

Sorrento Therapeutics, Inc.  
Form 10-Q  
August 07, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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)

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

9380 Judicial Drive,

San Diego, California 92121

(Address of Principal Executive Offices)

(858) 210-3700

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(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 August 3, 2015 was 37,761,585.

Sorrento Therapeutics, Inc.

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## PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.  
SORRENTO THERAPEUTICS, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except for share amounts)

	June 30, 2015 (Unaudited)	December 31, 2014 (Audited)
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 51,699	\$ 71,902
Grants and accounts receivables, net	898	732
Prepaid expenses and other, net	1,210	1,281
<b>Total current assets</b>	<b>53,807</b>	<b>73,915</b>
Property and equipment, net	2,824	2,277
Intangibles, net	4,135	4,357
Goodwill	12,470	12,470
Investment in common stock	21,500	10,000
Long-term assets held for sale	37,478	38,190
Other, net	602	332
<b>Total assets</b>	<b>\$ 132,816</b>	<b>\$ 141,541</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 2,474	\$ 1,656
Accrued payroll and related	1,418	1,825
Current portion of deferred compensation	947	1,893
Accrued expenses	909	867
Current portion of debt	4,613	3,316
<b>Total current liabilities</b>	<b>10,361</b>	<b>9,557</b>
Long-term debt	6,868	8,830
Deferred compensation	851	796
Deferred tax liabilities	1,633	1,709
Long-term liabilities held for sale	10,714	10,837
Deferred revenue, rent and other	11,135	1,099
<b>Total liabilities</b>	<b>41,562</b>	<b>32,828</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 or outstanding	—	—
Common stock, \$0.0001 par value; 750,000,000 shares authorized and	4	4

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36,392,098 and 36,184,912 shares issued and outstanding at

June 30, 2015 and December 31, 2014, respectively

Additional paid-in capital	180,164	176,227
Accumulated deficit	(88,914 )	(67,518 )
Total stockholders' equity	91,254	108,713
Total liabilities and stockholders' equity	\$ 132,816	\$ 141,541

See accompanying notes

## SORRENTO THERAPEUTICS, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Revenues:</b>				
Grant	\$459	\$84	\$697	\$182
Sales and services	714	691	1,453	1,569
Total revenues	1,173	775	2,150	1,751
<b>Operating costs and expenses:</b>				
Costs of revenues	314	510	823	1,073
Research and development	7,971	5,309	15,811	11,416
Acquired in-process research and development	—	—	—	209
General and administrative	3,072	2,361	5,291	5,746
Intangible amortization	349	586	935	1,172
Total costs and operating expenses	11,706	8,766	22,860	19,616
Loss from operations	(10,533)	(7,991)	(20,710)	(17,865)
Interest expense	(442)	(468)	(881)	(691)
Interest income	—	5	—	9
Loss from operations before income tax	(10,975)	(8,454)	(21,591)	(18,547)
Income tax benefit	(17)	—	(195)	—
Net loss	\$(10,958)	\$(8,454)	\$(21,396)	\$(18,547)
Net loss per share - basic and diluted	\$(0.30)	\$(0.33)	\$(0.59)	\$(0.77)
Weighted average number of shares during the				
period - basic and diluted	36,315	25,341	36,261	24,202

See accompanying notes

SORRENTO THERAPEUTICS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Six Months Ended June 30, 2015

(Unaudited)

(In thousands, except for share amounts)

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	
Balance, December 31, 2014	36,184,912	4	176,227	(67,518 )	108,713
Issuance of common stock with exercise of warrants	3,563	—	—	—	—
Issuance of common stock with exercise of options	203,623	—	1,107	—	1,107
Stock-based compensation	—	—	2,830	—	2,830
Net loss	—	—	—	(21,396 )	(21,396 )
Balance, June 30, 2015	36,392,098	\$ 4	\$ 180,164	\$ (88,914 )	\$91,254

See accompanying notes

## SORRENTO THERAPEUTICS, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30, 2015	2014
Operating activities		
Net loss	\$ (21,396 )	\$ (18,547 )
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	1,427	1,567
Non-cash interest expense	202	208
Stock-based compensation	2,830	2,533
Acquired in-process research and development	—	209
Provision for doubtful accounts	4	9
Deferred tax provision	(199 )	—
Changes in operating assets and liabilities; net of acquisitions:		
Grants and other receivables	(170 )	(191 )
Prepaid expenses and other	(242 )	(369 )
Accounts payable	321	(955 )
Deferred revenue, accrued expenses and other liabilities	9,671	24
Net cash used for operating activities	(7,552 )	(15,512 )
Investing activities		
Purchases of property and equipment	(500 )	(198 )
Investment in common stock	(11,500 )	—
	(12,000 )	(198 )



