PROVENA FOODS INC
Form 8-K
May 10, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) MAY 10, 2006

PROVENA FOODS INC.

(Exact name of registrant as specified in its charter)

California	**1-10741**	**95-2782215**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(IRS employer ID. No.)**

5010 Eucalyptus Avenue, Chino California	**91710**
(Address of principal executive offices)	**(Zip code)**

(909) 627-1082

(Registrant s telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligations of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

SECTION 2 - FINANCIAL INFORMATION

Item 2.02 Results of Operations and Financial Condition

The following is the text of a press release including registrant s results for the 1st quarter of 2006 which registrant intends to have published on May 10, 2006.

FOR IMMEDIATE RELEASE -May 10, 2006 - CHINO, CA

PROVENA FOODS INC. REPORTS FIRST QUARTER RESULTS

CHINO, Calif., Provena Foods Inc. (AMEX: PZA) had net earnings of $148,119 for the 1st quarter of 2006 compared to a net loss of $162,676 a year ago. The Company s sales were up 2% in the 1st quarter compared to the same period of 2005. Both the meat and pasta divisions contributed to the increase in profits and increase in sales.

CONDENSED STATEMENT OF OPERATIONS

(Unaudited)

	Three Months Ended March 31,	
	2006	**2005**
Net Sales	$ 15,449,707	15,144,637
Cost of Sales	14,101,675	14,207,782
Gross profit	1,348,032	936,855
Operating Expenses:		
Distribution	458,439	438,822
General and administrative	643,213	635,016
Operating profit (loss)	246,380	(136,983)
Interest expense, net	(123,317)	(193,147)
Other Income, net	157,134	84,254
Earnings (loss) before income taxes	280,197	(245,876)
Income tax benefit (expense)	(132,078)	83,200
Net earnings (loss)	$ 148,119	(162,676)
Earnings (loss) per share:		
Basic and diluted	$ 0.04	(0.05)
Shares used in computing earnings (loss) per share:		
Basic and diluted	3,468,205	3,345,664

SECTION 9 - FINANCIAL STATEMENTS AND EXHIBITS

Item 9.01 Financial Statements and Exhibits

No financial reports or exhibits are filed with this report.

SIGNATURE

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

Date: May 10, 2006

PROVENA FOODS INC.

By /s/ Thomas J. Mulroney
Thomas J. Mulroney
Vice President and
Chief Financial Officer

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3,052

Patent rights

90

14

76

Total intangible assets

$

4,820

$

908

$

3,912

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

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

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

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

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

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

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

11. Significant Agreements and Contracts

License Agreement with Les Laboratoires Servier

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

License Agreement with Mabtech Limited

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

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

Immunotherapy Research Collaboration Agreement with Roger Williams Medical Center

In exchange, the Company, the Company granted Roger Williams Medical Center $6.0 million in shares of TNK Class A Stock, subject to adjustment in certain circumstances, to be issued upon a financing resulting in gross proceeds (individually or in the aggregate) to TNK of at least $20.0 million. The Company determined the fair value

of this obligation was $3.4 million as of the April of 2016 agreement effective date, and the amount was recognized as Prepaid expense and other and Acquisition consideration payable in the consolidated balance sheet. The Company will recognize the upfront payment over the expected performance period of five years. During the twelve months ended December 31, 2016, the Company recognized approximately $0.5 million in pre-clinical research and development expense pursuant to the agreement.

License Agreement with NantCell

In April 2015, the Company and NantCell entered into a license agreement. Under the terms of the agreement the Company granted an exclusive license to NantCell covering patent rights, know-how, and materials related to certain antibodies, ADCs and two CAR-TNK products. NantCell agreed to pay a royalty not to exceed five percent (5%) to the Company on any net sales of products (as defined) from the assets licensed by the Company to NantCell. In addition to the future royalties payable under this agreement, NantCell paid an upfront payment of $10.0 million to the Company and issued 10 million shares of NantCell common stock to the Company valued at $100.0 million based on a recent equity sale of NantCell common stock to a third party. As of December 31, 2016, the Company had not yet provided all of the items noted in the agreement and therefore has recorded the entire upfront payment and

value of the equity interest received as deferred revenue. The Company will recognize the upfront payment and the value of the equity interest received over the expected license period of approximately ten years on a straight line basis. The Company's ownership interest in NantCell does not provide the Company with control or the ability to exercise significant influence; therefore the $100.0 million investment is carried at cost in the consolidated balance sheets and evaluated for other-than-temporary impairment on a quarterly basis.

License Agreement with The Scripps Research Institute

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

NIH Grants

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

In June 2014, the NIAID awarded the Company a Phase I STTR grant (the "Phase I STTR Grant Award") entitled "Anti-Pseudomonas Immunotherapy and Targeted Drug Delivery." The Phase I STTR Grant Award was to support the preclinical development of novel anti-Pseudomonas aeruginosa mAb immunotherapy or an antibody-mediated targeted antibiotic delivery vehicle. Each modality may be an effective and safe stand-alone therapy and/or a component of a "cocktail" therapeutic option for prevention and treatment of P. aeruginosa infections. The project period for the Phase I STTR Grant Award covered a two-year period which commenced in July 2014, with total funds available of approximately $300 thousand per year for up to 2 years. During the years ended December 31, 2016 and 2015, the Company recorded $256 thousand and $302 thousand of revenue associated with the Phase I STTR Grant Award, respectively.

