

Sorrento Therapeutics, Inc.  
Form 10-Q  
November 14, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2013

OR

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

For the transition period from            to

Commission file number 001-36150

**SORRENTO THERAPEUTICS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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

**33-0344842**  
(I.R.S. Employer

Identification Number)

**6042 Cornerstone Ct. West,  
Suite B**

**San Diego, California 92121**

(Address of Principal Executive Offices)

**(858) 210-3700**

(Registrant's Telephone Number, Including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

The number of shares of the issuer's common stock, par value \$0.0001 per share, outstanding as of November 8, 2013 was 21,678,353.

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**Sorrento Therapeutics, Inc.**

(a Development Stage Company)

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Consolidated Financial Statements.****SORRENTO THERAPEUTICS, INC.****(A DEVELOPMENT STAGE COMPANY)****CONSOLIDATED BALANCE SHEETS**

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
<b><u>ASSETS</u></b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 6,429,712	\$ 5,091,312
Grants receivable	36,564	79,760
Prepaid expenses and other, net	407,560	80,918
<b>Total current assets</b>	<b>6,873,836</b>	<b>5,251,990</b>
Property and equipment, net	1,661,551	1,480,989
Intangibles, net	28,994,423	
Other, net	452,805	48,625
<b>Total assets</b>	<b>\$ 37,982,615</b>	<b>\$ 6,781,604</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 1,407,516	\$ 439,533
Accrued payroll and related	808,568	77,744
Accrued expenses	102,387	66,896
<b>Total current liabilities</b>	<b>2,318,471</b>	<b>584,173</b>
<b>Long-term debt</b>	<b>4,785,320</b>	
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Preferred stock, \$0.0001 par value; 100,000,000 shares authorized and no shares issued and outstanding		
Common stock, \$0.0001 par value; 750,000,000 shares authorized and 16,479,734 and 12,004,687 shares issued and outstanding at September 30, 2013 and December 31, 2012, respectively	1,648	1,200
Additional paid-in capital	52,442,871	17,146,530
Deficit accumulated during the development stage	(21,565,695)	(10,950,299)
<b>Total stockholders' equity</b>	<b>30,878,824</b>	<b>6,197,431</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 37,982,615</b>	<b>\$ 6,781,604</b>

See accompanying notes



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

	Three Months Ended September 30,		Nine Months Ended September 30,		Period from January 25, 2006 (Inception) through September 30, 2013
	2013	2012	2013	2012	
<b>Revenues:</b>					
Grant	\$ 83,791	\$ 134,506	\$ 359,451	\$ 461,790	\$ 1,931,524
Collaboration and reimbursable research and development costs					223,453
Total revenues	83,791	134,506	359,451	461,790	2,154,977
<b>Expenses:</b>					
Research and development	2,082,252	950,823	5,621,969	2,667,347	13,825,295
Acquired in-process research and development			1,210,000		1,210,000
General and administrative	1,114,621	427,030	3,752,233	890,262	8,323,626
Intangibles amortization	193,755		313,339		313,339
Total expenses	3,390,628	1,377,853	10,897,541	3,557,609	23,672,260
Loss from operations	(3,306,837)	(1,243,347)	(10,538,090)	(3,095,819)	(21,517,283)
Interest expense	(51,285)		(82,975)		(82,975)
Interest income	1,677	2,118	5,669	5,346	34,563
Net loss	\$ (3,356,445)	\$ (1,241,229)	\$ (10,615,396)	\$ (3,090,473)	\$ (21,565,695)
Net loss per share basic and diluted	\$ (0.24)	\$ (0.10)	\$ (0.80)	\$ (0.28)	
Weighted average number of shares during the period basic and diluted	14,135,261	11,963,699	13,303,581	11,210,899	

See accompanying notes

**Table of Contents****SORRENTO THERAPEUTICS, INC.****(A DEVELOPMENT STAGE COMPANY)****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (Unaudited)**

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

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Net loss				(3,236,491)	(3,236,491)
<b>Balance, December 31, 2011</b>	10,493,887	1,049	10,313,431	(6,104,991)	4,209,489
Issuance of common stock in connection with the exercise of stock options	10,800	1	36,091		36,092
Issuance of common stock for cash at \$4.00 per share in May, net of issuance costs of \$65,969	1,500,000	150	5,933,881		5,934,031
Stock-based compensation			863,127		863,127
Net loss				(4,845,308)	(4,845,308)
<b>Balance, December 31, 2012</b>	12,004,687	1,200	17,146,530	(10,950,299)	6,197,431
Issuance of common stock in connection with the exercise of stock options	2,000		7,000		7,000
Issuance of common stock for cash at \$4.50 per share in March, net of issuance costs of \$64,086	1,426,406	143	6,354,266		6,354,409
Issuance of common stock in connection with assignment agreement	10,000	1	39,999		40,000
Issuance of common stock in connection with IgDraSol merger at \$9.25 per share	3,006,641	301	27,811,128		27,811,429
Issuance of common stock in connection with Sherrington acquisition at \$8.25 per share	30,000	3	247,497		247,500
Issuance of common stock warrants in connection with loan and security agreement			214,680		214,680
Stock-based compensation			621,771		621,771
Net loss				(10,615,396)	(10,615,396)
<b>Balance, September 30, 2013</b>	16,479,734	\$ 1,648	\$ 52,442,871	\$ (21,565,695)	\$ 30,878,824