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Net cash used for investing activities		
Financing activities		
Net borrowings under loan and security agreement	—	7,500
Proceeds from issuance of common stock, net of issuance costs and repurchases	—	26,698
Net principal payments under loan and security agreement	(758 )	—
Net payments of deferred compensation	(1,000 )	—
Proceeds from exercise of stock options	1,107	—
Net cash (used in) provided by financing activities	(651 )	34,198
Net change in cash and cash equivalents	(20,203 )	18,488
Cash and cash equivalents at beginning of period	71,902	31,667
Cash and cash equivalents at end of period	\$ 51,699	\$ 50,155
Supplemental disclosures:		
Cash paid during the period for:		
Income taxes	\$ —	\$ 6
Interest paid	\$ —	\$ 387
Supplemental disclosures of non-cash investing and financing activities:		
Property and equipment costs incurred but not paid	\$ 497	\$ —

See accompanying notes



SORRENTO THERAPEUTICS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015

(In thousands, except for share amounts)

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

Nature of Operations and Basis of Presentation

Sorrento Therapeutics, Inc. (NASDAQ: SRNE), 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 U.S. as well as 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 immunology and infectious diseases. The Company currently has one clinical development program underway: resiniferatoxin, or RTX, a non-opiate, ultra potent and selective agonist of the TRPV-1 receptor for intractable pain in end-stage disease. On July 8, 2015, the Company consummated the previously announced sale to NantPharma, LLC, a related party, of all of the Company’s equity interests in IgDraSol, Inc., a wholly-owned subsidiary of the Company and the holder of the rights to Cynviloq, a polymeric micelle based Cremophor free paclitaxel injectable finished formulation. See Note 9.

The Company’s pipeline also includes preclinical fully human therapeutic monoclonal antibodies (mAbs), including its fully human anti-PD-L1 and anti-PD-1 checkpoint inhibitors derived from its proprietary G-MAB<sup>®</sup> library platform, antibody drug conjugates (ADCs), bispecific antibodies (BsAbs), as well as Chimeric Antigen Receptor Tumor-attacking Neukoplast<sup>®</sup> (CAR.TNK<sup>™</sup>, pronounced “CARTANK”) for adoptive cellular immunotherapies (ACI). The Company’s objective is to develop its antibody drug products and adoptive cellular immunotherapies as: (i) First in Class (FIC), and/or (ii) Best in Class (BIC), which may offer greater efficacy and/or fewer adverse events or side effects as compared to existing drugs, as well as fully human therapeutic antibodies derived from its proprietary G-MAB<sup>®</sup> library platform and antibody drug conjugates, or ADCs.

Through June 30, 2015, 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.

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 United States generally accepted accounting principles (GAAP). The accompanying consolidated financial statements include the accounts of the Company’s wholly-owned subsidiaries; IgDraSol, Inc., or IgDraSol; Concertis Biosystems Corp., or Concertis; Ark Animal Health, Inc., or Ark; TNK Therapeutics, Inc., or TNK; LA Cell, Inc., or LA Cell; Scintilla Pharmaceuticals, Inc., or Scintilla; and Sorrento Therapeutics, Inc. Hong Kong Limited, or Sorrento Hong Kong, which was registered effective December 4, 2012. Sorrento Hong Kong, TNK, LA Cell and Scintilla had no operating activity through June 2015. As of June 30, 2015 assets and liabilities for IgDraSol have been reported as held for sale in the consolidated balance sheets. See Note 9. All intercompany balances and transactions have been eliminated in consolidation.

The balance sheet at December 31, 2014 is derived from the audited consolidated financial statements at that date which are 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, 2014. Operating results for interim periods are not expected to be indicative of operating results for the Company's 2015 fiscal year.

#### Liquidity

The Company anticipates that it will continue to incur net losses into the foreseeable future as it (i) advances RTX into clinical trials and potentially pursues other human indications, (ii) continues to identify a number of potential mAb and ADC drug candidates and further advances various preclinical and development activities, (iii) continues development of, and seeks regulatory approvals for, its product candidates, (iv) expands corporate infrastructure, including the costs associated with being a NASDAQ listed public company, and (v) invests in JV's or other third party collaboration agreements. The Company believes it has the ability to meet all obligations due over the course of the next twelve months.

In March 2015, the Company entered into a binding term sheet with NantCell Inc., or NantCell, a wholly owned subsidiary of NantWorks, LLC, or NantWorks, a private company owned by Dr. Patrick Soon-Shiong who is an affiliate of the Company. Under

the terms of the binding term sheet, the Company would license to NantCell a number of immune-checkpoint antibodies, immune-oncology antibodies, antibody drug conjugates and certain other antibodies against NantWorks' discovered neopeptides from its G-MAB library, as well as a number of CAR-TNK products. The Company and NantCell established a new joint venture called Immunotherapy NANTibody, LLC, or JV, a Delaware limited liability company as a stand-alone biotechnology company with \$100.0 million initial joint funding. NantCell's ownership in the JV is 60% and will contribute \$60.0 million and the Company's ownership is 40% and will contribute \$40.0 million. The JV will focus on accelerating the development of a phase III immune-oncology monoclonal antibody (mAb) and multiple immuno-oncology mAbs for the treatment of cancer, including but not limited to anti-PD-1, anti-PD-L1, anti-CTLA4 mAbs, and other immune-check point antibodies as well as antibody drug conjugates (ADCs) and bispecific antibodies. In July 2015, upon the closing of the sale of IgDraSol, the Company contributed its portion of the initial joint funding of \$40 million to the JV. See Note 9.

