

Sorrento Therapeutics, Inc.
Form 10-Q
November 08, 2011
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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, 2011

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 000-52228

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 file 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 October 31, 2011 was 249,809,635.

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SORRENTO THERAPEUTICS, INC.

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SORRENTO THERAPEUTICS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED BALANCE SHEETS

	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 2,270,416	\$ 5,277,578
Grants and other receivables	32,607	246,045
Prepaid expenses and other	41,342	29,811
Total current assets	2,344,365	5,553,434
Property and equipment, net	927,993	95,927
Other	38,247	38,420
Total assets	\$ 3,310,605	\$ 5,687,781
<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 236,929	\$ 181,799
Deferred revenue	0	200,000
Accrued payroll and related	66,496	54,377
Accrued expenses	168,569	167,781
Total current liabilities	471,994	603,957
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$0.0001 par value; 100,000,000 shares authorized and no shares issued or outstanding	0	0
Common stock, \$0.0001 par value; 500,000,000 shares authorized and 249,809,635 and 250,801,270 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	24,981	25,080
Additional paid-in capital	8,156,498	7,927,244
Deficit accumulated during the development stage	(5,342,868)	(2,868,500)
Total stockholders equity	2,838,611	5,083,824
Total liabilities and stockholders equity	\$ 3,310,605	\$ 5,687,781

See accompanying notes to condensed financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Period from January 25, 2006 (Inception) through September 30, 2011
	2011	2010	2011	2010	
Revenues:					
Grant	\$ 91,756	\$ 97,856	\$ 201,277	\$ 154,321	\$ 860,392
Collaboration	0	0	200,000	0	200,000
Reimbursable research and development costs	0	16,475	0	16,475	23,453
Total revenues	91,756	114,331	401,277	170,796	1,083,845
Expenses:					
Research and development	636,453	345,976	1,861,398	975,907	3,663,914
General and administrative	158,969	213,896	1,019,001	818,316	2,783,196
Total expenses	795,422	559,872	2,880,399	1,794,223	6,447,110
Loss from operations	(703,666)	(445,541)	(2,479,122)	(1,623,427)	(5,363,265)
Interest income	1,378	707	4,754	3,117	20,397
Net loss	\$ (702,288)	\$ (444,834)	\$ (2,474,368)	\$ (1,620,310)	\$ (5,342,868)
Net loss per share basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)	
Weighted average number of shares during the period basic and diluted	247,686,428	230,300,500	247,543,945	219,842,311	

See accompanying notes to condensed financial statements.

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

	Nine Months Ended September 30,		Period from January 25, 2006 (Inception) through September 30, 2011
	2011	2010	
Operating activities			
Net loss	\$ (2,474,368)	\$ (1,620,310)	\$ (5,342,868)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	104,022	16,946	130,190
Stock-based compensation and issuance of warrants	221,323	165,180	526,801
Changes in operating assets and liabilities:			
Grants and other receivables	213,438	(35,003)	(32,607)
Prepaid expenses and other	(11,358)	(15,456)	(59,439)
Accounts payable	(70,349)	(144,957)	86,825
Accounts payable-related parties	0	(30,535)	0
Deferred revenue	(200,000)	200,000	0
Accrued expenses and other liabilities	12,907	45,924	235,065
Net cash used for operating activities	(2,204,385)	(1,418,211)	(4,456,033)
Investing activities			
Purchases of property and equipment	(810,609)	(46,034)	(932,704)
Cash acquired in connection with Merger	0	0	104,860
Net cash used for investing activities	(810,609)	(46,034)	(827,844)
Financing activities			
Proceeds from the exercise of stock options	7,875	0	7,875
Proceeds from issuance (repurchase) of common stock, net of issuance costs	(43)	30	7,546,418
Net cash provided by financing activities	7,832	30	7,554,293
Net change in cash and cash equivalents	(3,007,162)	(1,464,215)	2,270,416
Cash and cash equivalents at beginning of period	5,277,578	3,429,906	0
Cash and cash equivalents at end of period	\$ 2,270,416	\$ 1,965,691	\$ 2,270,416
Supplemental disclosure:			
Cash paid during the period for:			
Income taxes	\$ 800	\$ 1,600	\$ 4,000
Non-cash investing activities:			

During the third quarter of 2011, the Company purchased certain equipment with an aggregate cost of \$125,479, which has been included in accounts payable as of September 30, 2011. During the nine months ended September 30, 2010, the Company purchased certain equipment from a company owned by Dr. Henry Ji, the Company's Chief Scientific Officer and interim Chief Executive Officer, and a director and stockholder of

the Company, for \$9,236.

See accompanying notes to condensed financial statements.

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SORRENTO THERAPEUTICS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

(Unaudited)

1. Reverse Merger Transaction and Accounting

Reverse Merger Transaction

On September 21, 2009, QuikByte Software, Inc., a Colorado corporation and shell company, or QuikByte, acquired Sorrento Therapeutics, Inc., a privately held Delaware corporation, or STI, in a reverse merger, or the Merger. Pursuant to the Merger, all of the issued and outstanding shares of STI common stock were converted, at an exchange ratio of 25.48433-for-1, into an aggregate of 169,375,807 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 Merger held an aggregate of 55,708,320 shares of QuikByte's common stock, which consisted of: (i) 11,073,946 shares of common stock outstanding as of September 17, 2009, and (ii) 44,634,374 shares of common stock issued on September 18, 2009 in connection with a \$2.0 million private placement. The accompanying financial statements share and per share information has been retroactively adjusted to reflect the exchange ratio in the Merger.

STI was originally incorporated as San Diego Antibody Company in California in 2006 and was renamed Sorrento Therapeutics, Inc. and reincorporated in Delaware in 2009, prior to the Merger. QuikByte was originally incorporated in Colorado in 1989. Following the Merger, on December 4, 2009, QuikByte reincorporated under the laws of the State of Delaware, or the Reincorporation. Immediately following the Reincorporation, on December 4, 2009, STI merged with and into QuikByte, the separate corporate existence of STI ceased and QuikByte continued as the surviving corporation, or the Roll-Up Merger. Pursuant to the certificate of merger filed in connection with the Roll-Up Merger, QuikByte's name was changed from QuikByte Software, Inc. to Sorrento Therapeutics, Inc., or the Company.

Reverse Merger Accounting

Immediately following the consummation of the Merger, the: (i) former security holders of STI common stock had an approximate 75% voting interest in QuikByte and the QuikByte stockholders retained an approximate 25% voting interest, (ii) former executive management team of STI remained as the primary continuing executive management team for the Company, and (iii) Company's ongoing operations consisted solely of the ongoing operations of STI. Based primarily on these factors, the Merger was accounted for as a reverse merger and a recapitalization in accordance with generally accepted accounting principles in the U.S., or GAAP. As a result, these financial statements reflect the: (i) historical results of STI prior to the Merger, (ii) combined results of the Company following the Merger, and (iii) acquired assets and liabilities at their historical cost, which approximates their fair value at the Merger date. In connection with the Merger, the Company received cash of \$104,860, other current assets of \$20,150 and assumed accounts payable of \$24,624.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

The Company is a biopharmaceutical company leveraging its proprietary human antibody libraries for the discovery and development of human therapeutic antibody products for the treatment of a variety of disease conditions, including cancer, inflammation, metabolic an