Sorrento Therapeutics, Inc.
Form 10-Q
August 12, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from _____ to _____

Commission file number 000-52228

SORRENTO THERAPEUTICS, INC.

(Exact Name of Registrant as Specified in Its Charter)

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, CA 92121

(Address of Principal Executive Offices)

(858) 210-3700

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 ¨ 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 July 31, 2010 was 225,084,127.

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SORRENTO THERAPEUTICS, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

CONDENSED BALANCE SHEETS

	June 30, 2010 (Unaudited)	December 31, 2009 (Audited)
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,178,134	$ 3,429,906
Grant receivable	56,465	
Prepaid expenses and other	5,513	27,863
Total current assets	2,240,112	3,457,769
Property and equipment, net	108,859	73,305
Other assets	22,727	22,727
Total assets	$ 2,371,698	$ 3,553,801
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 137,434	$ 285,882
Accounts payable-related parties	6,870	30,535
Accrued payroll and related	43,151	17,982
Accrued expenses	43,623	18,671
Total current liabilities	231,078	353,070
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.0001 par value; 100,000,000 shares authorized and no shares issued or outstanding		
Common stock, $0.0001 par value; 500,000,000 shares authorized and 225,084,127 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	22,508	22,508
Additional paid-in capital	4,353,702	4,238,367
Stockholder note receivable		(30)
Deficit accumulated during the development stage	(2,235,590)	(1,060,114)
Total stockholders equity	2,140,620	3,200,731
Total liabilities and stockholders equity	$ 2,371,698	$ 3,553,801

See accompanying notes to condensed financial statements.

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SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,		Period from January 25, 2006 (inception) through June 30, 2010
	2010	2009	2010	2009	
Grant revenues	$ 56,465	$	$ 56,465	$	$ 56,465
Expenses:					
Research and development	313,399		629,931		1,040,102
General and administrative	319,558	25,569	604,420	25,569	1,266,220
Total expenses	632,957	25,569	1,234,351	25,569	2,306,322
Loss from operations	(576,492)	(25,569)	(1,177,886)	(25,569)	(2,249,857)
Interest income	907	1,175	2,410	1,175	14,267
Net loss	$ (575,585)	$ (24,394)	$ (1,175,476)	$ (24,394)	$ (2,235,590)
Net loss per share basic and diluted	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.00)	
Weighted average number of shares during the period basic and diluted	219,836,096	116,232,145	219,761,093	109,060,951	

See accompanying notes to condensed financial statements.

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SORRENTO THERAPEUTICS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(A DEVELOPMENT STAGE COMPANY)

(Unaudited)

	Six Months Ended June 30,		Period from January 25, 2006 (inception) through June 30, 2010
	2010	2009	
Operating activities			
Net loss	$ (1,175,476)	$ (24,394)	(2,235,590)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	10,480		13,235
Stock-based compensation and issuance of warrants	115,335		169,859
Changes in operating assets and liabilities:			
Grant receivable	(56,465)		(56,465)
Prepaid expenses and other	22,350	(60,000)	(8,090)
Accounts payable	(148,448)	106,932	112,810
Accounts payable-related parties	(23,665)		6,870
Accrued expenses and other liabilities	50,121	800	86,774
Net cash provided by (used for) operating activities	(1,205,768)	23,338	(1,910,597)
Investing activities			
Purchases of property and equipment	(46,034)		(122,094)
Cash acquired in connection with Merger			104,860
Net cash provided by (used for) investing activities	(46,034)		(17,234)
Financing activities			
Proceeds from issuance of common stock, net of issuance costs	30	2,274,301	4,105,965
Net cash provided by financing activities	30	2,274,301	4,105,965
Net change in cash and cash equivalents	(1,251,772)	2,297,639	2,178,134
Cash and cash equivalents at beginning of period	3,429,906		
Cash and cash equivalents at end of period	$ 2,178,134	$ 2,297,639	$ 2,178,134
Supplemental disclosures:			
Cash paid during the period for:			
Income taxes	$ 1,600	$	$ 3,200
Non-cash financing activities:			

In March 2009, Sorrento Therapeutics, Inc., or the Company, issued 764,530 shares of common stock for a $30 note receivable, which was collected in March 2010. In March, April and June 2010, the Company purchased certain equipment from a company owned by Dr. Henry Ji, the Company s Chief Scientific Officer, and a director and stockholder of the Company for an aggregate of $9,236, of which $6,870 is included in accounts payable-related parties as of June 30, 2010.

See accompanying notes to condensed financial statements.

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SORRENTO THERAPEUTICS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

JUNE 30, 2010

(Unaudited)

Note 1. Reverse Merger Transaction and Accounting

Reverse Merger Transaction

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

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

Reverse Merger Accounting

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

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

Nature of Operations and Basis of Presentation

The Company is a biopharmaceutical company focused on applying and commercializing its proprietary technology platform, an extensive library of full-length, fully human monoclonal antibodies, for the discovery and development of human therapeutic antibodies for the treatment of a variety of disease conditions, including cancer, inflammation, metabolic and infectious diseases. The Company s objective is to either independently or through one or more partnerships with pharmaceutical or biopharmaceutical organizations identify drug development candidates derived from this library.

As of June 30, 2010, the Company has devoted substantially all of its efforts to raising capital, product development and building infrastructure, and has not realized revenues from its planned principal operations. Accordingly, the Company is considered to be in the development stage.

The accompanying interim condensed 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 GAAP. The balance sheet at December 31, 2009 is derived from the audited

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 results of operations, financial position and cash flows. These condensed financial statements should be read in conjunction with the financial statements included in the Company s Annual Report on Form 10-K, as amended, for the fiscal year ended December 31, 2009. Operating results for interim periods are not necessarily indicative of operating results for the Company s 2010 fiscal year.