In April 2015, the Company and NantCell entered into a binding term sheet for a license agreement with NantCell. 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 million to the Company. As of June 30, 2015, the Company had not yet provided all of the items noted in the agreement and therefore has recorded the upfront payment as deferred revenue. Further, NantCell shall issue to the Company \$100 million of vested equity in NantCell upon a third party equity financing of NantCell. See Note 9.

In April 2015, the Company entered into a common stock purchase agreement with NantBioScience, Inc., or NantBioScience, a wholly owned subsidiary of NantWorks, pursuant to which the Company purchased 1,000,000 shares of NantBioScience common stock for an aggregate purchase price of \$10 million which has been recorded as a cost-method investment in common stock. As part of the agreement, the Company became a party to a right of first refusal, co-sale and drag along agreement with other stockholders of NantBioScience as well as an investor rights agreement with certain stockholders of NantBioScience.

In May 2015, the Company entered into a stock sale and purchase agreement (the "Agreement") with NantPharma, LLC, or NantPharma, a private company owned by Dr. Patrick Soon-Shiong, pursuant to which the Company agreed to sell to NantPharma all of the Company's equity interests in IgDraSol, Inc., a wholly-owned subsidiary of the Company and the holder of the rights to Cynviloq, a polymeric micelle based Cremophor free paclitaxel injectable finished formulation. Pursuant to the Agreement, NantPharma agreed to pay the Company an upfront payment of \$90.05 million, of which \$80 million is obligated to fund the Company's joint ventures. In addition, the Company will be entitled to receive up to \$620 million in regulatory milestone payments and up to \$600 million in sales milestone payments should certain events occur. The Company will also receive specified additional per unit payments in excess of cost of supply from total unit sales. In addition, during the first three years after closing, the Company has the option to co-develop and/or co-market Cynviloq on terms to be negotiated. The Agreement contains customary representations, warranties and covenants of the Company and NantPharma. Consummation of the Sale is subject to various conditions, including, among others, (i) all consents, approvals, assignments, permits and authorizations having been obtained, (ii) no change, effect, event, development, occurrence, condition or states of facts occurring that would be materially adverse to IgDraSol for with respect to Cynviloq, and (iii) all Hart-Scott-Rodino conditions shall have expired or been terminated or been obtained or made.

In June 2015, the National Institutes of Health, or NIH announced that the Clinical Center suspended operations of its Pharmaceutical Development Section after FDA inspections that occurred in May 2015. An FDA inspection report issued on May 29, 2015 noted "deficiencies in the physical facility, including flaws in the air handling system, and operational failures including inadequate quality control, insufficient employee training, and lack of compliance with standard operating procedures". As a result, 46 clinical programs, including the resiniferatoxin (RTX) study in patients with severe pain in advanced cancer, were placed on clinical hold by the FDA. NIH has developed an interim corrective action/preventative action plan which has been submitted to the FDA for its approval. The Company continues to move forward with its own corporate IND for RTX.

On July 8, 2015, the Company consummated the previously announced sale to NantPharma of its equity interests in IgDraSol, Inc., its wholly-owned subsidiary and the holder of the rights to Cynviloq. See Note 9.

On July 9, 2015, the Company announced that it and NantBioScience have jointly committed \$100 million to establish a joint venture called NantCancerStemCell, LLC, or NantStem, to focus on the development of 'first-in-class' small molecules against targets that have eluded the pharmaceutical industry to date and which may address important drivers of cancer growth including cancer stem cells. The Company will contribute key small molecule programs (lead inhibitors of the proto-oncogenes c-Myc, and the master metabolism regulator HIF-1 alpha, and an inducer of the tumor suppressor cytokine TRAIL) to NantStem, which will be 60% owned by NantBioScience and 40% owned by the Company. The Company contributed \$20.0 million of its initial joint funding and will contribute the additional \$20.0 million by September 30, 2015. See Note 9.

