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 June 30, 2020

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 July 31, 2020 was 242,026,582.

Sorrento Therapeutics, Inc.

Form 10-Q for the Quarter Ended June 30, 2020

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

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

ASSETS	June 30, 2020	December 31, 2019
Current assets:		
Cash and cash equivalents	$ 24,388	$ 22,521
Restricted cash	—	13,098
Accounts receivables, net	13,801	14,454
Inventory	2,447	3,362
Prepaid expenses and other	14,365	14,153
Total current assets	55,001	67,588
Property and equipment, net	27,523	29,888
Operating lease right-of-use assets	45,070	46,384
Intangibles, net	61,324	63,308
Goodwill	38,298	38,298
Cost method investments	237,008	237,008
Equity method investments	19,978	25,233
Restricted cash	45,000	45,150
Other, net	3,866	4,775
Total assets	$ 533,068	$ 557,632
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 26,605	$ 27,630
Accrued payroll and related benefits	17,909	15,914
Accrued expenses	19,711	18,728
Current portion of deferred revenue	4,107	3,643
Acquisition consideration payable	398	908
Current portion of derivative liabilities	—	8,800
Current portion of debt	19,151	36,261
Current portion of operating lease liabilities	3,460	3,322
Total current liabilities	91,341	115,206
Long-term debt, net of discount	147,027	199,088
Deferred tax liabilities, net	7,055	9,043
Deferred revenue	113,781	114,389
Derivative liabilities	41,900	35,000
Operating lease liabilities	51,200	52,111
Other long-term liabilities	549	39
Total liabilities	$ 452,853	$ 524,876
Commitments and contingencies (See Note 10)		
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 231,846,901 and 167,798,120 shares issued and outstanding at June 30, 2020 and December 31, 2019, respectively	25	18
Additional paid-in capital	989,702	788,122
Accumulated other comprehensive loss	(225)	(270)
Accumulated deficit	(802,753)	(659,818)
Treasury stock, 7,568,182 shares at cost at June 30, 2020, and December 31, 2019	(49,464)	(49,464)
Total Sorrento Therapeutics, Inc. stockholders' equity	137,285	78,588
Noncontrolling interests	(57,070)	(45,832)
Total equity	80,215	32,756
Total liabilities and stockholders' equity	$ 533,068	$ 557,632

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 June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Revenues:				
Net product revenues	$ 5,794	$ 4,699	$ 11,042	$ 8,058
Service revenues	3,213	1,778	5,686	4,562
Total revenues	9,007	6,477	16,728	12,620
Operating costs and expenses:				
Cost of products sold	699	589	1,247	1,029
Cost of services	1,550	2,692	3,441	4,560
Research and development	24,150	24,793	45,304	50,409
Acquired in-process research and development	4,881	—	4,881	75,301
Selling, general and administrative	24,463	27,772	50,762	52,894
Intangible amortization	992	992	1,984	1,958
Total operating costs and expenses	56,735	56,838	107,619	186,151
Loss from operations	(47,728)	(50,361)	(90,891)	(173,531)
(Loss) gain on trading securities	—	(76)	(59)	18
Loss on debt extinguishment	(28,294)	—	(51,939)	—
Gain (loss) on derivative liabilities	1,980	(10,591)	6,900	(25,092)
(Loss) gain on foreign currency exchange	124	(411)	(23)	(98)
Interest expense	(8,297)	(9,520)	(15,122)	(18,600)
Interest income	2	305	21	839
Loss before income tax	(82,213)	(70,654)	(151,113)	(216,464)
Income tax benefit	(1,919)	(383)	(2,195)	(561)
Loss on equity method investments	(4,699)	(1,574)	(5,255)	(2,471)
Net loss	(84,993)	(71,845)	(154,173)	(218,374)
Net loss attributable to noncontrolling interests	(7,253)	(15,083)	(11,238)	(53,541)
Net loss attributable to Sorrento	$ (77,740)	$ (56,762)	$ (142,935)	$ (164,833)
Net loss per share - basic per share attributable to Sorrento	$ (0.36)	$ (0.46)	$ (0.72)	$ (1.35)
Net loss per share - diluted per share attributable to Sorrento	$ (0.36)	$ (0.47)	$ (0.72)	$ (1.51)
Weighted-average shares used during period - basic per share attributable to Sorrento	216,956	122,549	199,782	122,415
Weighted-average shares used during period - diluted per share attributable to Sorrento	216,956	132,459	199,782	128,132

See accompanying notes to unaudited consolidated financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net loss	$ (84,993)	$ (71,845)	$ (154,173)	$ (218,374)
Other comprehensive loss (gain):				
Foreign currency translation adjustments	(10)	(52)	45	33
Total other comprehensive loss (gain)	(10)	(52)	45	33
Comprehensive loss	(85,003)	(71,897)	(154,128)	(218,341)
Comprehensive loss attributable to noncontrolling interests	(7,253)	(15,083)	(11,238)	(53,541)
Comprehensive loss attributable to Sorrento	$ (77,750)	$ (56,814)	$ (142,890)	$ (164,800)

See accompanying notes to unaudited consolidated financial statements

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

	Six Months Ended June 30, 2020								
	Common Stock		Treasury Stock						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interest	Total
Balance, December 31, 2019	167,798,120	$ 18	7,568,182	$ (49,464)	$ 788,122	$ (270)	$ (659,818)	$ (45,832)	$ 32,756
Exercise of stock options, net	925,945				3,896				3,896
Issuance of common stock upon exercise of warrants	13,124,042	1	—	—	38,860	—	—	—	38,861
Issuance of common stock for equity offerings	49,998,794	6	—	—	151,807	—	—	—	151,813
Stock-based compensation	—	—	—	—	7,017	—	—	—	7,017
Foreign currency translation adjustment	—	—	—	—	—	45		—	45
Net loss	—	—	—	—	—	—	(142,935)	(11,238)	(154,173)
Balance, June 30, 2020	231,846,901	$ 25	7,568,182	$ (49,464)	$ 989,702	$ (225)	$ (802,753)	$ (57,070)	$ 80,215

	Three Months Ended June 30, 2020								
	Common Stock		Treasury Stock						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interest	Total
Balance, March 31, 2020	204,566,004	$ 23	7,568,182	$ (49,464)	$ 875,712	$ (215)	$ (725,013)	$ (49,817)	$ 51,226
Exercise of stock options, net	876,752				3,797				3,797
Issuance of common stock upon exercise of warrants	8,115,433	1	—	—	25,326	—	—	—	25,327
Issuance of common stock for equity offerings	18,288,712	1	—	—	81,532	—	—	—	81,533
Stock-based compensation	—	—	—	—	3,335	—	—	—	3,335
Foreign currency translation adjustment	—	—	—	—	—	(10)		—	(10)
Net loss	—	—	—	—	—	—	(77,740)	(7,253)	(84,993)
Balance, June 30, 2020	231,846,901	$ 25	7,568,182	$ (49,464)	$ 989,702	$ (225)	$ (802,753)	$ (57,070)	$ 80,215

	Six Months Ended June 30, 2019								
	Common Stock		Treasury Stock						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interest	Total
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	365,242	—	—	—	1,206	—	—	—	1,206
Equity contribution related to Semnur acquisition	—	—	—	—	28,400	—	—	26,600	55,000
Stock-based compensation	—	—	—	—	4,963	—	—	—	4,963
Issuance of 2019 Warrants					4,288				4,288
Foreign currency translation adjustment	—	—	—	—	—	33	—	—	33
Net loss	—	—	—	—	—	—	(164,833)	(53,541)	(218,374)
Balance, June 30, 2019	122,645,334	$ 13	7,568,182	$ (49,464)	$ 665,515	$ 48	$ (532,583)	$ (28,913)	$ 54,616

	Three Months Ended June 30, 2019								
	Common Stock		Treasury Stock						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interest	Total
Balance, March 31, 2019	122,311,917	$ 13	7,568,182	$ (49,464)	$ 657,115	$ 100	$ (475,821)	$ (13,830)	$ 118,113
Issuance of common stock upon exercise of stock options	333,417	—	—	—	1,125	—	—	—	1,125
Stock-based compensation	—	—	—	—	2,987	—	—	—	2,987
Issuance of 2019 Warrants	—	—	—	—	4,288	—	—	—	4,288
Foreign currency translation adjustment	—	—	—	—	—	(52)	—	—	(52)
Net loss	—	—	—	—	—	—	(56,762)	(15,083)	(71,845)
Balance, June 30, 2019	122,645,334	$ 13	7,568,182	$ (49,464)	$ 665,515	$ 48	$ (532,583)	$ (28,913)	$ 54,616

See accompanying notes to unaudited consolidated financial statements

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

	Six Months Ended June 30,	
Operating activities	**2020**	**2019**
Net loss	$ (154,173)	$ (218,374)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	5,653	5,934
Non-cash operating lease cost	1,689	2,217
Non-cash interest expense and amortization of debt issuance costs	7,955	12,341
Acquired in-process research and development	4,881	75,301
Stock-based compensation	7,017	4,963
Loss on debt extinguishment	51,939	—
(Gain) Loss on derivative liabilities	(6,900)	25,092
Loss on equity method investments	5,255	2,471
Deferred tax provision	(1,989)	(493)
Changes in operating assets and liabilities, excluding effect of acquisitions:		
Accounts receivable	655	(5,952)
Accrued payroll	1,995	2,264
Prepaid expenses, deposits and other assets	1,612	(4,480)
Accounts payable	(1,241)	5,655
Accrued expenses and other liabilities	73	2,451
Deferred revenue	(144)	(435)
Other	(352)	(98)
Net cash used for operating activities	(76,075)	(91,143)
Investing activities		
Purchases of property and equipment	(970)	(7,488)
Purchase of assets related to Semnur, net of cash acquired	—	(17,040)
Other acquisitions and investments	(2,312)	—
Net cash used for investing activities	(3,282)	(24,528)
Financing activities		
Proceeds from equity offerings, net of issuance costs	149,243	—
Proceeds from short-term debt, net of issuance costs	7,815	18,858
Proceeds from exercise of stock options and warrants	42,757	1,206
Repayments of debt and other obligations	(131,853)	(1,658)
Net cash provided by (used for) financing activities	67,962	18,406
Net change in cash, cash equivalents and restricted cash	(11,395)	(97,265)
Net effect of exchange rate changes on cash	14	62
Cash, cash equivalents and restricted cash at beginning of period	80,769	213,330
Cash, cash equivalents and restricted cash at end of period	$ 69,388	$ 116,127
Supplemental disclosures:		
Cash paid during the period for:		
Interest	3,148	6,178
Supplemental disclosures of non-cash investing and financing activities:		
Semnur acquisition consideration paid in equity	—	55,000
Semnur acquisition costs incurred but not paid	—	601
Other acquisitions and investments paid in equity	2,569	—
Property and equipment costs incurred but not paid	217	2,671
Reconciliation of cash, cash equivalents and restricted cash within the Company's consolidated balance sheets:		
Cash and cash equivalents	24,388	61,385
Restricted cash	45,000	54,742
Cash, cash equivalents, and restricted cash	$ 69,388	$ 116,127

See accompanying notes to unaudited consolidated financial statements

1. Description of Business and Basis of Presentation

Description of Business

Sorrento Therapeutics, Inc., together with its subsidiaries (the "Company"), is a clinical stage and commercial biopharmaceutical company focused on delivering innovative and clinically meaningful therapies to patients and their families to address unmet medical needs.

