Sorrento Therapeutics, Inc.
Form 10-Q
August 13, 2013
Table of Contents

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 June 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 000-52228

SORRENTO THERAPEUTICS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**33-0344842**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification Number)**

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 x 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 x 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	x

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

The number of shares of the issuer s common stock, par value $0.0001 per share, outstanding as of August 12, 2013 was 16,502,186.

Table of Contents

Sorrento Therapeutics, Inc.

(a Development Stage Company)

Index to Consolidated Financial Statements

PART I. FINANCIAL INFORMATION

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED BALANCE SHEETS

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,754,579	$ 5,091,312
Grants receivable	92,748	79,760
Prepaid expenses and other, net	75,045	80,918
Total current assets	5,922,372	5,251,990
Property and equipment, net	1,449,458	1,480,989
Patent rights, net	88,750	
Other	328,185	48,625
Total assets	$ 7,788,765	$ 6,781,604
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 735,727	$ 439,533
Accrued payroll and related	293,449	77,744
Accrued expenses	162,807	66,896
Current portion of debt	291,962	
Total current liabilities	1,483,945	584,173
Long-term debt	535,266	
Commitments and contingencies		
Stockholders equity:		
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 13,443,020 and 12,004,687 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	1,344	1,200
Additional paid-in capital	23,977,459	17,146,530
Deficit accumulated during the development stage	(18,209,249)	(10,950,299)
Total stockholders equity	5,769,554	6,197,431
Total liabilities and stockholders equity	$ 7,788,765	$ 6,781,604

See accompanying notes

1

Table of Contents

SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Period from January 25, 2006 (Inception) through June 30, 2013
Revenues:					
Grant	$ 141,598	$ 217,135	$ 275,661	$ 327,284	$ 1,847,734
Collaboration and reimbursable research and development costs					223,453
Total revenues	141,598	217,135	275,661	327,284	2,071,187
Expenses:					
Research and development	2,141,039	917,452	3,539,716	1,716,524	11,743,042
Acquired in-process research and development	1,210,000		1,210,000		1,210,000
General and administrative	1,507,516	244,557	2,757,197	463,232	7,328,590
Total expenses	4,858,555	1,162,009	7,506,913	2,179,756	20,281,632
Loss from operations	(4,716,957)	(944,874)	(7,231,252)	(1,852,472)	(18,210,445)
Interest expense	(21,762)		(31,690)		(31,690)
Interest income	2,108	1,756	3,992	3,228	32,886
Net loss	$ (4,736,611)	$ (943,118)	$ (7,258,950)	$ (1,849,244)	$ (18,209,249)
Net loss per share basic and diluted	$ (0.35)	$ (0.08)	$ (0.56)	$ (0.17)	
Weighted average number of shares during the period basic and diluted	13,443,018	11,224,997	12,880,804	10,830,363	

See accompanying notes

2

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
Balance, January 25, 2006 (Inception)		$	$	$	$	$
Issuance of common stock for $400 cash to founders	4,077,493	408	(8)			400
Net loss					(75,801)	(75,801)
Balance, December 31, 2006	4,077,493	408	(8)		(75,801)	(75,401)
Net loss					(16,302)	(16,302)
Balance, December 31, 2007	4,077,493	408	(8)		(92,103)	(91,703)
Net loss					(25,745)	(25,745)
Balance, December 31, 2008	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	102	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)
Balance, December 31, 2009	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)
Balance, December 31, 2010	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

Net loss					(3,236,491)	(3,236,491)
Balance, December 31, 2011	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)
Balance, December 31, 2012	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	1,426,333	143	6,354,266			6,354,409
Issuance of common stock in connection with assignment agreement	10,000	1	39,999			40,000
Stock-based compensation			429,664			429,664
Net loss					(7,258,950)	(7,258,950)
Balance, June 30, 2013	13,443,020	$ 1,344	$ 23,977,459	$	$ (18,209,249)	$ 5,769,554

See accompanying notes

3

Table of Contents

SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Period from January 25, 2006 (Inception) through June 30, 2013
Operating activities			
Net loss	$ (7,258,950)	$ (1,849,244)	$ (18,209,249)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	329,312	131,929	808,001
Stock-based compensation	429,664	203,257	1,896,303
Non-cash interest expense	15,755		15,755
Changes in operating assets and liabilities:			
Grants receivable	(12,988)	(27,351)	(92,748)
Prepaid expenses and other	(396,549)	16,221	(505,942)
Accounts payable	296,194	51,584	473,140
Accrued expenses and other liabilities	300,390	4,754	525,069
Net cash used for operating activities	(6,297,172)	(1,468,850)	(15,089,671)
Investing activities			
Purchases of property and equipment	(178,198)	(310,653)	(1,899,915)
Purchase of intangible assets	(50,000)		(50,000)
Cash acquired in connection with Merger			104,860
Net cash used for investing activities	(228,198)	(310,653)	(1,845,055)
Financing activities			
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 agreement	827,228		827,228
Net cash provided by financing activities	7,188,637	5,938,231	22,689,305
Net change in cash and cash equivalents	663,267	4,158,728	5,754,579
Cash and cash equivalents at beginning of period	5,091,312	3,466,549	
Cash and cash equivalents at end of period	$ 5,754,579	$ 7,625,277	$ 5,754,579
Supplemental disclosure:			
Cash paid during the period for:			
Income taxes	$ 800	$ 800	$ 5,600
Interest	$ 8,782	$	$ 8,782
Non-cash investing activities:			

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.