The Company plans to continue to fund its operating losses 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. After the May 2014 underwritten offering

the Company has the ability to offer up to \$36.6 million of additional securities. In November 2014, the Company filed a universal shelf registration statement on Form S-3 with the SEC, which was declared effective by the SEC in December 2014. This Shelf Registration Statement provides the Company with the ability to offer up to \$250 million of securities, including equity and other securities as described in the registration statement. Included in the 2014, shelf registration is a sales agreement prospectus covering the offering, issuance and sale by the Company of up to a maximum aggregate offering price of \$50.0 million of the Company's common stock that may be issued and sold under a sales agreement with MLV & Co. LLC. Pursuant to these Shelf Registration Statements, 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.

#### 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 and accounts 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, 2015 and December 31, 2014, the carrying amount of cash and cash equivalents, grants and accounts 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.

#### Grants and Accounts Receivable

Grants receivable at June 30, 2015 and December 31, 2014 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, or

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.

Accounts receivable at June 30, 2015 and December 31, 2014 consists of trade receivables from sales and services provided to certain customers, which are generally unsecured and due within 30 days. Estimated credit losses related to trade accounts receivable are recorded as general and administrative expenses and as an allowance for doubtful accounts within grants and accounts receivable, net. The Company reviews reserves and makes adjustments based on historical experience and known collectability issues and disputes. When internal collection efforts on accounts have been exhausted, the accounts are written off by reducing the allowance for doubtful accounts. As of June 30, 2015 and December 31, 2014, the allowance for doubtful accounts was \$4 and \$33, respectively.

#### Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets, which are generally three to five years. Leasehold



improvements are amortized over the lesser of the life of the lease or the life of the asset. Repairs and maintenance are charged to expense as incurred.

#### Acquisitions and Intangibles

The Company has engaged in business combination activity. The accounting for business combinations requires management to make judgments and estimates of the fair value of assets acquired, including the identification and valuation of intangible assets, as well as liabilities assumed. Such judgments and estimates directly impact the amount of goodwill recognized in connection with each acquisition, as goodwill presents the excess of the purchase price of an acquired business over the fair value of its net tangible and identifiable intangible assets.

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. Amortization expense for the both the three and six months ended June 30, 2015 and 2014 was \$1 and \$2, respectively, which has been included in intangibles amortization.

As of June 30, 2015, license rights are included in long-term assets held for sale and are stated at cost and depreciated on a straight-line basis through the date these assets were determined to be held for sale. Amortization expense for the three months ended June 30, 2015 and 2014 was \$238 and \$475, respectively. Amortization expense for the six months ended June 30, 2015 and 2014 was \$713 and \$950, respectively, which has been included in intangibles amortization.

Acquired technology is 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 acquisition of the technology in December 2013. Amortization expense for both the three and six months ended June 30, 2015 and 2014 was \$44 and \$88, respectively, which has been included in intangibles amortization.

Customer relationships are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, determined to be approximately five years from the date of acquisition in December 2013. Amortization expense for both the three and six months ended June 30, 2015 and 2014 was \$66 and \$132, respectively, which has been included in intangibles amortization.

#### Goodwill and Other Long-Lived Assets

Goodwill, which has an indefinite useful life, represents the excess of cost over fair value of net assets acquired. Goodwill is reviewed for impairment at least annually during the fourth quarter, or more frequently if events occur indicating the potential for impairment. During its goodwill impairment review, the Company may assess qualitative factors to determine whether it is more likely than not that the fair value of its reporting unit is less than its carrying amount, including goodwill. The qualitative factors include, but are not limited to, macroeconomic conditions, industry and market considerations, and the overall financial performance of the Company. If, after assessing the totality of these qualitative factors, the Company determines that it is not more likely than not that the fair value of its reporting unit is less than its carrying amount, then no additional assessment is deemed necessary. Otherwise, the Company proceeds to perform the two-step test for goodwill impairment. The first step involves comparing the estimated fair value of the reporting unit with its carrying value, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the Company performs the second step of the goodwill impairment test to determine the amount of loss, which involves comparing the implied fair value of the goodwill to the carrying value of the goodwill. The Company may also elect to bypass the qualitative assessment in a period and elect to proceed to perform the first step of the goodwill impairment test. The Company performed its annual assessment for goodwill impairment in the fourth quarter of 2014, noting no impairment. There have not been any triggering events through June 30, 2015.

The Company evaluates its long-lived assets with definite lives, such as property and equipment, acquired technology, customer relationships, patent and license rights, for impairment by considering competition by products prescribed for the same indication, the likelihood and estimated future entry of non-generic and generic competition with the same or similar indication and other related factors. The factors that drive the estimate of the life are often uncertain and are reviewed on a periodic basis or when events occur that warrant review. 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, 2015.

#### Cost-Method Investments

The Company's cost-method investments in non-publicly traded companies are included in the consolidated balance sheets and are carried at cost, adjusted for any impairment, because the Company does not have a controlling interest and does not have the ability to exercise significant influence over these companies. The Company monitors these investments for impairment on a quarterly basis, and adjusts carrying value for any impairment charges recognized. Realized gains and losses on these investments are

reported in other income (expense), net in the consolidated statements of operations. There have not been any impairment losses of cost-method investments through June 30, 2015.