At its core, the Company is antibody-centric and leverages its proprietary G-MAB™ library and 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. The Company also has programs assessing the use of its technologies and products in autoimmune, inflammatory, viral and neurodegenerative diseases.

Outside of immuno-oncology programs, as part of the Company`s global aim to provide a wide range of therapeutic and diagnostic products to meet underserved markets, the Company has made investments in non-opioid pain management and is currently conducting preclinical development of multiple therapeutic, vaccine and diagnostic product candidates utilizing its proprietary platforms for the potential treatment, prevention and detection of COVID-19 and SARS-CoV-2.

Basis of Presentation and Principles of Consolidation

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.

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, 2019. Operating results for interim periods are not expected to be indicative of operating results for the Company's 2020 fiscal year, or any subsequent period. The unaudited interim financial statements included herein reflect all normal and recurring adjustments that are necessary for a fair presentation of the results for the interim periods presented.

Use of Estimates

To prepare consolidated financial statements in conformity with accounting principles generally accepted in the U.S. ("U.S. GAAP"), management must make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Significant Accounting Policies

During the six months ended June 30, 2020, there have been no changes to the Company`s significant accounting policies as described in its Annual Report on Form 10-K for the fiscal year ended December 31, 2019 outside of new accounting pronouncements as described below.

Revenue Recognition

The following table shows revenue disaggregated by product and service type for the three and six months ended June 30, 2020 and 2019 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Scilex Pharmaceuticals Inc. product sales	$ 5,757	$ 4,660	$ 10,969	$ 7,519
Other product sales	37	39	73	539
Net product revenue	$ 5,794	$ 4,699	$ 11,042	$ 8,058
Concortis Biosystems Corporation	$ 1,507	$ 1,205	$ 2,829	$ 3,015
Bioserv Corporation	1,586	453	2,617	1,307
Other revenue	120	120	240	240
Service revenue	$ 3,213	$ 1,778	$ 5,686	$ 4,562

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, to improve financial reporting by requiring timely 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. The amendments in this update were adopted using a modified retrospective transition method as of January 1, 2020, which had no cumulative impact to accumulated deficit.

In August 2018, the FASB issued ASU No. 2018-13, *Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*, to improve the effectiveness of the disclosure requirements for fair value measurements. The ASU is effective for fiscal years and interim periods beginning after December 15, 2019. Amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty will be applied prospectively as of the beginning of the fiscal year of adoption with all other amendments being applied retrospectively to all periods presented upon their effective date. The adoption of the standard had no material impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes Topic 740): Simplifying the Accounting for Income Taxes.* The amendments in this update simplify the accounting for income taxes by removing certain exceptions to the general principles in Accounting Standards Codification ("ASC") Topic 740. The amendments also improve consistent application of and simplify U.S. GAAP for other areas of ASC Topic 740 by clarifying and amending existing guidance. The amendments in this update are effective for interim and annual periods for the Company beginning after December 15, 2020, with early adoption permitted. The Company is evaluating the impact this standard will have on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment (Topic 350).* This standard eliminates Step 2 from the goodwill impairment test, instead requiring an entity to recognize a goodwill impairment charge for the amount by which the goodwill carrying amount exceeds the reporting unit's fair value. This update also eliminated the qualitative assessment requirements for a reporting unit with zero or negative carrying value. This guidance is effective for interim and annual goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted, and must be applied on a prospective basis. The adoption of the standard had no material impact on the Company's consolidated financial statements.

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 negative working capital and 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 fundraising to fulfill its operating, debt servicing 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 for one year after the date the financial statements are issued.

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. Furthermore, the spread of COVID-19, which has caused a broad impact globally, may materially affect the Company economically. While the potential economic impact brought by, and the duration of, COVID-19 may be difficult to assess or predict, a widespread pandemic could result in significant disruption of global financial markets, reducing the Company's ability to access capital, which could in the future negatively affect its liquidity. The consolidated financial statements do not reflect any adjustments that might be necessary if the Company is unable to continue as a going concern.

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

3. 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 June 30, 2020			
	Balance	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	$ 24,388	$ 24,388	$ —	$ —
Restricted cash	45,000	45,000	—	—
Total assets	$ 69,388	$ 69,388	$ —	$ —
Liabilities:				
Derivative liabilities - non-current	$ 41,900	$ —	$ —	$ 41,900
Acquisition consideration payable	398	—	—	398
Acquisition consideration payable - non-current	549	—	—	549
Total liabilities	$ 42,847	$ —	$ —	$ 42,847

	Fair Value Measurements at December 31, 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	$ 22,521	$ 22,521	$ —	$ —
Restricted cash	58,248	58,248	—	—
Total assets	$ 80,769	$ 80,769	$ —	$ —
Liabilities:				
Derivative liabilities	$ 8,800	$ —	$ —	$ 8,800
Derivative liabilities - non-current	35,000	—	—	35,000
Acquisition consideration payable	908	—	—	908
Acquisition consideration payable - non-current	39	—	—	39
Total liabilities	$ 44,747	$ —	$ —	$ 44,747

The Company's financial assets and liabilities carried at fair value are comprised of cash, cash equivalents, restricted cash, derivative liabilities 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. The fair value of the acquisition consideration payable is measured on a recurring basis using significant unobservable inputs (Level 3). Acquisition consideration payable 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. There were no changes to acquisition consideration payable during the six months ended June 30, 2020.

Derivative liabilities

The Company recorded a gain on derivative liabilities of $2.0 million and $6.9 million for the three and six months ended June 30, 2020, respectively, which related to the compound derivative liabilities associated with the Term Loans (as defined in Note 7) and the Scilex Notes (as defined in Note 7). The compound derivative liabilities consist of the fair value of various embedded features. Significant, Level 3 inputs and assumptions for the Term Loans consisted of the estimated probability of restructuring debt arrangements during the first half of 2020 and estimated probabilities of satisfying certain commercial and financial milestones estimated using a with and without discounted cash flow approach. As explained further in Note 7, the Term Loans were paid in full as of June 30, 2020.

As of June 30, 2020, the fair value of the derivative liabilities associated with the Scilex Notes was estimated using the discounted cash flow method under the income approach combined with a Monte Carlo simulation model. This involves significant Level 3 inputs and assumptions. The key assumptions for the Scilex Notes include a 6.7% risk adjusted net sales forecast, an effective debt yield of 21%, estimated probabilities of 55% and 100% of not obtaining marketing approval before July 1, 2023 and March 31, 2021, respectively, and an estimated probability of an initial public offering by Scilex Holding Company ("Scilex Holding") that satisfies certain valuation thresholds and timing considerations.

The following table includes a summary of the derivative liabilities measured at fair value using significant unobservable inputs (Level 3) during the six months ended June 30, 2020:

(in thousands)	Fair Value
Beginning Balance at December 31, 2019	$ 43,800
Additions	8,800
Re-measurement of Fair Value	(10,700)
Ending Balance at June 30, 2020	$ 41,900

4. Investments

The Company's equity method investments primarily include an ownership interest in Immunotherapy NANTibody, LLC ("NANTibody") and NantCancerStemCell, LLC ("NantStem"). The Company's other equity investments primarily include an ownership interest in ImmunityBio, Inc., NantBioScience, Inc. ("NantBioScience") and Celularity Inc.

During each of the three and six months ended June 30, 2020, the Company recorded an impairment loss of approximately $3.8 million related to an equity method investment for which the Company determined the investment's value is no longer supportable. The loss is included within loss on equity method investments in the Company's consolidated statement of operations.

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, Cynviloq™, 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 Cynviloq™. 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 fund two joint ventures, as described below.

In April 2015, the Company and NantCell, Inc. (which subsequently changed its name to ImmunityBio, Inc.) ("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 focuses 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 June 30, 2020 and 2019, the carrying value of the Company's investment in NANTibody was approximately $1.2 million and $3.2 million, respectively.

NANTibody recorded a net loss of $1.7 million and $0.3 million for the three months ended March 31, 2020 and 2019, respectively. The Company recorded its portion of loss from NANTibody in loss on equity method investments on its consolidated statements of operations for the six months ended June 30, 2020 and 2019. As of March 31, 2020, NANTibody had $6.4 million in current assets, $3.2 million in current liabilities, $0.2 million in noncurrent assets and no 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 year ended December 31, 2018.

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 each of the periods ended June 30, 2020 and 2019, the carrying value of the Company's investment in NantStem was approximately $17.8 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 $0.4 million and $0.1 million for the three months ended March 31, 2020 and 2019, respectively. The Company recorded its portion of income from NantStem in loss on equity method investments on its consolidated statements of operations for the six months ended June 30, 2020 and 2019. As of March 31, 2020, NantStem had $76.4 million in current assets, $13.0 thousand in current liabilities, $3.8 million in noncurrent assets and no noncurrent liabilities.

5. Goodwill and Intangible Assets

At both June 30, 2020 and December 31, 2019, the Company had recorded goodwill of $38.3 million. Goodwill for the Sorrento Therapeutics segment and Scilex segment was $31.6 million and $6.7 million, respectively, as of June 30, 2020. The Company's Scilex reporting unit had a negative carrying value of net assets and there were no indicators of impairment of goodwill identified.

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 June 30, 2020 and December 31, 2019 is as follows (in thousands, except for years):

June 30, 2020	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net
Customer relationships	6	$ 1,585	$ 1,413	$ 172
Acquired developed technology	19	3,410	1,148	2,262
Acquired in-process research and development	—	14,360	—	14,360
Technology placed in service	15	21,940	2,560	19,380
Patent rights	15	32,720	8,012	24,708
Assembled workforce	5	605	163	442
Total intangible assets		$ 74,620	$ 13,296	$ 61,324

December 31, 2019	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Intangibles, Net
Customer relationships	6	$ 1,585	$ 1,401	$ 184
Acquired developed technology	19	3,410	1,060	2,350
Acquired in-process research and development	—	14,360	—	14,360
Technology placed in service	15	21,940	1,828	20,112
Patent rights	15	32,720	6,922	25,798
Assembled workforce	5	605	101	504
Total intangible assets		$ 74,620	$ 11,312	$ 63,308

Aggregate amortization expense was $1.0 million for each of the three months ended June 30, 2020 and 2019. Aggregate amortization expense was $2.0 million for each of the six months ended June 30, 2020 and 2019. Estimated future amortization expense related to intangible assets, excluding indefinite-lived intangible assets, at June 30, 2020 is as follows (in thousands):

Years Ending December 31,	Amount
2020 (Remaining six months)	$ 1,984
2021	3,966
2022	3,966
2023	3,961
2024	3,870
2025	3,845
Thereafter	25,373
Total expected future amortization	$ 46,965

6. Significant Agreements and Contracts

2019 Acquisitions

Acquisition of Semnur Pharmaceuticals, Inc.

In March 2019, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Semnur Pharmaceuticals, Inc. ("Semnur") and Scilex Holding, whereby Semnur became a wholly-owned subsidiary of Scilex Holding (the "Merger"), and thereby Scilex Holding acquired Semnur's 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 approximately $15.0 million in cash and shares of Scilex Holding valued at approximately $55.0 million (the "Stock Consideration").

Pursuant to the Merger Agreement, Scilex Holding also agreed to pay the holders of Semnur's capital stock and options 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.