See accompanying notes



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

	<b>Nine Months Ended September 30,</b>		<b>Period from January 25, 2006 (Inception) through September 30, 2013</b>
	<b>2013</b>	<b>2012</b>	
<b>Operating activities</b>			
Net loss	\$ (10,615,396)	\$ (3,090,473)	\$ (21,565,695)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	637,648	209,038	1,116,337
Stock-based compensation	621,771	290,072	2,088,410
Non-cash interest expense	35,324		35,324
Changes in operating assets and liabilities, net of acquisition:			
Grants receivable	43,196	(24,838)	(36,564)
Prepaid expenses and other	(348,421)	(36,947)	(457,815)
Accounts payable	824,878	169,786	1,001,824
Accrued expenses and other liabilities	(477,452)	15,119	(252,773)
<b>Net cash used for operating activities</b>	<b>(9,278,452)</b>	<b>(2,468,243)</b>	<b>(18,070,952)</b>
<b>Investing activities</b>			
Purchases of property and equipment	(359,327)	(491,096)	(2,081,043)
Purchase of intangible assets	(511,065)		(511,065)
Cash acquired in connection with Merger	125,835		230,695
<b>Net cash used for investing activities</b>	<b>(744,557)</b>	<b>(491,096)</b>	<b>(2,361,413)</b>
<b>Financing activities</b>			
Proceeds from issuance of common stock, net of issuance costs	6,354,409	5,934,031	21,805,860
Proceeds from exercise of stock options	7,000	4,200	56,217
Net borrowings under debt agreements	5,000,000		5,000,000
<b>Net cash provided by financing activities</b>	<b>11,361,409</b>	<b>5,938,231</b>	<b>26,862,077</b>
<b>Net change in cash and cash equivalents</b>	<b>1,338,400</b>	<b>2,978,892</b>	<b>6,429,712</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>5,091,312</b>	<b>3,466,549</b>	
<b>Cash and cash equivalents at end of period</b>	<b>\$ 6,429,712</b>	<b>\$ 6,445,441</b>	<b>\$ 6,429,712</b>
<b>Supplemental disclosure:</b>			
Cash paid during the period for:			
Income taxes	\$ 800	\$ 800	\$ 5,600
Interest	\$ 47,650	\$	\$ 47,650
<b>Non-cash investing activities:</b>			

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

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In September 2013, the Company issued 30,000 shares of common stock valued at \$0.2 million to secure rights to acquire Sherrington Pharmaceuticals, Inc., which is recorded in other assets. See Note 7.

In September 2013, the Company issued 3,006,641 shares of common stock valued at \$27.8 million to effect the IgDraSol merger. See Note 3.

See accompanying notes

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**SORRENTO THERAPEUTICS, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2013**

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

***Nature of Operations and Basis of Presentation***

Sorrento Therapeutics, Inc., together with its wholly-owned subsidiaries (collectively, the Company) is a biopharmaceutical company focused on the discovery, acquisition, development and commercialization of proprietary drug therapeutics for addressing significant unmet medical needs in the United States, Europe and additional international markets. The Company's primary therapeutic focus is oncology, including the treatment of chronic cancer pain, but is also developing therapeutic products for other indications, including inflammation, metabolic disorders, and infectious diseases. The Company's pipeline consists of its lead oncology product candidate Cynviloq, a micellar paclitaxel formulation, resiniferatoxin, a non-opiate, ultra potent and selective agonist of the TRPV-1 receptor, as well as fully human therapeutic antibodies derived from our proprietary G-MAB<sup>®</sup> library platform and antibody drug conjugates, or ADCs, antibody formulated drug conjugates, or AfDCs, and recombinant intravenous immunoglobulin, or rIVIG. See Note 7.

Through September 30, 2013, the Company had devoted substantially all of its efforts to product development, acquiring companies and in-licensing assets, raising capital and building infrastructure, and had not realized revenues from its planned principal operations. Accordingly, the Company is considered to be in the development stage.

The accompanying interim consolidated financial statements have been prepared by the Company, without audit, in accordance with the instructions to Form 10-Q and, therefore, do not necessarily include all information and footnotes necessary for a fair statement of its financial position, results of operations and cash flows in accordance with generally accepted accounting principles in the U.S., or GAAP.

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

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

***Reverse Stock Split***

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

***Business Activities***

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

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

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On March 7, 2013, the Company entered into various agreements with IgDraSol, Inc. ( IgDraSol ) a private company focused on the development of Cynviloq, an oncologic agent for the treatment of metastatic breast cancer, or MBC, non-small cell lung cancer, or NSCLC, and other cancers, as follows: (i) an exclusive option agreement, (ii) an asset purchase agreement pursuant to which the Company agreed to purchase all documentation, equipment, information and other know-how related to micellar nanoparticle technology encompassing Tocosol® and related technologies, and (iii) an initial services agreement, pursuant to which, IgDraSol is to provide certain product development and technology services related to the Company's antibody platform. See Note 3.

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***Liquidity***

As reflected in the accompanying consolidated financial statements, the Company has incurred operating losses since its inception in 2006, and as of September 30, 2013, had an accumulated deficit of \$21,565,695. At September 30, 2013, the Company had working capital of \$4,555,365.

The Company anticipates that it will continue to incur net losses into the foreseeable future as it: (i) advances its Cynviloq™ asset into a registration trial (a single bioequivalence study) and pursues other potential indications, (ii) acquires Sherrington Pharmaceuticals, Inc., or Sherrington, and advances its pain drug into clinical trials, (iii) continues to identify and advance a number of fully human therapeutic antibody and ADC preclinical drug candidates, (iv) acquires Concertis Biosystems, Corp., or Concertis, and (v) expands its corporate infrastructure, including the costs associated with being a public company. See Note 7.

In September 2013, the Company entered into a \$5,000,000 loan and security a