#### Revenue Recognition

The Company's grant revenues are generated primarily from various NIH grant awards and from revenues generated from sales and services from the sale of customized reagents and providing contract development services. The revenue from the NIH grant awards is based upon subcontractor and internal costs incurred that are specifically covered by the grant, and where applicable, a facilities and administrative rate that provides funding for overhead expenses. These revenues are recognized when expenses have been incurred by subcontractors or when the Company incurs internal expenses that are related to the grant.

Revenues from sales and services are generated from the sale of customized reagents and providing contract development services. Reagents are used for preparing ADCs, these reagents include industrial standard cytotoxins, linkers, and linker-toxins. The contract development services include providing synthetic expertise to customer's synthesis by delivering them proprietary cytotoxins, linkers and linker-toxins and ADC service using industry standard toxin and antibodies provided by customers. Revenue is recognized when, (i) persuasive evidence of an arrangement exists, (ii) the product has been shipped or the services have been rendered, (iii) the price is fixed or determinable, and (iv) collectability is reasonably assured.

License fees for the licensing of product rights are recorded as deferred revenue upon receipt of cash and recognized as revenue on a straight-line basis over the license period.

The Company is obligated to accept from customers the return of products sold that are damaged or don't meet certain specifications. The Company may authorize the return of products sold in accordance with the terms of its sales contracts, and estimates allowances for such amounts at the time of sale. The Company has not experienced any sales returns.

#### Acquired In-Process Research and Development Expense

The Company has acquired and may continue to acquire the rights to develop and commercialize new drug candidates. The up-front payments to acquire a new drug compound, as well as future milestone payments, are immediately expensed as acquired in-process research and development provided that the drug has not achieved regulatory approval for marketing and, absent obtaining such approval, have no alternative future use.

#### Research and Development Costs and Collaborations

All research and development costs are charged to expense as incurred. Such costs primarily consist of lab supplies, contract services, stock-based compensation expense, salaries and related benefits.

#### 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.

The Company accounts for income taxes using the asset and liability method to compute the differences between the tax basis of assets and liabilities and the related financial amounts, using currently enacted tax rates.

The Company has deferred tax assets, which are subject to periodic recoverability assessments. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that more likely than not will be realized. The Company evaluates the recoverability of the deferred tax assets annually. As of June 30, 2015, the Company maintained a full valuation allowance against its deferred tax assets.

#### Stock-based Compensation

The Company accounts for stock-based compensation in accordance with FASB ASC Topic 718, which establishes accounting for equity instruments exchanged for employee services. Under such provisions, stock-based compensation cost is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense, under the straight-line method, over the employee's requisite service period (generally the vesting period of the equity grant).

The Company accounts for equity instruments, including restricted stock or stock options, issued to non-employees in accordance with authoritative guidance for equity based payments to non-employees. Stock options issued to non-employees are accounted for at their estimated fair value determined using the Black-Scholes option-pricing model. The fair value of options granted to non-employees is re-measured as they vest, and the resulting increase in value, if any, is recognized as expense during the period the related services are rendered. Restricted stock issued to non-employees is accounted for at their estimated fair value as they vest.

#### Net Loss per Share

Net loss per share is presented as both basic and diluted net loss per share. Basic net loss per share excludes any dilutive effects of options, shares subject to repurchase and warrants. Diluted net loss per share includes the impact of potentially dilutive securities. No dilutive effect was calculated for the three and six months ended June 30, 2015 and 2014 as the Company reported a net loss for each respective period and the effect would have been anti-dilutive. The Company had outstanding common share equivalents of 5,017,945 and 1,854,626 at June 30, 2015 and 2014, respectively.

#### Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. The Company is required to record all components of comprehensive loss in the consolidated financial statements in the period in which they are recognized. Net income (loss) and other comprehensive loss, including foreign currency translation adjustments and unrealized gains and losses on investments, are reported, net of their related tax effect, to arrive at comprehensive loss. For the three and six months ended June 30, 2015 and 2014, the comprehensive loss was equal to the net loss.

#### Segment Information

The Company is engaged primarily in the discovery and development of innovative drug therapies focused on oncology and the treatment of chronic cancer pain. Accordingly, the Company has determined that it operates in one operating segment.

#### New Accounting Standards

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-3, “Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-3”). ASU 2015-3 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, rather than separately as an asset. ASU 2015-3 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within those years, and is to be applied retrospectively. Early adoption is permitted. The Company does not expect the adoption of ASU 2015-3 will have an impact on its results of operations or cash flows.