See accompanying notes

Table of Contents

SORRENTO THERAPEUTICS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2013

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

Nature of Operations and Basis of Presentation

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, but is also developing therapeutic products for other indications, including inflammation, metabolic disorders, and infectious diseases. The Company s proprietary G-MAB® fully-human antibody library platform was designed to facilitate the rapid identification and isolation of highly specific antibody therapeutic product candidates that bind to disease targets appropriate for antibody therapy.

As of June 30, 2013, the Company had devoted substantially all of its efforts to product development, 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 financial statements also include the accounts of the Company s wholly-owned subsidiary, Sorrento Therapeutics, Inc. Hong Kong Limited, or Sorrento Hong Kong, which was registered effective December 4, 2012. Sorrento Hong Kong had no operating activity through June 30, 2013. All inter-company balances and transactions have been eliminated in consolidation.

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 Merger). Pursuant to the 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 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. (the Company). In connection with the 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.

On March 7, 2013, the Company entered into various agreements with IgDraSol, Inc. (IgDraSol) a private company focused on the development of oncologic agents 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 2.

Table of Contents

Liquidity and Going Concern

The accompanying consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will continue to operate as a going concern and which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. As reflected in the accompanying consolidated financial statements, the Company has incurred operating losses since its inception in 2006, and as of June 30, 2013, had an accumulated deficit of $18,209,249. At June 30, 2013, the Company had working capital of $4,438,427.

The Company anticipates that it will continue to incur net losses into the foreseeable future as it: (i) continues to identify and advance a number of potential drug candidates into preclinical development activities, (ii) acquires IgDraSol and continues to fund its operations, and (iii) expands its corporate infrastructure, including the costs associated with being a public company. Without additional funding, management believes that the Company will not have sufficient funds to meet its obligations beyond October 2013. These conditions give rise to substantial doubt as to the Company s ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company plans to continue to fund its losses from operations and capital funding needs through public or private equity or debt financings, strategic collaborations, licensing arrangements, asset sales, government grants or other arrangements. The Company filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission (SEC), which was declared effective by the SEC in July 2013. The Shelf Registration Statement provides the Company the ability to offer up to $100 million of securities, including equity and other securities as described in the registration statement. Pursuant to Shelf Registration Statement, the Company may offer such securities from time to time and through one or more methods of distribution, subject to market conditions and the Company s capital needs. Specific terms and prices will be determined at the time of each offering under a separate prospectus supplement, which will be filed with the SEC at the time of any offering. However, the Company cannot be sure that such additional funds will be available on reasonable terms, or at all. If the Company is unable to secure adequate additional funding, the Company may be forced to make reductions in spending, extend payment terms with suppliers, liquidate assets where possible, and/or suspend or curtail planned programs. In addition, if the Company does not meet its payment obligations to third parties as they come due, it may be subject to litigation claims. Even if the Company is successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. Any of these actions could materially harm the Company s business, results of operations, and future prospects.

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

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Management believes that these estimates are reasonable; however, actual results may differ from these estimates. Such adjustments could include, for example, appropriate estimates for Company bonus plans normally determined or settled at year-end.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. The Company minimizes its credit risk associated with cash and cash equivalents by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. The Company has not experienced any losses on such accounts.

Fair Value of Financial Instruments

The Company s financial instruments consist of cash and cash equivalents, grants receivable, prepaid expenses and other assets, accounts payable and accrued expenses. Fair value estimates of these instruments are made at a specific point in time, based on relevant market information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. As of June 30, 2013 and December 31, 2012, the carrying amount of cash and cash equivalents, grants receivable, prepaid expenses and other assets, accounts payable and accrued liabilities are generally considered to be representative of their respective fair values because of the short-term nature of those instruments.

6

Table of Contents

Grants Receivable

Grants receivable at June 30, 2013 and December 31, 2012 represent amounts due under several federal contracts with the National Institute of Allergy and Infectious Diseases, or NIAID, a division of the National Institutes of Health (NIH), collectively, the NIH Grants. The Company considers the grants receivable to be fully collectible; accordingly, no allowance for doubtful amounts has been established. If amounts become uncollectible, they are charged to operations.

Property and Equipment

Property and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets. Such lives vary from three to five years. Leasehold improvements are amortized over the lesser of the life of the lease or the life of the asset.

Patent Rights

Patent rights are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, determined to be approximately nineteen years from the date of transfer of the rights to the Company in April 2013. The Company had no patent rights as of December 31, 2012. Amortization expense for the three and six months ended June 30, 2013 was $1,250, which has been included in general and administrative expenses.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets with definite lives, such as property and equipment and patent rights, for impairment when events or changes in circumstances indicate the carrying value of the assets may not be recoverable. Recoverability is measured by comparison of the assets book value to future net undiscounted cash flows that the assets are expected to generate. There have not been any impairment losses of long-lived assets through June 30, 2013.

Income Taxes

The provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, Uncertainty in Income Taxes, address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under ASC 740-10, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The Company has determined that it has no uncertain tax positions.