In March 2019, the Company also entered into an Exchange and Registration Rights Agreement (the "Exchange Agreement") with the stockholders and stock option holders of Semnur. Pursuant to the Exchange Agreement, if within 18 months of the closing of the Merger, 100% of the outstanding equity of Scilex Holding has not been acquired by a third party or Scilex Holding has not entered into a definitive agreement with respect to, or otherwise consummated, a firmly underwritten offering of Scilex Holding's capital stock that meets certain requirements and includes the Stock Consideration, then the 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 closing of the Merger, the Stock Consideration for shares of the Company's common stock with a value of $55.0 million (the "Semnur Share Exchange") 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 Capital Market as of the consummation of the Semnur Share Exchange and (b) $5.55 (subject to adjustment for any stock dividend, stock split, stock combination, reclassification or similar 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. No contingent consideration was recorded as of December 31, 2019 or June 30, 2020 since the related regulatory approval milestones are not deemed probable until they actually occur. Approximately $75.3 million was expensed as acquired in-process research and development during the three months ended March 31, 2019.

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 June 30, 2020, 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 research services. 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, less impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of NantCell.

7. Debt

2018 Purchase Agreements and Indenture for Scilex

On September 7, 2018, Scilex Pharmaceuticals Inc. ("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 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 and 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.

To estimate the fair value of the Scilex Notes, 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 Scilex Notes consisted of the following (in thousands):

	June 30, 2020	December 31, 2019
Principal	$ 219,153	$ 221,666
Unamortized debt discount	(62,465)	(67,839)
Unamortized debt issuance costs	(4,015)	(4,360)
Carrying value	$ 152,673	$ 149,467
Estimated fair value	$ 153,500	$ 150,800

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

Year Ending December 31,	
2020 (Remaining six months)	$ 2,070
2021	9,910
2022	16,094
2023	20,636
2024	22,247
2025	23,287
Thereafter	124,909
Total future minimum payments	219,153
Unamortized debt discount	(62,465)
Unamortized capitalized debt issuance costs	(4,015)
Total Scilex Notes	152,673
Current portion	(5,646)
Long-term portion of Scilex Notes	$ 147,027

The Company made principal payments of $2.5 million and $0.9 million during the six months ended June 30, 2020 and 2019, respectively, which were based on a percentage of net sales of ZTlido. The imputed effective interest rate at June 30, 2020 was 7.5%. The amount of debt discount and debt issuance costs included in interest expense for the three months ended June 30, 2020 and 2019 was approximately $2.9 million and $4.2 million, respectively. During the six months ended June 30, 2020 and 2019, the amount of debt discount and debt issuance costs included in interest expense was $5.7 million and $8.9 million, respectively.

The Company identified a number of embedded derivatives that require bifurcation from the Scilex Notes and that were separately accounted for in the consolidated financial statements as derivative liabilities. Certain of these embedded features include default interest provisions, contingent rate increases, contingent put options, optional and automatic acceleration provisions and tax indemnification obligations. The fair value of the derivative liabilities associated with the Scilex Notes was estimated using the discounted cash flow method under the income approach combined with a Monte Carlo simulation model. This involves significant Level 3 inputs and assumptions, including a risk adjusted net sales forecast, an effective debt yield, estimated marketing approval probabilities for SP-103 and an estimated probability of an initial public offering by Scilex Holding that satisfies certain valuation thresholds and timing considerations (See Note 3). The Company re-evaluates this assessment each reporting period.

The 2018 Purchase Agreements and Indenture, as amended, provide that, upon the occurrence of an event of default, the lenders thereunder may, by written notice to the Company, declare all of the outstanding principal and interest under the Indenture immediately due and payable. For purposes of the Indenture, an event of default includes, among other things, (i) a failure to pay any amounts when due under the Indenture, (ii) a breach or other failure to comply with the covenants (including financial, notice and reporting covenants) under the Indenture, (iii) a failure to make any payment on, or other event triggering an acceleration under, other material indebtedness of the Company, and (iv) the occurrence of certain insolvency or bankruptcy events (both voluntary and involuntary) involving the Company or certain of its subsidiaries. The Company is subject to certain customary default clauses under the Indenture and is in compliance with event of default clauses under the Indenture.

2018 Oaktree Term Loan Agreement

In November 2018, the Company 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, for an initial term loan of $100.0 million (the “Initial Loan”). In May 2019, the Company entered into an amendment to the Loan Agreement, under which terms the Lenders agreed to make available to the Company $20.0 million (collectively, with the Initial Loan, the “Term Loans”). During the six months ended June 30, 2020, the Company repaid $120.0 million of outstanding principal under the Term Loans plus approximately $9.4 million of related prepayment premium, exit fees and accrued interest thereon. In connection with the repayment of outstanding principal, the Company recorded a loss on debt settlement of $51.9 million.

Interest expense recognized for stated interest on the Term Loans totaled $0.9 million and $2.7 million for the three months ended June 30, 2020 and 2019, respectively. For the six months ended June 30, 2020 and 2019 the interest expense for stated interest on the Term Loans totaled $3.0 million and $5.0 million, respectively. The amount of debt discount and debt issuance costs included in interest expense on the Term Loans for the three months ended June 30, 2020 and 2019 was approximately $0.7 million and $1.3 million, respectively. During the six months ended June 30, 2020 and 2019, the amount of debt discount and debt issuance costs included in interest expense was $2.2 million and $2.4 million, respectively.

8. Stockholders` Equity

Aspire Transaction

In February 2020, the Company entered into a Common Stock Purchase Agreement (the “Aspire Purchase Agreement”) with Aspire Capital Fund, LLC, (“Aspire Capital”), pursuant to which Aspire Capital was committed to purchase up to an aggregate of $75.0 million of shares of the Company’s common stock over a 24-month term. Upon execution of the Aspire Purchase Agreement, the Company issued to Aspire Capital 897,308 shares of the Company’s common stock as a commitment fee. The Company used and is using proceeds it received under the Aspire Purchase Agreement for working capital and general corporate purposes and for the repayment of the Term Loans.

During the six months ended June 30, 2020, the Company issued and sold an aggregate of 33,825,010 shares of the Company’s common stock to Aspire Capital for aggregate net proceeds to the Company of $75.0 million. On April 24, 2020, the Aspire Purchase Agreement terminated effective immediately in accordance with its terms as the Company issued and sold, as of such date, the full $75.0 million of shares available for issuance thereunder.

Equity Distribution Agreement

On April 27, 2020, the Company voluntarily terminated the Equity Distribution Agreement, dated October 1, 2019 (the "Distribution Agreement"), that the Company entered into with JMP Securities LLC ("JMP Sales Agent"), effective immediately. Pursuant to the Distribution Agreement, the Company could offer and sell, from time to time, through the JMP Sales Agent, shares of the Company's common stock having an aggregate offering price of up to $75,000,000. During the term of the Distribution Agreement, the Company sold an aggregate of 2,120,149 shares of its common stock thereunder for aggregate gross proceeds to the Company of approximately $7.4 million. The Distribution Agreement was terminable at will by the Company with no penalty.

Sales Agreement

On April 27, 2020, the Company entered into a Sales Agreement (the "Sales Agreement") with A.G.P./Alliance Global Partners, as sales agent (the "Sales Agent"), pursuant to which the Company may offer and sell through or to the Sales Agent (the "Offering") up to $250.0 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 universal shelf registration statement on Form S-3 (the "Shelf Registration Statement") and the prospectus supplement relating to the Offering filed with the Securities and Exchange Commission (the "SEC") on April 27, 2020. The Offering will terminate upon (a) the election of the Sales Agent upon the occurrence of certain adverse events, (b) three business days' advance notice from one party to the other, or (c) the sale of all of the Shares. Under the terms of the Sales 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 Sales Agreement. During the six months ended June 30, 2020, the Company sold an aggregate of 11,262,597 shares of its common stock pursuant to the Sales Agreement for aggregate net proceeds to the Company of approximately $62.7 million. Subsequent to June 30, 2020 and through August 4, 2020, the Company sold an aggregate of 5,361,218 shares of its common stock pursuant to the Sales Agreement for aggregate net proceeds to the Company of approximately $47.1 million.

Common Stock Purchase Agreement

On April 27, 2020, the Company entered into a Common Stock Purchase Agreement (the "Purchase Agreement") with Arnaki Ltd. (the "Purchaser"), pursuant to which the Purchaser is committed to purchase up to an aggregate of $250.0 million of shares of the Company's common stock over the 36-month term of the Purchase Agreement on the terms set forth therein. Any Shares offered and sold to the Purchaser will be issued pursuant to the Shelf Registration Statement and the prospectus supplement relating to offering of shares pursuant to the Purchase Agreement filed with the SEC on April 27, 2020.

On any business day over the term of the Purchase Agreement (each, a "Purchase Date"), the Company has the right, in its sole discretion, to present the Purchaser with a purchase notice directing the Purchaser to purchase up to 650,000 shares of common stock per business day. The Company and the Purchaser also may mutually agree to increase the number of shares that may be sold to as much as an additional 3,600,000 shares per Purchase Date. The Company also has the right, in its sole discretion, to grant the Purchaser an option to purchase additional shares of common stock, subject to a maximum number of shares determined by the Company on each Purchase Date. The aggregate purchase price paid by the Purchaser shall not exceed $5.0 million per Purchase Date, unless mutually agreed upon by the Company and the Purchaser. The purchase price of the common stock pursuant to the Purchase Agreement will generally be equal to 97.5% of the daily volume weighted average purchase price of the common stock on the Purchase Date. During the six months ended June 30, 2020, the Company sold an aggregate of 923,077 shares of its common stock pursuant to the Purchase Agreement for aggregate net proceeds of $4.3 million. Subsequent to June 30, 2020 and through July 31, 2020, the Company sold an aggregate of 500,000 shares of its common stock pursuant to the Purchase Agreement for aggregate net proceeds to the Company of approximately $3.7 million.

9. Stock Based Compensation

2019 Stock Incentive Plan

A summary of stock option activity under the Sorrento Therapeutics, Inc. 2009 Stock Incentive Plan and the Sorrento Therapeutics, Inc. 2019 Stock Incentive Plan for the six months ended June 30, 2020 is as follows (in thousands, except price data):

	Options Outstanding	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2019	14,586,661	$ 4.36	$ 5,136
Options Granted	5,359,500	$ 4.69	
Options Canceled	(2,163,493)	$ 4.23	
Options Exercised	(925,945)	$ 4.17	
Outstanding at June 30, 2020	16,856,723	$ 4.50	$ 34,748

The estimated fair value of each stock option grant was determined on the grant date using the Black-Scholes valuation model with the following weighted-average assumptions.

	Six Months Ended June 30,	
	2020	2019
Weighted-average grant date fair value	$ 3.69	$ 3.05
Dividend yield	—%	—%
Volatility	103%	100%
Risk-free interest rate	0.46%	1.87%
Expected life of options (years)	5.7	6.1

Total stock-based compensation expense under the Sorrento Therapeutics, Inc. 2019 Stock Incentive Plan was recorded as operating expense of $2.1 million for each of the three months ended June 30, 2020 and 2019, and $4.1 million and $3.7 million for the six months ended June 30, 2020 and 2019, respectively. The total unrecognized compensation cost related to unvested stock option grants as of June 30, 2020 was $34.0 million and the weighted average period over which these grants are expected to vest is 3.1 years.

Scilex Holding Company

Total stock-based compensation expense recorded as operating expense was $1.3 million and $0.8 million for the three months ended June 30, 2020 and 2019, respectively, and $2.9 million and $0.9 million for the six months ended June 30, 2020 and 2019, respectively. The total unrecognized compensation cost related to unvested stock option grants as of June 30, 2020 was $12.9 million and the weighted average period over which these grants are expected to vest is 2.7 years.

