

Sorrento Therapeutics, Inc.
Form 10-Q
November 08, 2010
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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, 2010

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, CA 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, 2010 was 225,084,127.

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

| | September 30, 2010 (Unaudited) | December 31, 2009 (Audited) |
|---|--------------------------------------|-----------------------------------|
| <u>ASSETS</u> | | |
| Current assets | | |
| Cash and cash equivalents | \$ 1,965,691 | \$ 3,429,906 |
| Grant receivable | 35,003 | |
| Prepaid expenses and other | 43,319 | 27,863 |
| Total current assets | 2,044,013 | 3,457,769 |
| Property and equipment, net | 102,393 | 73,305 |
| Other assets | 22,727 | 22,727 |
| Total assets | \$ 2,169,133 | \$ 3,553,801 |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | |
| Current liabilities | | |
| Accounts payable | \$ 140,925 | \$ 285,882 |
| Accounts payable-related parties | | 30,535 |
| Accrued payroll and related | 45,763 | 17,982 |
| Deferred revenue | 200,000 | |
| Accrued expenses | 36,814 | 18,671 |
| Total current liabilities | 423,502 | 353,070 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.0001 par value; 100,000,000 shares authorized and no shares issued or outstanding | | |
| Common stock, \$0.0001 par value; 500,000,000 shares authorized and 225,084,127 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively | 22,508 | 22,508 |
| Additional paid-in capital | 4,403,547 | 4,238,367 |
| Stockholder note receivable | | (30) |
| Deficit accumulated during the development stage | (2,680,424) | (1,060,114) |
| Total stockholders' equity | 1,745,631 | 3,200,731 |
| Total liabilities and stockholders' equity | \$ 2,169,133 | \$ 3,553,801 |

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, 2010 |
|---|-------------------------------------|--------------|------------------------------------|--------------|--|
| | 2010 | 2009 | 2010 | 2009 | |
| Revenues: | | | | | |
| Grant | \$ 97,856 | \$ | \$ 154,321 | \$ | \$ 154,321 |
| Reimbursable research and development costs | 16,475 | | 16,475 | | 16,475 |
| Total revenues | 114,331 | | 170,796 | | 170,796 |
| Expenses: | | | | | |
| Research and development | 345,976 | 98,174 | 975,907 | 98,869 | 1,386,078 |
| General and administrative | 213,896 | 140,493 | 818,316 | 165,369 | 1,480,116 |
| Total expenses | 559,872 | 238,667 | 1,794,223 | 264,238 | 2,866,194 |
| Loss from operations | (445,541) | (238,667) | (1,623,427) | (264,238) | (2,695,398) |
| Interest income | 707 | 6,738 | 3,117 | 7,913 | 14,974 |
| Net loss | \$ (444,834) | \$ (231,929) | \$ (1,620,310) | \$ (256,325) | \$ (2,680,424) |
| Net loss per share basic and diluted | \$ (0.00) | \$ (0.00) | \$ (0.01) | \$ (0.00) | |
| Weighted average number of shares during the period basic and diluted | 220,300,500 | 169,646,615 | 219,842,311 | 129,218,788 | |

See accompanying notes to condensed financial statements.

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

| | Nine Months Ended September 30, | | Period from January 25, 2006 (inception) through September 30, 2010 |
|--|------------------------------------|---------------------|--|
| | 2010 | 2009 | |
| Operating activities | | | |
| Net loss | \$ (1,620,310) | \$ (256,325) | \$ (2,680,424) |
| Adjustments to reconcile net loss to net cash used for operating activities: | | | |
| Depreciation and amortization | 16,946 | | 19,701 |
| Stock-based compensation and issuance of warrants | 165,180 | 4,636 | 219,704 |
| Changes in operating assets and liabilities: | | | |
| Grant receivable | (35,003) | | (35,003) |
| Prepaid expenses and other | (15,456) | (66,410) | (45,896) |
| Accounts payable | (144,957) | 128,706 | 116,301 |
| Accounts payable-related parties | (30,535) | (40,683) | |
| Deferred revenue | 200,000 | | 200,000 |
| Accrued expenses and other liabilities | 45,924 | 10,163 | 82,577 |
| Net cash provided by (used for) operating activities | (1,418,211) | (219,913) | (2,123,040) |
| Investing activities | | | |
| Purchases of property and equipment | (46,034) | (34,074) | (122,094) |
| Cash acquired in connection with Merger | | 104,860 | 104,860 |
| Net cash provided by (used for) investing activities | (46,034) | 70,786 | (17,234) |
| Financing activities | | | |
| Proceeds from issuance of common stock, net of issuance costs | 30 | 4,103,905 | 4,105,965 |
| Net cash provided by financing activities | 30 | 4,103,905 | 4,105,965 |
| Net change in cash and cash equivalents | (1,464,215) | 3,954,778 | 1,965,691 |
| Cash and cash equivalents at beginning of period | 3,429,906 | | |
| Cash and cash equivalents at end of period | \$ 1,965,691 | \$ 3,954,778 | \$ 1,965,691 |
| Supplemental disclosures: | | | |
| Cash paid during the period for: | | | |
| Income taxes | \$ 1,600 | \$ | \$ 3,200 |
| Non-cash financing activities: | | | |

In March 2009, Sorrento Therapeutics, Inc., or the Company, issued 764,530 shares of common stock for a \$30 note receivable, which was collected in March 2010. In March, April and June 2010, the Company purchased certain equipment from a company owned by Dr. Henry Ji, the Company's Chief Scientific Officer, and a director and stockholder of the Company for an aggregate of \$9,236, which was paid in full as of

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September 30, 2010.

See accompanying notes to condensed financial statements.

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SORRENTO THERAPEUTICS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

SEPTEMBER 30, 2010

(Unaudited)

Note 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 only continuing executive management team for the Company, and (iii) Company's ongoing operations consist 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 United States, 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.

Note 2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

The Company is a biopharmaceutical company focused on applying and commercializing its proprietary technology platform, extensive libraries of fully human monoclonal antibodies, for the discovery and development of human therapeutic antibodies for the treatment of a variety of