number of Registrable Securities beneficially owned:

_____
_____
_____

(b) Number of shares of Common Stock to be registered for resale pursuant to this Notice and Questionnaire:

_____
_____
_____

PART IV. Broker-Dealer Status:

(a) Are you a broker-dealer?
Yes No

(b) If you answered "yes" to Part IV(a) above, did you receive your Registrable Securities as compensation for investment banking services provided to the Company?
Yes No

Note: If you answered "no", the SEC's staff has indicated that you should be identified as an underwriter in the Resale Registration Statement.

(c) Are you an affiliate of a broker-dealer?
Yes No

If you answered "yes", provide a narrative explanation below:

_____
_____
_____

(d) If you are an affiliate of a broker-dealer, do you certify that you bought the Registrable Securities in the ordinary course of business, and at the time of the purchase of the Registrable Securities to be resold, you had no agreements or understandings, directly or indirectly, with any Person to distribute the Registrable Securities?
Yes No

Note: If you answered "no", the SEC's staff has indicated that you should be identified as an underwriter in the Resale Registration Statement.

PART V. Beneficial Ownership of Other Securities of the Company Owned by the Selling Stockholder:

Except as set forth below in this Part V, the undersigned is not the beneficial or registered owner of any securities of the Company, other than the Registrable Securities listed above in Part III.

Type and amount of other securities beneficially owned:

_____
_____
_____

PART VI. Relationships with the Company:

a. Have you or any of your affiliates, officers, directors or principal equity holders (owners of 5% or more of the equity securities of the undersigned) held any position or office or have you had any other material relationship with the Company (or its predecessors or affiliates) within the past three years?

Yes No

a. If your response to Part VI(a) above is "yes", please state the nature and duration of your relationship with the Company:

_____

_____

_____

PART VII. Plan of Distribution:

The undersigned has reviewed the form of Plan of Distribution attached as Annex A hereto, and hereby confirms that, except as set forth below, the information contained therein regarding the undersigned and its plan of distribution is correct and complete.

State any exceptions here:

_____

_____

_____

The undersigned agrees to promptly notify the Company of any inaccuracies or changes in the information provided herein that may occur subsequent to the date hereof and prior to the effective date of any applicable Resale Registration Statement. All notices hereunder shall be delivered as set forth in the Note Conversion Agreement. In the absence of any such notification, the Company shall be entitled to continue to rely on the accuracy of the information in this Notice and Questionnaire.

By signing below, the undersigned consents to the disclosure of the information contained herein in its answers to Parts I through VII above and the inclusion of such information in the Resale Registration Statement and the Prospectus. The undersigned understands that such information will be relied upon by the Company in connection with the preparation or amendment of any such Resale Registration Statement and Prospectus.

By signing below, the undersigned acknowledges that it understands its obligation to comply, and agrees that it will comply, with the provisions of the Exchange Act and the rules and regulations thereunder, particularly Regulation M in connection with any offering of Registrable Securities pursuant to the Resale Registration Statement. The undersigned also acknowledges

that it understands that the answers to this Notice and Questionnaire are furnished for use in connection with registration statements filed pursuant to the Note Conversion Agreement and any amendments or supplements thereto filed with the SEC pursuant to the Securities Act.

The undersigned confirms that, to the best of his/her knowledge and belief, the foregoing answers to this Notice and Questionnaire are correct.

IN WITNESS WHEREOF, the undersigned, by authority duly given, has caused this Notice and Questionnaire to be executed and delivered either in person or by its duly authorized agent.

Dated: _____

Selling Stockholder:

_____
Name of Entity or Individual

By:_____
Name: _____
Title: _____

SCHEDULE 1

EXHIBIT A

NOTICE OF CONVERSION

Reference is made to that certain Convertible Promissory Note dated June 13, 2018 in the original principal amount of $_____ issued to the undersigned by Sorrento Therapeutics, Inc., a Delaware corporation (the "***Company***"), as amended by that certain Note Conversion Agreement, dated as of November 8, 2019, by and among the Company, the undersigned and certain other holders of convertible promissory notes issued by the Company (as may be amended or restated from time to time, the "***Note***"). Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Note.

Pursuant to Section 6 of the Note, the undersigned hereby irrevocably elects to convert the full Principal Amount of the Note outstanding on the date hereof, plus all accrued but unpaid interest on the Principal Amount of the Note being converted, into shares of Common Stock ("***Conversion Shares***") at the Conversion Price in effect on the date hereof and on the terms and subject to the conditions set forth in Section 6 of the Note.

If the Conversion Shares are to be issued in the name of a Person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto. No fee will be charged to undersigned for any conversion except as provided herein.

Name of Purchaser: _____

_____

By: _____

Name: _____
_____

Title: _____

Date: _____

Address to which certificates representing Conversion Shares and any check for fractional shares should be delivered:

_____
_____
_____
_____
_____

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Henry Ji, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ Henry Ji, Ph.D.

Henry Ji, Ph.D.
Chairman of the Board of Directors, Chief Executive Officer and President
(Principal Executive Officer)

Dated: November 8, 2019

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
Pursuant to Rule 13a-14(a) adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jiong Shao, certify that:

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

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

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

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

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

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

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

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

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

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

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

/s/ Jiong Shao

Chief Financial Officer
(Principal Financial Officer)

Dated: November 8, 2019

Exhibit 32.1

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

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

1. The Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: November 8, 2019

By: /s/ Henry Ji, Ph.D.
Henry Ji, Ph.D.
Chairman of the Board of Directors, Chief Executive Officer and President
(Principal Executive Officer)

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

1. The Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date: November 8, 2019

By: /s/ Jiong Shao
Jiong Shao
Chief Financial Officer
(Principal Financial Officer)

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

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