10. 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, 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, filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with 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 against NantPharma. On March 5, 2020, the Company filed a legal action against Dr. Soon-Shiong in Los Angeles Superior Court, asserting claims for fraudulent inducement and common law fraud, arising out of Dr. Soon-Shiong's purchase of the drug Cynviloq™ from the Company in May 2015. The action alleges that, among other things, Dr. Soon-Shiong acquired the drug Cynviloq for the purpose of halting its progression to the market. In connection with filing this civil action in the Los Angeles Superior Court, where the Company will have the right to a jury trial against Dr. Soon-Shiong, the Company has dismissed Dr. Soon-Shiong from the related, ongoing arbitration against NantPharma, LLC; 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 June 11, 2015 and entered into between NANTibody, LLC 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 with the American Arbitration Association. On May 4, 2020, the Company filed counterclaims against NANTibody and NantPharma related to breaches of the April 21, 2015 and June 11, 2015 Exclusive License Agreements. With the counterclaims, the Company is seeking money damages in an amount yet to be determined. 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.

On May 26, 2020, Wasa Medical Holdings filed a putative federal securities class action in the U.S. District Court for the Southern District of California, Case No. 3:20-cv-00966-AJB-DEB, against the Company, its President, Chief Executive Officer and Chairman of the Board of Directors, Henry Ji, Ph.D., and its SVP of Regulatory Affairs, Mark R. Brunswick, Ph.D. The action alleges that the Company, Dr. Ji and Dr. Brunswick made materially false and/or misleading statements to the investing public by publicly issuing false and/or misleading statements regarding STI-1499 and its ability to inhibit the SARS-CoV-2 virus infection and that such statements violated Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. The suit seeks to recover damages caused by the alleged violations of federal securities laws, along with the plaintiffs' reasonable costs and expenses incurred in the lawsuit, including counsel fees and expert fees. On June 11, 2020, Jeannette Calvo filed a second putative federal securities class action in the U.S. District Court for the Southern District of California, Case No. 3:20-cv-01066-JAH-WVG, against the same defendants alleging the same claims and seeking the same relief. It is anticipated that these cases will be consolidated as part of the lead plaintiff and counsel appointment process under the Private Securities Litigation Reform Act. The Company intends to defend these matters vigorously.

Operating Leases

As of June 30, 2020, the Company's leases have remaining lease terms of approximately 0.4 to 9.4 years, some of which include options to extend the lease terms for up to five years, and some of which allow for early termination. Short-term operating lease costs were immaterial.

Supplemental quantitative information related to leases includes the following (in thousands, except for years and percentages):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Operating cash flows used for operating leases	$ 2,487	$ 1,867	$ 4,896	$ 3,399
ROU assets obtained in exchange for new and amended operating lease liabilities	$ —	$ 4,447	$ 795	$ 4,747
Operating lease expense	$ 2,533	$ 2,700	$ 5,072	$ 5,000
Weighted average remaining lease term in years	8.9	9.9	8.9	9.9
Weighted average discount rate	12.2%	12.2%	12.2%	12.2%

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

Years ending December 31,	Operating leases
2020 (Remaining six months)	$ 4,993
2021	9,710
2022	9,764
2023	9,993
2024	10,117
2025	9,579
Thereafter	43,174
Total lease payments	97,330
Less imputed interest	(42,670)
Total lease liabilities as of June 30, 2020	$ 54,660

11. 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 schedulable deferred tax liabilities.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits net operating loss carryforwards generated in taxable years beginning after December 31, 2017, to offset 100% of taxable income for taxable years beginning before January 1, 2021, and 80% of taxable income in taxable years beginning after December 31, 2020. In addition, the CARES Act makes the Alternative Minimum Tax Credit 100% refundable for taxable years beginning in 2018 and 2019. The Company has recorded an income tax benefit of $0.1 million related to this legislation.

The Company's income tax benefit of $2.2 million and $0.6 million reflect effective tax rates of 1.5% and 0.26% for the six months ended June 30, 2020 and 2019, respectively. The Company's income tax benefit of $1.9 million and $0.4 million reflect effective tax rates of 2.3% and 0.54% for the three months ended June 30, 2020 and 2019, respectively.

The difference between the expected statutory federal tax rate of 21% and the 1.5% effective tax rate for the six months ended June 30, 2020 was primarily attributable to the valuation allowance against most of the Company's deferred tax assets. For the six months ended June 30, 2020, when compared to the same period in 2019, the increase in the tax benefit and change in effective income tax rate was primarily attributable to the impact of the Company's valuation allowance.

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 net operating loss and research credit carryforwards.

12. Related Party Agreements

As of June 30, 2020, approximately 14.7% 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. Scilex Pharma purchased approximately $0.7 million of inventory from ITOCHU CHEMICAL FRONTIER Corporation during the six months ended June 30, 2020.

13. Loss Per Share

For the three and six months ended June 30, 2020 and 2019, basic loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share of common stock is calculated to give effect to all dilutive securities, using the treasury stock method and the if-converted method for potentially dilutive shares of common stock issuable upon the Semnur Share Exchange.

The following table sets forth the reconciliation of basic and diluted loss per share for the three and six months ended June 30, 2020 and 2019 (in thousands except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Numerator				
Net loss attributable to Sorrento	$ (77,740)	$ (56,762)	$ (142,935)	$ (164,833)
Net loss attributable to Semnur holders of Scilex Holding	—	(6,093)	—	(28,824)
Net loss used for diluted earnings per share	$ (77,740)	$ (62,855)	$ (142,935)	$ (193,657)
Denominator for Basic Loss Per Share	216,956	122,549	199,782	122,415
Potentially dilutive shares of Sorrento common stock issuable upon Semnur Share Exchange	—	9,910	—	5,717
Denominator for Diluted Loss Per Share	216,956	132,459	199,782	128,132
Basic Loss Per Share	$ (0.36)	$ (0.46)	$ (0.72)	$ (1.35)
Diluted Loss Per Share	$ (0.36)	$ (0.47)	$ (0.72)	$ (1.51)

The potentially dilutive stock options that would have been excluded because the effect would have been anti-dilutive for the six months ended June 30, 2020 and 2019 were 11.5 million and 9.7 million, respectively. The potentially dilutive warrants that would have been excluded because the effect would have been anti-dilutive for the six months ended June 30, 2020 and 2019 were 41.1 million and 10.7 million, respectively. For each of the three and six months ended June 30, 2020, the Company excluded approximately 9.8 million potentially dilutive shares related to the Semnur Exchange because the effect would have been anti-dilutive.

14. Segment Information

The Company operates in two operating and reportable segments, Sorrento Therapeutics and Scilex. With the exception of unrestricted cash balances, the Company's Chief Operating Decision Maker 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 six months ended June 30, 2020 and 2019 (in thousands):

	Three Months Ended June 30,					
	2020			2019		
(in thousands)	Sorrento Therapeutics	Scilex	Total	Sorrento Therapeutics	Scilex	Total
External revenues	$ 3,258	$ 5,749	$ 9,007	$ 1,817	$ 4,660	$ 6,477
Operating expenses	41,443	15,292	56,735	36,299	20,539	56,838
Operating loss	(38,185)	(9,543)	(47,728)	(34,482)	(15,879)	(50,361)
Unrestricted cash	17,251	7,137	24,388	31,986	29,399	61,385

	Six Months Ended June 30,					
	2020			2019		
(in thousands)	Sorrento Therapeutics	Scilex	Total	Sorrento Therapeutics	Scilex	Total
External revenues	$ 5,767	$ 10,961	$ 16,728	$ 5,101	$ 7,519	$ 12,620
Operating expenses	74,691	32,928	107,619	71,431	114,720	$ 186,151
Operating loss	(68,924)	(21,967)	(90,891)	(66,330)	(107,201)	(173,531)
Unrestricted cash	17,251	7,137	24,388	31,986	29,399	61,385

15. Subsequent Events

License Agreement with ACEA Therapeutics, Inc.

In July 2020, the Company entered into a License Agreement (the "License Agreement") with ACEA Therapeutics, Inc. ("ACEA"). Pursuant to the License Agreement, among other things, ACEA granted the Company an exclusive license and right under certain patents and certain know-how and other intellectual property ("Licensed Know-How") to fully utilize, exploit and commercialize (i) the Licensed Know-How, (ii) Abivertinib (AC0010), a selective, orally available irreversible small molecule tyrosine kinase inhibitor to Bruton's tyrosine kinase and mutant epidermal growth factor receptor, including any improvements thereto, and (iii) (a) any composition, product, or component part thereof, and (b) any and all services offered in connection or associated therewith, in all fields of use, including the diagnosis, treatment and/or cure of any human disease or disorder worldwide, other than the People's Republic of China.

As consideration for the license under the License Agreement, the Company has agreed to pay ACEA an up-front licensee fee of $15.0 million, of which $5.0 million is payable within ten business days of the date of the License Agreement and $10.0 million of which is payable within thirty calendar days of the date of the License Agreement. The Company also agreed to pay ACEA (i) certain milestone payments upon the receipt of certain regulatory approvals, and (ii) certain milestone payments upon the Company's or its affiliates' achievement of certain commercial sales milestones. The upfront payments and the milestone payments may be comprised of cash or any combination of cash and common stock of the Company, in any case as determined by the Company so long as no more than 50% of any upfront payment or milestone payment is comprised of common stock of the Company. The Company will also pay certain royalties in the mid-single digit to low-double digit percentages of annual net sales by the Company.

License Agreement with The Trustees of Columbia University in the City of New York

In July 2020, the Company entered into an Exclusive License Agreement (the "Columbia License Agreement") with The Trustees of Columbia University in the City of New York ("Columbia"). Pursuant to the Columbia License Agreement, among other things, Columbia granted the Company (i) an exclusive license under certain patents, other intellectual property and materials to discover, develop, commercialize and exploit certain products and services ("Products") in all diagnostic applications of high-performance loop-mediated isothermal amplification ("HP-LAMP") for coronaviruses and influenza viruses (the "Field") worldwide, subject to certain reservations and limitations. Pursuant to the Columbia License Agreement, Columbia also granted to the Company an option, exercisable for twelve months from the effective date of the Columbia License Agreement and subject to the satisfaction of certain conditions, to acquire an exclusive worldwide license to such patents, other intellectual property and materials for additional diagnostic application(s) of HP-LAMP (other than for coronaviruses and influenza viruses), subject to certain reservations and limitations.

As consideration for the license under the Columbia License Agreement, the Company agreed to pay Columbia (i) an up-front license fee of $5.0 million within ten business days of the execution of the Columbia License Agreement, (ii) an earned royalty on the net sales of Products in the Field worldwide, and (iii) minimum annual royalty payments of $1.0 million no later than ten days following the first bona fide commercial sale of a Product to a third-party customer and on an annual basis thereafter. In addition, the Company agreed to pay Columbia a percentage of certain non-royalty sublicense revenue and other payments received by the Company from its sublicensees as consideration for the grant of any sublicense, option or similar rights. Pursuant to the Columbia License Agreement, the Company also agreed to pay certain one-time, development milestone payments to Columbia upon the receipt of certain regulatory approvals or the first commercial sale of certain Products for diagnostic applications within the Field.