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

In August 2014, the National Heart, Lung, and Blood Institute (“NHBLI”), a division of the NIH, awarded the Company a Phase I Small Business Innovation Research (“SBIR”) grant entitled “Human Anti-WISP-1 Antibodies for Treatment of Idiopathic Pulmonary Fbrosis” (the “Phase I WISP1 Grant Award”). The Phase I WISP1 Grant Award was to advance the Company’s immunotherapy targeting WNT-1 Inducible Signaling Protein-1(“WISP1”) for the treatment of Idiopathic Pulmonary Fibrosis (“IPF”). WISP1 is a protein that has been shown to be upregulated in IPF, linked to key growth factors, cellular proliferation, hyperplasia and is correlated with late stage cancers. IPF is a fatal disease which results in progressive loss of lung function due to fibrosis of the lungs. The project period for the Phase I WISP1 Grant Award covered a one-year period which commenced in August 2014, with total funds available of approximately $225 thousand. During the years ended December 31, 2016 and 2015, the Company recorded $51 thousand and $156 thousand of revenue associated with the Phase I WISP1 Grant Award, respectively.

Binding Term Sheet Regarding Acquisition of Semnur Pharmaceuticals, Inc.

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

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

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

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

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

Binding Term Sheet Regarding Acquisition of Virttu Biologics Limited

On November 15, 2016, the Company, TNK and Virttu Biologics Limited (“Virttu”) entered into a binding term sheet (the “Virttu Binding Term Sheet”) setting forth the terms and conditions by which TNK will purchase all of the issued and outstanding equity of Virttu (the “Virttu Acquisition”). Subject to certain conditions, at the closing of the Virttu Acquisition (the “Virttu Closing”), the Company will issue to the equityholders of Virttu an aggregate of $5.0 million of shares of the Company’s common stock (the “Closing Shares”). The number of Closing Shares issuable shall be determined based on the closing price of the Company’s common stock on the date of the Virttu Closing. Further, upon the occurrence of the closing of the next third party equity financing of TNK in which TNK receives at least $50.0 million in proceeds (a “Financing”), TNK will issue to the equityholders of Virttu an aggregate of $20.0 million of shares of the same class and series of capital stock of TNK as is issued in such Financing, based upon the valuation of TNK achieved in such Financing (the “TNK Financing Shares”). If a Financing has not occurred within twelve months of the Virttu Closing (the “Financing Due Date”), the equityholders of Virttu will be issued an aggregate of $20.0 million of shares of the Company’s common stock in lieu of the TNK Financing Shares (the “Sorrento Financing

Shares"). The number of Sorrento Financing Shares issuable shall be determined based on the closing price of the Company's common stock on the Financing Due Date. In the event that the TNK Financing Shares are issued, 20% of the TNK Financing Shares will be placed into escrow until the Financing Due Date to secure the indemnification obligations of Virttu and its equityholders for breaches of their representations, warranties or covenants under the definitive agreements governing the Virttu Acquisition. The Closing Shares and the TNK Financing Shares or the Sorrento Financing Shares will be issued to the Virttu equityholders on a pro rata basis based on each such equityholder's equity interest in Virttu as of the Virttu Closing.

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

12. Loan and Security Agreement

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

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

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

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

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

The Loan Agreement contains customary affirmative and restrictive covenants and representations and warranties, including financial reporting obligations and limitations on dividends, indebtedness, liens (including a negative pledge on intellectual property and other assets), collateral, investments, distributions, transfers, mergers or acquisitions, taxes, corporate changes, deposit accounts, and subsidiaries. Additionally, the Loan Agreement contains covenants requiring the Borrowers (i) to achieve certain fundraising requirements by certain dates and (ii) to maintain a minimum amount of unrestricted cash prior to achieving its corporate and fundraising milestones. The breach of such covenants, in addition to certain other covenants, would result in the occurrence of an event of default. The Loan

Agreement also contains other customary provisions, such as expense reimbursement, non-disclosure obligations, as well as indemnification rights for the benefit of the Lenders. Upon the occurrence of an event of default and following any applicable cure periods, if any, a default interest rate of an additional 5.00% may be applied to the outstanding loan balances, and the Lenders may declare all outstanding obligations immediately due and payable and take such other actions as set forth in the Loan Agreement.

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

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

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

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

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

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

13. Stockholders' Equity

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

Stock Incentive Plans

2009 Non-Employee Director Grants

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

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

2009 Stock Incentive Plan

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

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

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

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

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

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

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

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

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

The Company records equity instruments issued to non-employees as expense at their fair value over the related service period as determined in accordance with the authoritative guidance and periodically revalues the equity instruments as they vest. Stock-based compensation expense related to non-employee consultants recorded as operating expenses was $198 thousand, $1,481 thousand, and $678 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

Common Stock Reserved for Future Issuance

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

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

2015 Stock Option Plans

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

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

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

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

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

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

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

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

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

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

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

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

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

2014 Stock Option Plan

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

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

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

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

14. Derivative Liability

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

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

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

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

15. Commitments and Contingencies

Litigation

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

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

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

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

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

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

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

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

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

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

Operating Leases

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

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

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

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

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

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

16. Income Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

17. Related Party Agreements and Other

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

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

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

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

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

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

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

$5.80 per share.

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

18. 401(k) Plan

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

19. Quarterly Financial Data (Unaudited)

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

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

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

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

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

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

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

20. Subsequent Events

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

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