## 2. Cost-Method Investments

As of June 30, 2015 and December 31, 2014, the aggregate carrying amount of the Company's cost-method investments in non-publicly traded companies was \$21.5 million and \$10.0 million, respectively. The Company's cost-method investments are assessed for impairment quarterly. The Company determines that it is not practicable to estimate the fair value of its cost-method investments on a regular basis and does not reassess the fair value of cost-method investments if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investments. No impairment losses were recorded during the three and six months ended June 30, 2015 and 2014. The Company has a \$10.0 million cost-method investment in NantKwest, Inc., or NantKwest, and in July 2015 NantKwest completed its initial public offering ("IPO"). As of the date of the IPO, the Company will no longer account for this investment using the cost method. See Note 9.

### 3. Goodwill and Intangible Assets

As of June 30, 2015 and December 31, 2014, the Company had goodwill of \$12,470. The Company performed a qualitative test for goodwill impairment as of December 31, 2014. Based upon the results of the qualitative testing the Company concluded that it is more-likely-than-not that the fair values of the Company's goodwill were in excess of the carrying values and therefore performing the first step of the two-step impairment test was unnecessary. No goodwill impairment was recognized for the three and six months ended June 30, 2015 and 2014.

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The Company's intangible assets, excluding goodwill, include patent rights, core technologies and customer relationships. Amortization for the intangible assets that have finite useful lives is generally recorded on a straight-line basis over their useful lives. A summary of the Company's identifiable intangible assets is as follows:

	June 30, 2015		
	Gross		
	Carrying Amount	Accumulated Amortization	Intangibles, net
Customer relationships	1,320	405	915
Acquired technology	3,410	269	3,141
Patent rights	90	11	79
<b>Total intangible assets</b>	<b>\$4,820</b>	<b>\$ 685</b>	<b>\$ 4,135</b>

	December 31, 2014		
	Gross		
	Carrying Amount	Accumulated Amortization	Intangibles, net
Customer relationships	1,320	272	1,048
Acquired technology	3,410	182	3,228
Patent rights	90	9	81
<b>Total intangible assets</b>	<b>\$4,820</b>	<b>\$ 463</b>	<b>\$ 4,357</b>

As of June 30, 2015, the remaining amortization period for identifiable intangible assets is 5 to 19 years.

Estimated future amortization expense related to intangible assets at June 30, 2015 is as follows:

Years Ending December 31,	Amount
2015	\$ 222
2016	445
2017	445
2018	436
2019	181
Thereafter	2,406
<b>Total</b>	<b>\$ 4,135</b>

#### 4. Significant Agreements and Contracts

##### License Agreement with The Scripps Research Institute

In January 2010, the Company entered into a license agreement, or the TSRI License, with The Scripps Research Institute, or 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. The warrant was exercised in February 2015. For the three months ended June 30, 2015 and 2014, the Company recorded \$21 and \$49 in patent prosecution and maintenance costs associated with the TSRI License, respectively. For the six months ended June 30, 2015 and 2014, the Company recorded \$46 and \$56 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 2012, the NIAID awarded the Company a third Advanced Technology STTR grant to support the Company's program to generate and develop novel human antibody therapeutics to combat Staph infections, including Methicillin-resistant Staph, or the



Staph Grant II award. The project period for the Phase I grant covers a two-year period which commenced in June 2012, with a total grant award of \$600. During the three months ended June 30, 2015 and 2014, the Company recorded \$0 and \$52 of revenue, respectively, associated with the Staph Grant II award. During the six months ended June 30, 2015 and 2014, the Company recorded \$0 and \$150 of revenue, respectively, associated with the Staph Grant II award.

In June 2014, the NIAID awarded the Company a Phase II STTR grant 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), or the Staph Grant III award. The project period for this Phase II grant covers a two-year period which commenced in June 2014, with total funds available of approximately \$1 million per year for up to 2 years. During the three months ended June 30, 2015 and 2014, the Company recorded \$331 and \$32 of revenue, respectively, associated with the Staph Grant III award. During the six months ended June 30, 2015 and 2014, the Company recorded \$417 and \$32 of revenue, respectively, associated with the Staph Grant III award.

In June 2014, the NIAID awarded the Company a Phase I STTR grant entitled “Anti-Pseudomonas Immunotherapy and Targeted Drug Delivery”. This grant will 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 this Phase I grant covers a two-year period which commenced in July 2014, with total funds available of approximately \$300 per year for up to 2 years. During the three months ended June 30, 2015 and 2014, the Company recorded \$38 and \$0 of revenue, respectively, associated with the Phase I STTR grant award. During the six months ended June 30, 2015 and 2014, the Company recorded \$93 and \$0 of revenue, respectively, associated with the Phase I STTR grant award.

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”. This grant will 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 this Phase I grant covers a one-year period which commenced in August 2014, with total funds available of approximately \$225. During the three months ended June 30, 2015 and 2014, the Company recorded \$56 and \$0 of revenue, respectively, associated with the Phase I Myc grant award.