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., together with its subsidiaries (collectively, the "Company", "we", "us", and "our") is a clinical stage and commercial biopharmaceutical company focused on delivering innovative and clinically meaningful therapies to patients and their families to address unmet medical needs.

At our core, we are antibody-centric 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, CTLA-4, c-MET, VEGFR2, CCR2 and CD137 among others. We also have programs assessing the use of our technologies and products in autoimmune, inflammatory, viral and neurodegenerative diseases.

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. We acquired Sofusa®, a revolutionary drug delivery technology, 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, our 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 has the potential to become the first FDA-approved epidural steroid product for the treatment of sciatica. In response to the global COVID-19 pandemic, we are developing potential coronavirus antiviral therapies and vaccines, including ACE-MAB™, COVIDTRAP™, COVI-MAB™, COVI-GUARD™, COVI- SHIELD™ and T-VIVA-19™.

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 near to entering the clinic. These include cellular therapies, oncolytic viruses (Seprehvir ™, Seprehvec™) and a palliative care program targeted to treat intractable cancer pain. Our cellular therapy programs focus on CAR-T and DAR-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. We successfully submitted an Investigational New Drug application ("IND") for anti-CD38 CAR-T for the treatment of refractory or relapsed multiple myeloma ("RRMM") and obtained clearance from the U.S. Food and Drug Administration (the "FDA") and commenced a human clinical trial for this indication in early 2018. We have dosed five patients and are continuing the enrollment of additional patients.

Broadly speaking, we believe we are one of the world's leading CAR-T and DAR-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 DAR-T solutions. With "off-the-shelf" solutions, DAR-T therapy can truly become a drug product rather than a treatment procedure.

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 toxin that specifically ablates nerves that conduct chronic and inflammatory 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 and two Phase I trials (intrathecal and epidural routes) in that indication are concluding. A Phase Ib trial studying tolerance and efficacy of RTX for the control of osteoarthritis knee pain was initiated in late 2018 and intermediate results have shown efficacy with no dose limiting toxicities. The osteoarthritis trial enrolled the last patient in the first quarter of 2020 and we expect to release clinical data by the end of 2020. Knee arthritis registrational trials are planned to start later in 2020 with a pivotal trial, pending meeting with the FDA and receiving clearance to proceed.

Also, in this area, we have developed in-house and acquired proprietary technologies to responsibly develop next generation, branded pharmaceutical products to better manage patients' medical conditions, maximize the quality of life of patients and enable healthcare providers. The flagship product of our majority-owned subsidiary, Scilex Pharmaceuticals Inc. ("Scilex Pharma"), ZTlido® (lidocaine topical system 1.8%) ("ZTlido"), is a next-generation lidocaine delivery system which was approved by the FDA for the treatment of postherpetic neuralgia, a severe neuropathic pain condition, in February 2018, and was commercially launched in October 2018. Scilex Pharma has now built a full commercial organization, which includes sales, marketing, market access and medical affairs. ZTlido has demonstrated superior adhesion in comparative head-to-head studies as compared to Lidoderm and is manufactured by our Japanese partner in their state-of-the-art manufacturing facility.

Additionally, we are currently conducting preclinical development of multiple therapeutic, vaccine and diagnostic candidates for the potential treatment, prevention and detection of COVID-19 across our proprietary platforms, including natural killer cell therapies, neutralizing antibodies (COVI-GUARD™ and COVI-SHIELD™) and soluble recombinant fusion protein traps (COVIDTRAP™) to potentially inhibit the binding of SARS-CoV-2's spike protein with host ACE2 receptors, thereby potentially preventing viral cell entry. We are also developing COVID-19 diagnostic products, including COVI-TRACK™, for detecting the presence of antibodies against SARS-CoV-2 in patient blood samples, and COVI-TRACE™, for detecting the presence of SARS-CoV-2 in patient saliva samples. SARS-CoV-2 is the virus that causes COVID-19.

Impact of COVID-19 on Our Business

We are closely monitoring the COVID-19 pandemic and its potential impact on our business. We are an Essential Critical Infrastructure Provider, as our operations are critical to the continued operations of the healthcare infrastructure of the United States, as set forth by the U.S. Department of Homeland Security's Cybersecurity and Infrastructure Security Agency. In an effort to protect the health and safety of our employees, we took proactive action from the earliest signs of the outbreak including implementing social distancing policies at our facilities, facilitating remote working arrangements and imposing employee travel restrictions.

The COVID-19 pandemic has created uncertainties in the expected timelines for clinical stage biopharmaceutical companies such as ours, including possible delays in clinical trials and disruptions in the supply chain for raw materials used in clinical trial work. Such delays could materially impact our business in future periods. Furthermore, the spread of COVID-19, which has caused a broad impact globally, may materially affect us economically. While the potential economic impact brought by, and the duration of, COVID-19 may be difficult to assess or predict, a widespread pandemic could result in significant disruption of global financial markets, reducing our ability to access capital, which could in the future negatively affect our liquidity. Policymakers around the globe have responded with fiscal policy actions to support the healthcare industry and economy as a whole. The magnitude and overall effectiveness of these actions remain uncertain. Accordingly, the extent to which the COVID-19 global pandemic impacts our business, results of operations and financial condition will depend on future developments, which are highly uncertain and are difficult to predict. These developments include, but are not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or address its impact, U.S. and foreign government actions to respond to the reduction in global economic activity, and how quickly and to what extent normal economic and operating conditions can resume. For more information on the risks associated with COVID-19, refer to Part II, Item 1A, "Risk Factors" herein.

Results of Operations

Comparison of the Three Months Ended June 30, 2020 and 2019

Revenues. Revenues were $9.0 million for the three months ended June 30, 2020, as compared to $6.5 million for the three months ended June 30, 2019.

Revenues in our Sorrento Therapeutics segment increased from $1.8 million to $3.2 million for the three months ended June 30, 2020 compared to the same quarter of the prior year and were primarily attributed to higher contract manufacturing service revenues.

Revenues in our Scilex segment increased from $4.7 million to $5.8 million for the three months ended June 30, 2020 compared to the same quarter of the prior year and were attributed to increased product sales of ZTlido.

Cost of revenues. Cost of revenues for the three months ended June 30, 2020 and 2019 were $2.2 million and $3.3 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 decreased by $1.1 million and was primarily attributable to process efficiencies realized during 2020.

Cost of revenues for our Scilex segment increased by $0.1 million and was attributed to higher sales volumes of ZTlido.

Research and Development ("R&D") Expenses. Research and development expenses for the three months ended June 30, 2020 and 2019 were $24.2 million and $24.8 million, respectively. Research and development expenses include expenses associated with SP-102, 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 expenses for our Sorrento Therapeutics segment decreased by $1.1 million as compared to the same quarter of the prior year and were primarily driven by reduced expenditures on lab supplies and lower pre-clinical spend compared to the prior year.

R&D expenses for our Scilex segment increased by $0.5 million as compared to the same quarter of the prior year and were primarily driven by costs associated with our SP-102 product pipeline.

Acquired In-process Research and Development Expenses. Acquired in-process research and development expenses during the three months ended June 30, 2020 totaled $4.9 million. These expenses primarily relate to various investments in new technologies and preclinical programs. There were no individually significant transactions during the three months ended June 30, 2020. Acquired in-process research and development expenses for the three months ended June 30, 2019 totaled $75.3 million and were associated with the acquisition of Semnur in March 2019.

Selling, General and Administrative ("SG&A") Expenses. SG&A expenses for the three months ended June 30, 2020 and 2019 were $24.5 million and $27.8 million, respectively, and consisted primarily of salaries and personnel-related expenses, stock-based compensation expense, professional fees, infrastructure expenses, legal and other general corporate expenses.

SG&A expenses for our Sorrento Therapeutics segment increased by approximately $2.5 million and were primarily attributed to increased legal and professional fees compared to the same quarter of the prior year.

SG&A expenses for our Scilex segment decreased by approximately $5.9 million and were primarily attributed to cost savings resulting from a shift to more favorable marketing programs for ZTlido and optimizing the sales force.

Gain on Derivative Liabilities. Gain on derivative liabilities for the three months ended June 30, 2020 was $2.0 million compared to a loss of $10.6 million in the same quarter in 2019.

Gain on derivative liabilities for our Sorrento Therapeutics segment totaled $6.9 million and was primarily attributed to the full repayment of the Term Loans as of June 30, 2020 as further described in Note 7 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 $4.9 million and was primarily attributed to revised probabilities and revised sales forecasts as further described in Note 3 of the accompanying notes to the consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Loss on Debt Extinguishment. Loss on debt extinguishment for the three months ended June 30, 2020 was $28.3 million and was attributed to the repayments of outstanding principal on the Term Loans.

Interest Expense. Interest expense for the three months ended June 30, 2020 and 2019 was $8.3 million and $9.5 million, respectively. The decrease resulted primarily from a decrease in interest expense associated with the Term Loans.

Income Tax Benefit. Income tax benefit for the three months ended June 30, 2020 and 2019 was $1.9 million and $0.4 million, respectively. The increase in income tax benefit was attributed to the impact of our valuation allowance.

Net Loss. Net loss for the three months ended June 30, 2020 and 2019 was $85.0 million and $71.8 million, respectively.

Comparison of the Six Months Ended June 30, 2020 and 2019

Revenues. Revenues were $16.7 million for the six months ended June 30, 2020, as compared to $12.6 million for the six months ended June 30, 2019.

Revenues in our Sorrento Therapeutics segment increased from $5.1 million to $5.7 million for the six months ended June 30, 2020, compared to the same period of the prior year and were primarily attributed to higher contract manufacturing service revenues.

Revenues in our Scilex segment increased from $7.5 million to $11.0 million for the six months ended June 30, 2020 compared to the same period of the prior year and were attributed to increased product sales of ZTlido.

Cost of revenues. Cost of revenues for the six months ended June 30, 2020 and 2019 were $4.7 million and $5.6 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 decreased by $1.2 million and was primarily attributable to process efficiencies realized during 2020.

Cost of revenues for our Scilex segment increased by $0.3 million as compared to the same period of the prior year and was attributed to higher sales volumes of ZTlido.

Research and Development Expenses. Research and development expenses for the six months ended June 30, 2020 and 2019 were $45.3 million and $50.4 million, respectively. Research and development expenses include expenses associated with SP-102, 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 expenses for our Sorrento Therapeutics segment decreased by $6.8 million as compared to the same period of the prior fiscal year and were primarily driven by reduced expenditures on lab supplies and lower pre-clinical spend compared to the prior year.

R&D expenses for our Scilex segment increased by $1.7 million as compared to the same period of the prior fiscal year and were primarily driven by costs associated with our SP-102 product pipeline.

Acquired In-process Research and Development Expenses. Acquired in-process research and development expenses for the six months ended June 30, 2020 totaled $4.9 million. These expenses primarily relate to various investments in new technologies and preclinical programs. There were no individually significant transactions during the six months ended June 30, 2020. Acquired in-process research and development expenses for the six months ended June 30, 2019 totaled $75.3 million and were associated with the acquisition of Semnur in March 2019.

Selling, General and Administrative Expenses. SG&A expenses for the six months ended June 30, 2020 and 2019 were $50.8 million and $52.9 million, respectively, and consisted primarily of salaries and personnel-related expenses, stock-based compensation expense, professional fees, infrastructure expenses, legal and other general corporate expenses.

SG&A expenses for our Sorrento Therapeutics segment increased by approximately $6.5 million and were primarily attributed to increased legal and professional fees compared to the same period of the prior year.

