

Sorrento Therapeutics, Inc.
Form 10-Q
November 09, 2018

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 September 30, 2018

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 (I.R.S. Employer
Incorporation or Organization) Identification Number)
4955 Directors Place
San Diego, California 92121
(Address of Principal Executive Offices)
(858) 203-4100
(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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of the issuer's common stock, par value \$0.0001 per share, outstanding as of November 6, 2018 was 122,273,467.

Sorrento Therapeutics, Inc.
 Form 10-Q for the Quarter Ended September 30, 2018
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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements.

SORRENTO THERAPEUTICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except for share amounts)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$135,441	\$20,429
Marketable securities	297	441
Grants and accounts receivables, net	2,278	2,211
Income tax receivable	424	1,715
Prepaid expenses and other	6,805	4,904
Total current assets	145,245	29,700
Property and equipment, net	21,467	19,345
Intangibles, net	69,133	71,013
Goodwill	38,298	38,298
Cost method investments	237,008	237,008
Equity method investments	29,073	32,999
Restricted cash	45,000	—
Other, net	2,740	3,250
Total assets	\$587,964	\$431,613
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$17,203	\$9,911
Accrued payroll and related benefits	8,168	4,485
Accrued expenses	12,938	7,274
Current portion of deferred revenue	632	3,864
Current portion of deferred rent	309	212
Acquisition consideration payable	14,929	53,209
Current portion of debt	28,231	—
Total current liabilities	82,410	78,955
Long-term debt	145,535	5,211
Deferred tax liabilities	12,472	15,535
Deferred revenue	118,127	119,287
Deferred rent and other	5,860	6,015
Total liabilities	364,404	225,003
Commitments and contingencies (See Note 14)		
Equity:		
Sorrento Therapeutics, Inc. equity		
Preferred stock, \$0.0001 par value; 100,000,000 shares authorized and no shares issued or outstanding	—	—
	13	9

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Common stock, \$0.0001 par value; 750,000,000 shares authorized and 118,867,459 and 82,903,567 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively

Additional paid-in capital	588,938	413,901
Accumulated other comprehensive income (loss)	79	242
Accumulated deficit	(317,974)	(165,120)
Treasury stock, 7,568,182 shares at cost at September 30, 2018, and December 31, 2017	(49,464)	(49,464)
Total Sorrento Therapeutics, Inc. stockholders' equity	221,592	199,568
Noncontrolling interests	1,968	7,042
Total equity	223,560	206,610
Total liabilities and stockholders' equity	\$587,964	\$431,613
See accompanying unaudited notes		

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SORRENTO THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Grant	\$294	\$11	\$294	\$206
Royalty and license	120	118,667	360	123,500
Sales and services	3,691	3,232	13,610	7,743
Total revenues	4,105	121,910	14,264	131,449
Operating costs and expenses:				
Costs of revenues	2,177	1,085	4,715	2,965
Research and development	19,567	16,604	52,124	42,667
Acquired in-process research and development	9,478	902	9,478	1,102
General and administrative	20,102	10,214	41,102	31,194
Intangible amortization	655	656	1,974	1,948
Loss (gain) on contingent liabilities and acquisition consideration payable	33	(4,468)	13,696	(8,558)
Total operating costs and expenses	52,012	24,993	123,089	71,318
Income (loss) from operations	(47,907)	96,917	(108,825)	60,131
Income (loss) on trading securities	(26)	231	(144)	(218)
Gain (loss) on foreign currency exchange	18	(215)	(551)	(215)
Interest expense	(2,684)	(1,208)	(48,744)	(4,017)
Interest income	219	(265)	229	192
Income (loss) before income tax	(50,380)	95,460	(158,035)	55,873
Income tax expense (benefit)	(826)	57,480	(3,152)	54,386
Loss on equity method investments	(900)	(36,527)	(3,926)	(38,577)
Net income (loss)	(50,454)	1,453	(158,809)	(37,090)
Net income (loss) attributable to noncontrolling interests	(3,126)	3,514	(5,045)	2,223
Net loss attributable to Sorrento	\$(47,328)	\$(2,061)	\$(153,764)	\$(39,313)
Net loss per share - basic per share attributable to Sorrento	\$(0.40)	\$(0.03)	\$(1.52)	\$(0.59)
Net loss per share - diluted per share attributable to Sorrento	\$(0.40)	\$(0.03)	\$(1.52)	\$(0.59)
Weighted-average shares used during period - basic per share attributable to Sorrento	117,021	76,887	100,959	66,122
Weighted-average shares used during period - diluted per share attributable to Sorrento	117,021	76,888	100,959	66,122