During the six months ended June 30, 2015 and 2014, the Company recorded \$130 and \$0 of revenue, respectively, associated with the Phase I Myc grant award.

In August 2014, the National Heart, Lung, and Blood Institute (NHBLI), a division of the NIH awarded the Company a Phase I Small Business Technology Transfer (SBIR) grant entitled “Human Anti-WISP-1 Antibodies for Treatment of Idiopathic Pulmonary Fibrosis”. This grant will 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 this Phase I grant covers a one-year period which commenced in August 2014, with total funds available of approximately \$225. During the three months ended June 30, 2015 and 2014, the Company recorded \$21 and \$0 of revenue, respectively, associated with the Phase I WISP1 grant award. During the six months ended June 30, 2015 and 2014, the Company recorded \$31 and \$0 of revenue, respectively, associated with the Phase I WISP1 grant award.

## 5. 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, 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 is 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: (i) interest rate is 7.95% per annum, and (ii) provided the Lenders 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 \$321, was recorded as debt discount and additional paid-in capital.

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At the Company's option, it may prepay all of the outstanding principal balance, subject to certain pre-payment fees ranging from 1% to 3% of the prepayment amount. In the event of a final payment of the loans under the loan agreement, either in the event of repayment of the loan at maturity or upon any prepayment, the Company is obligated to pay the amortized portion of the final fee of \$781.

The Company is also subject to certain affirmative and negative covenants under the loan agreement, including limitations on its ability to: undergo certain change of control events; convey, sell, lease, license, transfer or otherwise dispose of any equipment financed by loans under the loan agreement; create, incur, assume, guarantee or be liable with respect to indebtedness, subject to certain exceptions; grant liens on any equipment financed under the loan agreement; and make or permit any payment on specified subordinated debt. In addition, under the loan agreement, subject to certain exceptions, the Company is required to maintain with the lender its primary operating, other deposit and securities accounts.

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

Face value of amended and restated loan	\$11,741
Fair value of all warrants	(536 )
Accretion of debt discount	276
Balance at June 30, 2015	\$11,481

Future minimum payments under the amended and restated loan and security agreement are as follows:

Year Ending December 31,	
2015	\$2,749
2016	5,497
2017	4,579
Total future minimum payments	12,825
Unamortized interest	(1,084 )
Debt discount	(260 )
Total minimum payment	11,481
Current portion	(4,613 )
Long-term debt	\$6,868

### 6. Stock Incentive Plans

#### 2009 Equity Incentive Plan

In February 2009, the Company's Board of Directors approved the 2009 Equity Incentive Plan, or the EIP, under which 400,000 shares of common stock were reserved for issuance to employees, non-employee directors and consultants of the Company. In March 2009, the Company issued 296,154 restricted common stock awards to certain consultants for aggregate gross proceeds of less than \$1, of which the Company repurchased 44,166 unvested shares of restricted common stock for a nominal amount in January 2011. The restricted shares vest monthly over four years and all remaining shares were fully vested as of June 30, 2015. No further shares are available for grant under the EIP.

#### 2009 Non-Employee Director Grants

In September 2009, prior to the adoption of the 2009 Stock Incentive 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 June 30, 2015, 3,200 options were outstanding.

#### 2009 Stock Incentive Plan

In October 2009, the Company's stockholders approved the 2009 Stock Incentive Plan. In June 2014, the Company's stockholders approved, among other items, the amendment and restatement of the 2009 Stock Incentive Plan, or the Stock Plan, to increase the number of common stock authorized to be issued pursuant to the Stock Plan to 3,760,000. Such shares of the Company's common stock are reserved for issuance to employees, non-employee directors and consultants of the Company. The Stock 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. Employee option

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grants will 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. Unvested shares of the Company's common stock issued in connection with an early exercise however, may be repurchased by the Company upon termination of the optionee's service with the Company.

The following table summarizes stock option activity as of June 30, 2015 and the changes for the period then ended:

	Options Outstanding	Weighted- Average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2014	2,231,800	\$ 6.34	\$ 8,323
Options Granted	1,188,500	\$ 11.56	
Options Canceled	(174,562 )	\$ 7.24	
Options Exercised	(203,623 )	\$ 5.43	
Outstanding at June 30, 2015	3,042,115	\$ 8.36	\$ 28,156

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:

	Six Months Ended June 30,	
	2015	2014
Weighted-average grant date fair value	\$ 11.56	\$ 11.70
Dividend yield	—	—
Volatility	75 %	78 %
Risk-free interest rate	1.65 %	1.94 %
Expected life of options	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 stock-based compensation recorded as operating expenses was \$801 and \$286 for the three months ended June 30, 2015 and 2014, respectively, and \$1,783 and \$2,130 for the six months ended June 30, 2015 and 2014, respectively.