SG&A expenses for our Scilex segment decreased by approximately $8.6 million and were primarily attributed to cost savings resulting from a shift to more favorable marketing programs for ZTlido and optimizing the sales force.

Gain on Derivative Liabilities. Gain on derivative liabilities for the six months ended June 30, 2020 was $6.9 million compared to a loss of $25.1 million in the same period in 2019.

Gain on derivative liabilities for our Sorrento Therapeutics segment totaled $5.9 million and was primarily attributed to the full repayment of the Term Loans as of June 30, 2020.

Gain on derivative liabilities for our Scilex segment was $1.0 million and was primarily attributed to revised probabilities and revised sales forecasts as further described in Note 3 of the accompanying notes to the consolidated financial statements in Part I, Item 1 of this Form 10-Q.

Loss on Debt Extinguishment. Loss on debt extinguishment for the six months ended June 30, 2020 was $51.9 million and was attributed to the repayments of outstanding principal on the Term Loans as further described in Note 7 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 six months ended June 30, 2020 and 2019 was $15.1 million and $18.6 million, respectively. The decrease resulted primarily from a decrease in interest expense associated with the Term Loans.

Income Tax (Benefit) Expense. Income tax benefit and income tax expense for the six months ended June 30, 2020 and 2019 was $2.2 million and $0.6 million, respectively. The increase in income tax benefit was attributed to the impact of our valuation allowance.

Net Loss. Net loss for the six months ended June 30, 2020 and 2019 was $154.2 million and $218.4 million, respectively.

Liquidity and Capital Resources

As of June 30, 2020, we had $24.4 million in cash and cash equivalents attributable in part to the following financing arrangements:

Debt Financings

2018 Oaktree Term Loan Agreement

In November 2018, we 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, for an initial term loan of $100.0 million (the "Initial Loan"). In May 2019, we entered into an amendment to the Loan Agreement, under which terms the Lenders agreed to make available to us $20.0 million (collectively, with the Initial Loan, the "Term Loans"). During the six months ended June 30, 2020, we repaid $120.0 million of the outstanding principal under the Term Loans plus approximately $9.4 million of related prepayment premium, exit fees and accrued interest thereon.

Scilex Notes

Scilex Pharmaceuticals Inc. ("Scilex Pharma") entered into purchase agreements (the "2018 Purchase Agreements") with certain investors (collectively, the "Scilex Note Purchasers") and us. Pursuant to the 2018 Purchase Agreements, on September 7, 2018, Scilex Pharma 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 and collateral 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.

We identified a number of embedded derivatives that require bifurcation from the Scilex Notes and were separately accounted for in the consolidated financial statements as derivative liabilities. Certain of these embedded features include default interest provisions, contingent rate increases, contingent put options, optional and automatic acceleration provisions and tax indemnification obligations. The fair value of the derivative liabilities associated with the Scilex Notes was estimated using the discounted cash flow method under the income approach combined with a Monte Carlo simulation model. This involves significant Level 3 inputs and assumptions, including a risk adjusted net sales forecast, an effective debt yield, estimated marketing approval probabilities for SP-103 and an estimated probability of an initial public offering by Scilex Holding that satisfies certain valuation thresholds and timing considerations (See Note 3). We re-evaluate this assessment each reporting period.

The 2018 Purchase Agreements and Indenture for Scilex provide that, upon the occurrence of an event of default, the lenders thereunder may, by written notice to us, declare all of the outstanding principal and interest under the Indenture immediately due and payable. For purposes of the Indenture, an event of default includes, among other things, (i) a failure to pay any amounts when due under the Indenture, (ii) a breach or other failure to comply with the covenants (including financial, notice and reporting covenants) under the Indenture, (iii) a failure to make any payment on, or other event triggering an acceleration under, other material indebtedness of us, and (iv) the occurrence of certain insolvency or bankruptcy events (both voluntary and involuntary) involving us or certain of our subsidiaries. We are subject to certain customary default clauses under the Indenture and are in compliance with the event of default clauses under the Indenture.

Equity Financings

Universal Shelf Registration Statement

In March 2020, we filed a universal shelf registration statement on Form S-3 (the "Shelf Registration Statement") with the SEC, which was declared effective by the SEC on March 20, 2020. The Shelf Registration Statement provides us with the ability to offer up to $1.0 billion of securities, including equity and other securities as described in the registration statement. Pursuant to the Shelf Registration Statement, we may offer such securities from time to time and through one or more methods of distribution, subject to market conditions and our capital needs. Specific terms and prices will be determined at the time of each offering under a separate prospectus supplement, which will be filed with the SEC at the time of any offering. As of May 7, 2020, approximately $500.0 million of securities remain available and unallocated for offerings of securities under the Shelf Registration Statement.

Common Stock Purchase Agreement

On April 27, 2020, we entered into a Common Stock Purchase Agreement (the "Purchase Agreement") with Arnaki Ltd. (the "Purchaser"), pursuant to which the Purchaser is committed to purchase up to an aggregate of $250.0 million of shares of our common stock over the 36-month term of the Purchase Agreement on the terms set forth therein. Any Shares offered and sold to the Purchaser will be issued pursuant to the Shelf Registration Statement and the prospectus supplement relating to offering of shares pursuant to the Purchase Agreement filed with the SEC on April 27, 2020.

On any business day over the term of the Purchase Agreement (each, a "Purchase Date"), we have the right, in our sole discretion, to present the Purchaser with a purchase notice directing the Purchaser to purchase up to 650,000 shares of our common stock per business day. We and the Purchaser also may mutually agree to increase the number of shares that may be sold to as much as an additional 3,600,000 shares per Purchase Date. We also have the right, in our sole discretion, to grant the Purchaser an option to purchase additional shares of common stock, subject to a maximum number of shares determined by us on each Purchase Date. The aggregate purchase price paid by the Purchaser shall not exceed $5.0 million per Purchase Date, unless mutually agreed upon by us and the Purchaser. The purchase price of our common stock pursuant to the Purchase Agreement will generally be equal to 97.5% of the daily volume weighted average purchase price of our common stock on the Purchase Date. During the six months ended June 30, 2020, we sold an aggregate of 923,077 shares of our common stock pursuant to the Purchase Agreement for aggregate net proceeds of $4.3 million. Subsequent to June 30, 2020 and through July 31, 2020, we sold an aggregate of 500,000 shares of our common stock pursuant to the Purchase Agreement for aggregate net proceeds of approximately $3.7 million.

Sales Agreement

On April 27, 2020, we entered into a Sales Agreement (the "Sales Agreement") with A.G.P./Alliance Global Partners, as sales agent (the "Sales Agent"), pursuant to which we may offer and sell through or to the Sales Agent (the "Offering") up to $250.0 million in shares of our common stock (the "Shares"). Any Shares offered and sold in the Offering will be issued pursuant to the Shelf Registration Statement and the prospectus supplement relating to the Offering filed with the SEC on April 27, 2020. The Offering will terminate upon (a) the election of the Sales Agent upon the occurrence of certain adverse events, (b) three business days' advance notice from one party to the other, or (c) the sale of all of the Shares. Under the terms of the Sales 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 Sales Agreement. During the six months ended June 30, 2020, we sold an aggregate of 11,262,597 shares of our common stock pursuant to the Sales Agreement for aggregate net proceeds of approximately $62.7 million. Subsequent to June 30, 2020 and through August 4, 2020, we sold an aggregate of 5,361,218 shares of our common stock pursuant to the Sales Agreement for aggregate net proceeds of approximately $47.1 million.

Purchase Agreement with Aspire Capital

In February 2020, we entered into a Common Stock Purchase Agreement (the "Aspire Purchase Agreement") with Aspire Capital Fund, LLC ("Aspire Capital"), pursuant to which Aspire Capital was committed to purchase up to an aggregate of $75.0 million of shares of our common stock over a 24-month term. Upon execution of the Aspire Purchase Agreement, we issued to Aspire Capital 897,308 shares of our common stock as a commitment fee. We have used the proceeds we receive under the Aspire Purchase Agreement for working capital and general corporate purposes and for the repayment of debt. The Aspire Purchase Agreement was terminable by us at any time without any liability to us. Generally, Aspire Capital could terminate the Aspire Purchase Agreement at any time that an event of default existed. During the six months ended June 30, 2020, we issued and sold an aggregate of 38,825,010 shares of our common stock to Aspire Capital under the Aspire Purchase Agreement for aggregate net proceeds of approximately $75.0 million. On April 24, 2020, the Aspire Purchase Agreement terminated effective immediately in accordance with its terms as we issued and sold, as of such date, the full $75.0 million of shares available for issuance thereunder.

2019 Registered Direct Offering

In October 2019, we announced the closing of our previously announced registered direct offering of 10,869,566 shares of our common stock and warrants to purchase up to 10,869,566 shares of our 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.

Equity Distribution Agreement

In October 2019, we entered into an Equity Distribution Agreement (the "Distribution Agreement") with JMP Securities LLC, as sales agent (the "JMP Sales Agent"), pursuant to which we could offer and sell, from time to time, through or to the JMP Sales Agent, as sales agent or principal, up to $75.0 million in shares of our common stock. Effective February 10, 2020, we voluntarily suspended our continuous offering and sale of shares under the Distribution Agreement. On April 27, 2020, we voluntarily terminated the Distribution Agreement. The Distribution Agreement was terminable at will by us with no penalty. During the term of the Distribution Agreement, we sold an aggregate of 2,120,149 shares of our common stock thereunder for aggregate gross proceeds of approximately $7.4 million.

2019 Public Offering of Common Stock and Warrants

In June 2019, we entered into an underwriting agreement with JMP Securities LLC, as representative of the several underwriters named therein, 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.

Contingent Consideration

Semnur Pharmaceuticals Acquisition Contingent Consideration

In March 2019, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Semnur, Scilex Holding, Sigma Merger Sub, Inc., the prior wholly-owned subsidiary of Scilex Holding, and Fortis Advisors LLC, solely as representative of the holders of Semnur equity (the "Semnur Equityholders"). Pursuant to the Merger Agreement, 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.

Sofusa Contingent Consideration

In July 2018, we acquired Kimberly-Clark's Sofusa® micro-needle drug delivery system platform (the "Sofusa Acquisition"). At the closing of the Sofusa Acquisition, we paid $10.0 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 (the "Sofusa Contingent Consideration"). The aggregate amount of the Sofusa Contingent Consideration payable by us will not exceed $300.0 million.

Use of Cash

Cash Flows from Operating Activities. Net cash used for operating activities was $76.1 million for the six months ended June 30, 2020 as compared to $91.1 million for the six months ended June 30, 2019. Net cash used reflects the cash spent on our research activities and cash spent to support the commercial launch of our products.

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 by investing activities was $3.3 million for the six months ended June 30, 2020. We invested approximately $2.3 million related to various investments in new technologies and preclinical programs and spent approximately $1.0 million on equipment and building improvements. During the six months ended June 30, 2019, net cash used by investing activities was $24.5 million and was attributed to $17.0 million associated with the Semnur acquisition and $7.5 million for equipment and building improvements.