See accompanying unaudited notes

SORRENTO THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income (loss)	\$(50,454)	\$1,453	\$(158,809)	\$(37,090)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(74)	(95)	(163)	241
Total other comprehensive income (loss)	(74)	(95)	(163)	241
Comprehensive income (loss)	(50,528)	1,358	(158,972)	(36,849)
Comprehensive income (loss) attributable to noncontrolling interests	(3,126)	3,514	(5,045)	2,223
Comprehensive loss attributable to Sorrento	\$(47,402)	\$(2,156)	\$(153,927)	\$(39,072)

See accompanying unaudited notes

SORRENTO THERAPEUTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands, except for share amounts)

Nine Months Ended September 30, 2018

	Common Stock		Treasury Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount					
Balance, December 31, 2017	82,903,567	\$ 9	7,568,182	(49,464)	\$ 413,901	\$ 242	\$(165,120)	\$ 7,042	\$ 206,610
Adoption impact of ASC 606	—	—	—	—	—	—	910	—	910
Issuance of common stock upon exercise of stock options	42,565	—	—	—	302	—	—	—	302
Issuance of common stock for BDL settlement	309,916	—	—	—	2,340	—	—	—	2,340
Issuance of common stock for Scilex settlement	1,381,346	—	—	—	13,744	—	—	—	13,744
Issuance of common stock for public placement, net	10,396,489	2	—	—	71,475	—	—	—	71,477
Issuance of common stock for Virtu settlement	1,795,011	—	—	—	11,308	—	—	—	11,308
Issuance of common stock related to conversion of notes payable	22,038,565	2	—	—	49,998	—	—	—	50,000
Beneficial conversion feature recorded on convertible notes	—	—	—	—	12,006	—	—	—	12,006
Warrants issued in connection with convertible notes	—	—	—	—	9,646	—	—	—	9,646
Stock-based compensation	—	—	—	—	4,218	—	—	(29)	4,189
Foreign currency translation	—	—	—	—	—	(163)	—	—	(163)

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adjustment									
Net loss	—	—	—	—	—	—	(153,764)	(5,045)	(158,809)
Balance, September 30, 2018	118,867,459	\$ 13	7,568,182	(49,464)	\$ 588,938	\$ 79	\$(317,974)	\$ 1,968	\$ 223,560

Three Months Ended September 30, 2018

	Common Stock		Treasury Stock		Additional	Other	Accumulated	Noncontrolling	
	Shares	Amount	Shares	Amount	Paid-in	Comprehensive	Deficit	Interest	Total
					Capital	Income			
						(Loss)			
Balance, June 30, 2018	116,240,963	12	7,568,182	(49,464)	574,316	153	(270,646)	5,094	259,465
Issuance of common stock upon exercise of stock options	16,750	—	—	—	141	—	—	—	141
Issuance of common stock for public placement, net	2,609,746	1	—	—	13,204	—	—	—	13,205
Stock-based compensation	—	—	—	—	1,277	—	—	—	1,277
Foreign currency translation adjustment	—	—	—	—	—	(74)	—	—	(74)
Net income (loss)	—	—	—	—	—	—	(47,328)	(3,126)	(50,454)
Balance, September 30, 2018	118,867,459	13	7,568,182	(49,464)	588,938	79	(317,974)	1,968	223,560

Nine Months Ended September 30, 2017

Common Stock Shares	Treasury Stock Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interest
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