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The total unrecognized compensation cost related to unvested stock option grants as of June 30, 2015 was \$9,666 and the weighted average period over which these grants are expected to vest is 2.8 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 \$593 and \$344 for the three months ended June 30, 2015 and 2014, respectively, and \$1,047 and \$403 for the six months ended June 30, 2015 and 2014, respectively.

### Common Stock Reserved for Future Issuance

Common stock reserved for future issuance consists of the following at June 30, 2015:

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	1,724,138
Common stock options outstanding under the EIP	3,200
Authorized for future grant or issuance under the Stock Plan	427,762
Issuable to former IgDraSol stockholders upon achievement of specified milestones	1,306,272
Issuable under assignment agreement based upon achievement of certain milestones	80,000
	3,789,864

## 7. Income Taxes

The Company maintains deferred tax assets that 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. These deferred tax assets include net operating loss carryforwards, research credits and capitalized research and development. The net deferred tax asset has been fully offset by a valuation allowance because of the Company's history of losses. Utilization of operating losses and credits may be subject to substantial annual limitation due to ownership change provisions of the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of net operating losses and credits before utilization.

## 8. Related Party Agreements

During the three and six months ended June 30, 2015, the Company purchased products totaling \$350 and \$415, respectively, from Levena Biopharma Co., LTD (Levena), a Chinese Corporation. The Company's Senior Vice President and Head of Antibody Drug Conjugates is also one of the owners of Levena.

In December 2014, the Company entered into a securities purchase agreement (the "Purchase Agreement") with 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 7,188,061 shares of the Company's common stock at a price of \$5.80 per share for an aggregate purchase price of \$41,691. In connection with the Purchase Agreement, the Investor received a warrant to purchase 1,724,138 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, and of which Dr. Patrick Soon-Shiong is a majority owner. In addition, the Company purchased approximately 5.6 million shares of NantKwest common stock for \$10 million.

During the six months ended June 30, 2015, the Company has entered into a joint venture called Immunotherapy NANTibody, LLC with NantCell, a wholly-owned subsidiary of NantWorks, a private company owned by Dr. Patrick Soon-Shiong. In July 2015, the Company contributed its portion of the initial joint funding of \$40 million to the Immunotherapy NANTibody joint venture. The Company and NantCell have also entered into a license agreement pursuant to which the Company received a \$10 million upfront license payment.

The Company has also entered into a joint venture called NantCancerStemCell, LLC, with NantBioScience, a wholly-owned subsidiary of NantWorks. In July 2015, the Company contributed \$20 million of the initial joint funding to NantCancerStemCell and will contribute the remaining \$20 million by September 30, 2015. During the six months ended June 30, 2015, the Company purchased 1,000,000 shares of NantBioScience common stock for \$10 million.

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.

## 9. Subsequent Events

On July 8, 2015, the Company consummated the previously announced sale to NantPharma of its equity interests in IgDraSol, Inc., its wholly-owned subsidiary and the holder of the rights to Cynviloq, a polymeric micelle based Cremophor free paclitaxel injectable finished formulation. Pursuant to the Agreement, NantPharma paid the Company an upfront payment of \$90.05 million, of which \$80 million is obligated to fund the Company's joint ventures. In addition, the Company will be entitled to receive up to \$620 million in regulatory milestone payments and up to \$600

million in sales milestone payments should certain events occur. The Company will also receive specified additional per unit payments in excess of cost of supply from total unit sales. In addition, during the first three years after closing, the Company has the option to co-develop and/or co-market Cynviloq on terms to be negotiated. Upon the closing of the agreement in July, the specified development milestone was satisfied and the Company issued 1,306,272 million shares to former IgDraSol shareholders.

In April 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-08 - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which amends the definition of a discontinued operation, and requires additional disclosures about discontinued operations, as well as disposal transactions that do not meet the discontinued operations criteria. Under the new guidance, only disposals of a component representing a strategic shift in operations, that has or will have a major impact on the Company's operations or financial results, should be classified as discontinued operations. The sale of the Company's equity interests in IgDraSol did not represent a strategic shift in the Company's operations, and accordingly, is not being reported as a discontinued operation.

Had the Company consummated this sale as of the beginning of the year, the Company's revenues for the three and six months ended June 30, 2015 would be unchanged, for the three months ended June 30, 2015 research and development expenses would be \$5,604 general and administrative expenses would be \$2,974 and loss from operations before income tax would have been \$8,274. For the six months ended June 30, 2015, research and development expenses would be \$9,810 general and administrative expenses



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would be \$5,104 and loss from operations before income tax would have been \$14,691. Additionally, the balance sheet as of June 30, 2015 would have balances of total assets of \$95,338 and deferred tax liabilities of \$1,676, and current assets and current liabilities would remain unchanged.

On July 8, 2015, the Company contributed its portion of the initial joint funding of \$40 million to the Immunotherapy NANTibody, LLC joint vent