Cash Flows from Financing Activities. Net cash provided by financing activities was $68.0 million for the six months ended June 30, 2020 as compared to net cash provided by financing of $18.4 million for the six months ended June 30, 2019. During the six months ended June 30, 2020, we received $149.4 million from equity offerings, proceeds from short-term debt of $7.8 million and proceeds of $42.7 million from common stock issuances and warrant exercises. During the six months ended June 30, 2020, we repaid $120.0 million of outstanding principal under the Term Loans, paid $6.3 million of related exit and prepayment fees thereon, made payments of $2.5 million on the Scilex Notes and repaid $3.0 million in short-term debt. During the same period in prior year, cash provided by financing activities was primarily driven by $18.9 million in debt financing, net of issuance costs, from the Term Loans.

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. 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.

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) expand our corporate infrastructure, and (iv) incur our share of joint venture and collaboration costs for our products and technologies.

Uses of Cash. As further described in Note 15 of the accompanying notes to the consolidated financial statements in Part I, Item 1 of this Form 10-Q, 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.

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 accounting principles generally accepted in the U.S. 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. Our critical accounting policies and estimates are discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, and there have been no material changes during the three months ended June 30, 2020.

Contractual Obligations and Commitments

As of June 30, 2020, 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, 2019.

Off-Balance Sheet Arrangements

Since our inception through June 30, 2020, other than off balance sheet arrangements already disclosed, we have not engaged in any off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

New Accounting Pronouncements

Refer to Note 1, "Significant Accounting Policies" and "Recent Accounting Pronouncements" 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.

As of June 30, 2020, there has been no material change in our assessment of our sensitivity to market risk , including interest rate, capital market and concentration risks, since our presentation set forth in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk", in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such terms are defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives and in reaching a reasonable level of assurance. As a result, management was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation performed, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control over Financial Reporting. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we carried out an evaluation of any potential changes in our internal control over financial reporting during the fiscal quarter covered by this Quarterly Report on Form 10-Q. There has been no change to our internal control over financial reporting during our most recent fiscal quarter that our certifying officers concluded materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

In the normal course of business, we may be named as a defendant in one or more lawsuits. Other than as set forth below, 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.

Information regarding reportable legal proceedings is contained in Part I, “Item 3. Legal Proceedings” in our Annual Report on Form 10-K for the year ended December 31, 2019 and Part II, “Item 1. Legal Proceedings” in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

On May 26, 2020, Wasa Medical Holdings filed a putative federal securities class action in the U.S. District Court for the Southern District of California, Case No. 3:20-cv-00966-AJB-DEB, against us, our President, Chief Executive Officer and Chairman of the Board of Directors, Henry Ji, Ph.D., and our SVP of Regulatory Affairs, Mark R. Brunswick, Ph.D. The action alleges that we, Dr. Ji and Dr. Brunswick made materially false and/or misleading statements to the investing public by publicly issuing false and/or misleading statements regarding STI-1499 and its ability to inhibit the SARS-CoV-2 virus infection and that such statements violated Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. The suit seeks to recover damages caused by the alleged violations of federal securities laws, along with the plaintiffs’ reasonable costs and expenses incurred in the lawsuit, including counsel fees and expert fees. On June 11, 2020, Jeannette Calvo filed a second putative federal securities class action in the U.S. District Court for the Southern District of California, Case No. 3:20-cv-01066-JAH-WVG, against the same defendants alleging the same claims and seeking the same relief. It is anticipated that these cases will be consolidated as part of the lead plaintiff and counsel appointment process under the Private Securities Litigation Reform Act. We intend to defend these matters vigorously.

Item 1A. Risk Factors.

Our Annual Report on Form 10-K for the year ended December 31, 2019, 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, 2019. 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 therapeutic 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"), bispecific antibodies ("BsAbs"), as well as Chimeric Antigen Receptor T Cells ("CAR-T") and Dimeric Antigen Receptor T Cells ("DAR-T") for adoptive cellular immunotherapy, resiniferatoxin ("RTX"), higher strength lidocaine topical system (SP-103) and non-opioid corticosteroid formulated as a viscous gel injection (SP-102) ("SEMDEXA™") to be commercially available for a few years, if at all. Additionally, our COVID-19 related product candidates, including STI-1499 (COVI-GUARD™), STI-4398 (COVIDTRAP™), targeted virus vaccine (T-VIVA-19™), serological IgM/IgG antibody diagnostic test (COVI-TRACK™) and saliva-based diagnostic test for SARS-CoV-2 (COVI-TRACE™), are subject to uncertainties relating to product development, regulatory approval and commercialization, and further risks based on the constantly evolving situation affecting the United States and the international community. 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 June 30, 2020 and December 31, 2019, we had an accumulated deficit of $802.8 million and $659.8 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) conduct preclinical studies for our COVID-19 related product candidates, including STI-1499 (COVI-GUARD™), STI-4398 (COVIDTRAP™) and targeted virus vaccine (T-VIVA-19™), to advance to clinical trials and seek regulatory approval; (iii) incur incremental expenses associated with our efforts to further advance a number of potential product candidates into preclinical development activities, (iv) continue to identify and advance a number of fully human therapeutic antibody and ADC preclinical product candidates, (v) incur higher salary, lab supply and infrastructure costs incurred in connection with supporting all of our programs, (vi) invest in our joint ventures, collaborations or other third party agreements, (vii) incur expenses in conjunction with defending and enforcing our rights in various litigation matters, (viii) expand our corporate, development and manufacturing infrastructure, and (ix) support our subsidiaries, including Scilex Holding Company, 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, 2019 included a "going concern" explanatory paragraph indicating that our recurring losses from operations, negative working capital, recurring negative cash flows from operations and substantial cumulative net 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, CAR-T and DAR-T for adoptive cellular immunotherapy, RTX, SP-103 and SEMDEXA™, and our COVID-19 product candidates;
- 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;
- the effect of the COVID-19 pandemic; and
- our revenues, if any, from successful development and commercialization of our product candidates, including ZTlido.

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.

In addition, as discussed in the risk factor under the heading "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" below, the Scilex Indenture includes negative covenants that place limitations on the following: the incurrence of debt, the payment of dividends by Scilex, 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.

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

We face potential business disruptions and related risks resulting from the recent outbreak of the novel coronavirus, which could have a material adverse effect on our business, financial condition and results of operations.

In December 2019, a novel strain of coronavirus, or SARS-CoV-2, was reported to have surfaced in Wuhan, China. SARS-CoV-2 is the virus that causes COVID-19. The COVID-19 outbreak has grown into a global pandemic that has impacted Asia, United States, Europe and other countries throughout the world. Financial markets have been experiencing extreme fluctuations that may cause a contraction in available liquidity globally as important segments of the credit markets react to the development. The pandemic may lead to a decline in business and consumer confidence. The global outbreak of COVID-19 continues to rapidly evolve. As a result, businesses have closed and limits have been placed on travel. The extent to which COVID-19 may impact our business, clinical trials and sales of ZTlido® (lidocaine topical system 1.8%) ("ZTlido") will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the ultimate geographic spread of the disease, the duration of the outbreak, travel restrictions and social distancing in the United States and other countries, business closures or business disruptions and the effectiveness of actions taken in the United States and other countries to contain and treat the disease.

We are monitoring the potential impact of the COVID-19 outbreak, and if COVID-19 continues to spread globally, including in the United States, we may experience disruptions that could severely impact the development of our product candidates, including:

- delays or difficulties in enrolling patients in our clinical trials as patients may be reluctant, or unable, to visit clinical sites;
- delays or difficulties in clinical site initiation, including difficulties in recruiting clinical site investigators, clinical site staff and potential closure of clinical facilities;
- decreases in patients seeking treatment for chronic pain;
- delays in receiving approval from local regulatory authorities to initiate our planned clinical trials;
- delays in clinical sites receiving the supplies and materials needed to conduct our clinical trials, including interruption in global shipping that may affect the transport of clinical trial materials;
- changes in local regulations as part of a response to the COVID-19 outbreak, which may require us to change the ways in which our clinical trials are conducted, which may result in unexpected costs, or to discontinue the clinical trials altogether;
- diversion of healthcare resources away from the conduct of clinical trials, including the diversion of hospitals serving as our clinical trial sites and hospital staff supporting the conduct of our clinical trials;
- risk that participants enrolled in our clinical trials will acquire COVID-19 while the clinical trial is ongoing, which could impact the results of the clinical trial, including by increasing the number of observed adverse events;
- delays in necessary interactions with local regulators, ethics committees and other important agencies and contractors due to limitations in employee resources or forced furlough of government employees; and
- interruption of key clinical trial activities, such as clinical trial site monitoring, due to limitations on travel imposed or recommended by federal or state governments, employers and others.

Quarantines, shelter-in-place and similar government orders, or the perception that such orders, shutdowns or other restrictions on the conduct of business operations could occur, related to COVID-19 or other infectious diseases could impact personnel at third-party suppliers in the United States and other countries, or the availability or cost of materials, which would disrupt our supply chain. Any manufacturing supply interruption of materials could adversely affect our ability to conduct ongoing and future research and testing activities. For example, we obtain our commercial supply of ZTlido and our clinical supply of SP-103 exclusively from Oishi and Itochu in Japan. The COVID-19 pandemic may result in delays in the procurement and shipping of ZTlido, which may have an adverse impact on our operating results.

The spread of COVID-19, which has caused a broad impact globally, may materially affect us economically. While the potential economic impact brought by, and the duration of, COVID-19 may be difficult to assess or predict, a widespread pandemic could result in significant disruption of global financial markets, reducing our ability to access capital, which could in the future negatively affect our liquidity. In addition, a recession or market correction resulting from the spread of COVID-19 could materially affect our business and the value of our common stock.

In addition, the continued spread of COVID-19 globally could materially and adversely impact our operations, including without limitation, our sales and marketing efforts, sales of ZTlido, travel, employee health and availability, which may have a material and adverse effect on our business, financial condition and results of operations.

Management is actively monitoring the global situation on our financial condition, liquidity, operations, suppliers, industry and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, we are not able to estimate the effects of the COVID-19 outbreak on our results of operations, financial condition or liquidity for fiscal year 2020.

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, 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 first half of 2021 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.

There can be no assurance that the product candidates we are developing for the detection and treatment of COVID-19 will be granted an Emergency Use Authorization by the FDA. If no Emergency Use Authorization is granted or, once granted, it is terminated, we will be unable to sell our product candidates in the near future and will be required to pursue the drug approval process, which is lengthy and expensive.

On June 10, 2020, we announced the submission of an Emergency Use Authorization (“EUA”) to the FDA for our COVI-TRACK in vitro diagnostic test kit for the independent detection of IgG and IgM antibodies in sera of patients exposed to the SARS-CoV-2 virus.

An EUA would allow us to market and sell COVI-TRACK without the need to pursue the lengthy and expensive drug approval process. The FDA may issue an EUA during a public health emergency if it determines that the potential benefits of a product outweigh the potential risks and if other regulatory criteria are met. If an EUA is granted for COVI-TRACK, we will rely on the FDA policies and guidance in connection with the marketing and sale of COVI-TRACK. If these policies and guidance change unexpectedly and/or materially or if we misinterpret them, potential sales of COVI-TRACK could be adversely impacted. In addition, the FDA may revoke an EUA where it is determined that the underlying health emergency no longer exists or warrants such authorization. If granted, we cannot predict how long an EUA for COVI-TRACK will remain in place. The termination of an EUA for COVI-TRACK, if granted, could adversely impact our business, financial condition and results of operations.

We may also seek additional EUAs from the FDA for our other product candidates for the detection and/or treatment of COVID-19 and the SARS-CoV-2 virus. If granted, the additional EUAs would allow us to market and sell additional product candidates without the need to pursue the lengthy and expensive drug approval process. There is no guarantee that we will be able to obtain any additional EUAs. Failure to obtain additional EUAs or the termination of such EUAs, if obtained, could adversely impact our business, financial condition and results of operations.

Our business and operations would suffer in the event of system failures.

Despite the implementation of security measures, our internal computer systems and those of our CROs and other contractors and consultants are vulnerable to damage from computer viruses, unauthorized access, cybersecurity attacks or hacking, natural disasters, terrorism, war and telecommunication and electrical failures. In addition, as a result of the COVID-19 pandemic, we may face increased cybersecurity risks due to our reliance, and the reliance of our CROs, contractors and consultants reliance, on internet technology and the number of our employees, and employees of our CROs, contractors and consultants, who are working remotely, which may create additional opportunities for cybercriminals to exploit vulnerabilities. While we have not experienced any such system failure, accident or security breach to date, if such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our drug development programs. For example, the loss of clinical trial data from completed or ongoing or planned clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. To the extent that any disruption or security breach was to result in a loss of or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur material legal claims and liability, damage to our reputation, suffer loss or harm to our intellectual property rights and the further research, development and commercial efforts of our products and product candidates could be delayed. If we are held liable for a claim against which we are not insured or for damages exceeding the limits of our insurance coverage, whether arising out of cybersecurity matters, or from some other matter, that claim could have a material adverse effect on our results of operations.

Further, a cybersecurity attack, data breach or privacy violation that leads to disclosure or modification of, or prevents access to, patient information, including personally identifiable information or protected health information, could harm our reputation, compel us to comply with federal and/or state breach notification laws and foreign law equivalents, subject us to mandatory corrective action, require us to verify the correctness of database contents and otherwise subject us to liability under laws and regulations that protect personal data, resulting in increased costs or loss of revenue. Our ability to effectively manage and maintain our internal business information, and to ship products to customers and invoice them on a timely basis, depends significantly on our enterprise resource planning system and other information systems. Portions of our information technology systems may experience interruptions, delays or cessations of service or produce errors in connection with ongoing systems implementation work. Cybersecurity attacks in particular are evolving and include, but are not limited to, threats, malicious software, ransom ware, attempts to gain unauthorized access to data and other electronic security breaches that could lead to disruptions in systems, misappropriation of confidential or otherwise protected information and corruption of data. If we are unable to prevent such cybersecurity attacks, data security breaches or privacy violations or implement satisfactory remedial measures, our operations could be disrupted, and we may suffer loss of reputation, financial loss and other regulatory penalties because of lost or misappropriated information, including sensitive patient data. In addition, these breaches and other inappropriate access can be difficult to detect, and any delay in identifying them may lead to increased harm of the type described above.

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, 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 by Scilex Pharma, 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.

For purposes of the Scilex Indenture, an event of default includes, among other things, (i) a failure to pay any amounts when due under the Scilex Indenture, (ii) a breach or other failure to comply with the covenants (including financial, notice and reporting covenants) under the Scilex Indenture, (iii) a failure to make any payment on, or other event triggering an acceleration under, other material indebtedness of us and (iv) the occurrence of certain insolvency or bankruptcy events (both voluntary and involuntary) involving us or certain of our subsidiaries.

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

Any disruption in our research and development facilities could adversely affect our business, financial condition and results of operations.

Our principal executive offices, which house our research and development programs, are in San Diego, California. Our facilities may be affected by natural or man-made disasters. Earthquakes are of particular significance since our facilities are located in an earthquake-prone area. We are also vulnerable to damage from other types of disasters, including power loss, attacks from extremist organizations, fires, floods and similar events. If our facilities are affected by a natural or man-made disaster, we may be forced to curtail our operations and/or rely on third-parties to perform some or all of our research and development activities. Although we believe we possess adequate insurance for damage to our property and the disruption of our business from casualties, such insurance may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, or at all. In the future, we may choose to expand our operations in either our existing facilities or in new facilities. If we expand our worldwide manufacturing locations, there can be no assurance that this expansion will occur without implementation difficulties, or at all.

Effective July 21, 2020, the health officers of San Diego County, where our principal executive offices are located, issued an updated shelter-in-place order, ordering, among other things, that all individuals living in the County of San Diego to remain in their homes or at their place of residence for an indefinite period of time (subject to certain exceptions for essential businesses and to facilitate authorized necessary activities and reopened businesses) to mitigate the impact of the COVID-19 pandemic. The order is scheduled to continue until further notice from the health officers of San Diego County. In addition, in mid-March 2020, the Governor of California and the State Public Health Officer and Director of the California Department of Public Health ordered all individuals living in the State of California to stay at their place of residence for an indefinite period of time (subject to certain exceptions to facilitate authorized necessary activities, and subject to certain variances approved by the California Department of Public Health on a county-by-county basis) to mitigate the impact of the COVID-19 pandemic. The executive order exempts certain individuals needed to maintain continuity of operations of critical infrastructure sectors as determined by the federal government. If the operations in our principal executive offices or other facilities are deemed non-essential, we may not be able to operate for the duration of any shelter-in-place order, which could negatively impact our business, operating results and financial condition.

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. As an additional example, on May 26, 2020, Wasa Medical Holdings filed a putative federal securities class action against us, our President, Chief Executive Officer and Chairman of the Board of Directors, Henry Ji, Ph.D., and our SVP of Regulatory Affairs, Mark R. Brunswick, Ph.D., alleging that we, Dr. Ji and Dr. Brunswick made materially false and/or misleading statements to the investing public regarding STI-1499 and its ability to inhibit the SARS-CoV-2 virus infection. A second putative federal securities class action was filed in the U.S. District Court for the Southern District of California against the same defendants alleging the same claims and seeking the same relief. 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. While we intend to pursue any claims made by us, or defend against any claims brought against us, vigorously, we cannot predict the outcomes of such claims. 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 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 July 1, 2019 to June 30, 2020, our closing stock price ranged from $1.45 to $6.76 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
- effects of public health crises, pandemics and epidemics, such as the COVID-19 pandemic; 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.

We have not paid cash dividends in the past and do not expect to pay cash dividends in the foreseeable future. Any return on investment may be limited to the value of our common stock.

We have never paid cash dividends on our common stock and do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of dividends on our capital stock will depend on our earnings, financial condition and other business and economic factors affecting us at such time as the board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if the common stock price appreciates.

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.

None.

Item 6. Exhibits.

EXHIBIT INDEX

Exhibit No.	Description
3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on May 15, 2013).
3.2	Certificate of Amendment of the Restated Certificate of Incorporation of Sorrento Therapeutics, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed with the SEC on August 1, 2013).
3.3	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	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on October 23, 2009).
4.2	Voting Agreement, dated as of April 29, 2016, by and between Sorrento Therapeutics, Inc. and Yuhan Corporation (incorporated by reference to Exhibit 4.12 to the Registrant's Registration Statement on Form S-3 filed with the SEC on June 29, 2016).
4.3	Registration Rights Agreement, dated November 8, 2016, by and among Sorrento Therapeutics, Inc. and the persons party thereto (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on November 8, 2016).
4.4	Warrant Agreement, dated November 23, 2016, issued to Hercules Capital, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on November 29, 2016).
4.5	Registration Rights Agreement, dated April 27, 2017, by and among Sorrento Therapeutics, Inc. and the persons party thereto (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the SEC on April 28, 2017).
4.6	Form of Common Stock Purchase Warrant issued to investors pursuant to the Securities Purchase Agreement, dated as of December 11, 2017, by and among Sorrento Therapeutics, Inc. and the purchasers identified on Schedule A thereto (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed with the SEC on December 21, 2017).
4.7	Registration Rights Agreement, dated December 21, 2017, by and among Sorrento Therapeutics, Inc. and the purchasers identified on Schedule A thereto (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed with the SEC on December 21, 2017).
4.8	Form of Common Stock Purchase Warrant issued to investors pursuant to the Securities Purchase Agreement, dated as of June 13, 2018, by and among Sorrento Therapeutics, Inc. and the purchasers identified on Schedule A thereto (incorporated by reference to Exhibit 4.2 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 9, 2018).
4.9	Registration Rights Agreement, dated June 13, 2018, by and among Sorrento Therapeutics, Inc. and the purchasers identified on Schedule A thereto (incorporated by reference to Exhibit 4.3 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on August 9, 2018).
4.10	Form of Warrant, dated November 7, 2018, issued by Sorrento Therapeutics, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 9, 2018).
4.11	Registration Rights Agreement, dated November 7, 2018, by and among Sorrento Therapeutics, Inc. and the parties identified on Schedule A thereto (incorporated by reference to Exhibit 4.2 to the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 9, 2018).
4.12	Agreement and Consent, dated November 7, 2018, by and among Sorrento Therapeutics, Inc. and the Warrant Holders party thereto (incorporated by reference to Exhibit 10.6 of the Registrant's Quarterly Report on Form 10-Q filed with the SEC on November 9, 2018).

4.13	Exchange and Registration Rights Agreement, dated as of March 18, 2019, by and among Sorrento Therapeutics, Inc. and the stockholders and stock option holders of Semnur Pharmaceuticals, Inc. set forth on Schedule A thereto, (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on March 22, 2019).
4.14	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).
4.15	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).
4.16	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).
4.17	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).
4.18	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).
4.19	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 December 9, 2019).
4.20	Amendment No. 2 to the Registration Rights Agreement, dated as of December 6, 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 December 9, 2019).
10.1	Sales Agreement, dated as of April 27, 2020, by and between Sorrento Therapeutics, Inc. and A.G.P./Alliance Global Partners (incorporated by reference to Exhibit 1.1 to the Registrant's Current Report on Form 8-K filed with the SEC on April 27, 2020).
10.2+	Common Stock Purchase Agreement, dated as of April 27, 2020, by and between Sorrento Therapeutics, Inc. and Arnaki Ltd. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the SEC on April 27, 2020).
10.3#	Outside Director Compensation Policy.
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	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File, formatted in Inline Extensible Business Reporting Language (iXBRL) (embedded within the Inline XBRL document)

+ 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.

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: August 4, 2020

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

Date: August 4, 2020

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

Exhibit 10.3

Sorrento Therapeutics, Inc.
Outside Director Compensation Policy

Late Updated: June 14, 2020

Each non-employee director of Sorrento Therapeutics, Inc. (the "Company") is entitled to receive, in such director's capacity as a non-employee director, a $55,000 annual cash retainer, with the amount being increased to $78,000 for any Lead Director and $100,000 for any Board of Directors (the "Board") chairperson. Further, the chairperson of each of the Audit, Compensation and Transaction Committees of the Board is entitled to receive an additional annual cash retainer of $25,000. Other members of the Audit, Compensation and Transaction Committees of the Board is entitled to receive an additional cash retainer of $10,000. In addition, each non-employee director will be entitled to receive, in such director's capacity as a non-employee director, an annual grant of a stock option to purchase 100,000 (subject to adjustment for stock splits, reverse stock splits, stock dividends and similar transactions), which vests monthly over a period of 12 months from the date of grant, subject to continued service through each vesting date. Additionally, the Company will reimburse each non-employee director for reasonable travel expenses related to such director's attendance at Board and Board committee meetings.

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: August 4, 2020

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

Jiong Shao
Chief Financial Officer
(Principal Financial Officer)

Dated: August 4, 2020

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 June 30, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date:August 4, 2020

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, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

Date:August 4, 2020

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.