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SORRENTO THERAPEUTICS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2010

(Unaudited)

Going Concern

The accompanying 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 condensed financial statements, the Company has incurred operating losses since its inception in 2006, and as of June 30, 2010, had an accumulated deficit of $2,235,590. Management expects to incur additional losses as it continues to develop its proprietary technology platform. As of June 30, 2010, the Company had working capital of $2,009,034 and management believes that without additional funding the Company will not have sufficient funds to meet its obligations beyond May 2011. These conditions give rise to substantial doubt as to the Company s ability to continue as a going concern.

Management recognizes that in order to meet the Company s capital requirements, and continue to operate, the Company will need to raise significant additional funds in order to fund ongoing operations and execute the Company s business plan, and management is seeking to raise additional funds through one or more sources, which may include public or private equity or debt financing, strategic collaborations, licensing arrangements, asset sales, government grants or other arrangements. There is no assurance that such additional funds will be available for the Company to finance its operations on acceptable terms, if at all. Furthermore, there is no assurance that the net proceeds received from any successful funding arrangement will be sufficient to cover cash requirements during these initial stages of the Company s operations. If the Company is unable to raise additional capital or generate positive cash flow, it is unlikely that the Company will be able to continue as a going concern. The financial statements do not include any adjustments that may result from the outcome of this uncertainty.

Use of Estimates

In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods presented. Actual results may differ from these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. The Company minimizes its credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits.

Fair Value of Financial Instruments

The carrying amounts of the Company s financial instruments, which include cash and cash equivalents, grant receivable, prepaid expenses, other current assets, accounts payable and accrued expenses, are generally considered to be representative of their respective fair values at June 30, 2010 due to the short-term nature of these financial instruments.

Grant Receivable

Grant receivable at June 30, 2010 represents amounts due under a federal contract with the National Institute of Allergy and Infectious Diseases, or NIAID, a division of the National Institutes of Health, or NIH. The Company considers the grant 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.

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SORRENTO THERAPEUTICS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2010

(Unaudited)

Revenue Recognition

The Company s revenues are generated from an NIH grant. The revenue from such grant is based upon subcontractor costs and internal costs incurred that are specifically covered by the grants, plus 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.

Stock-based Compensation

The Company accounts for stock-based compensation in accordance with the Financial Accounting Standards Board, or the FASB, Accounting Standards Codification 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 remaining period the related services are rendered. Restricted stock issued to non-employees is accounted for at their estimated fair value as they vest.

Loss per Common Share

Basic loss per common share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. Diluted loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding, including the effect of common share equivalents. Potentially dilutive common share equivalents include stock options and warrants. No dilutive effect was calculated for the three or six months ended June 30, 2010 and 2009 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 6,865,411 and zero at June 30, 2010 and 2009, respectively.

Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements, or ASU No. 2010-06. ASU No. 2010-06 requires an entity to disclose separately the amounts of significant transfers in and out of Level 1 and 2 fair value measurements, and describe the reasons for the transfers. Also, it requires additional disclosure regarding purchases, sales, issuances and settlements of Level 3 measurements. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for the additional disclosure of Level 3 measurements, which is effective for fiscal years beginning after December 15, 2010. The adoption of ASU No. 2010-06 did not have a material impact on the Company s results of operations or financial condition for the periods ended June 30, 2010.

Note 3. 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

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SORRENTO THERAPEUTICS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2010

(Unaudited)

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 fair value of the warrants to purchase Company common stock, issued in connection with the TSRI License, of $17,989 was determined using the Black-Scholes valuation model with the following weighted-average assumptions: Risk-free interest rate of 2.48%, no dividend yield, expected term of 10 years, and volatility of 102%. Such fair value has been included in general and administrative expenses for the periods ended June 30, 2010.

NIH Grant

In May 2010, the NIAID, a division of the NIH, awarded the Company an Advanced Technology Small Business Technology Transfer Research grant, or the NIH Grant, to support the Company s program to generate and develop novel antibody therapeutics and vaccines to combat Staph infections, including methicililin-resistant Staph. The project period for the phase I grant, which is renewable annually, covers a two-year period which commenced in June 2010, with an expected annual award of $300,000 per year. The Company records revenue associated with the grant as the related costs and expenses are incurred and such revenue is reported in the statements of operations. During the three and six months ended June 30, 2010, the Company recorded $56,465 of revenue associated with the NIH Grant.

Note 4. Stock-based Compensation Expense

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 10,000,000 shares of common stock were reserved for issuance to employees, non-employee directors and consultants of the Company. The EIP provided for the grant of incentive stock options, non-incentive stock options, restricted stock awards and stock bonus awards to eligible recipients. In March 2009, the Company issued 7,403,861 restricted common stock awards to certain consultants for aggregate gross proceeds of $291. The restricted shares vest monthly over four years and the Company has the option to repurchase any unvested shares at the original purchase price upon any voluntary or involuntary termination of the applicable consultants. Any unvested shares immediately vest in the event of a merger, sale, or other transaction resulting in a change in control of the Company.

At June 30, 2010, 5,090,411 shares were unvested and subject to repurchase by the Company. The Company has the right of first refusal to purchase any proposed disposition of shares issued under the EIP. As a result of the Merger, 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 (discussed below), the Company s Board of Directors approved the reservation and issuance of 200,000 nonstatutory stock options to the Company s non-employee directors. The exercise price and fair market value of the options granted was $0.0448 and $0.2781 per share, respectively. The outstanding options vest on the one year anniversary of the vesting commencement date, provided that each option recipient provides continuous service through the applicable vesting date. Once vested, such options are exercisable on the two year anniversary of the grant date and are generally exercisable for up to 10 years from the grant date.

2009 Stock Incentive Plan

In October 2009, the Company s stockholders approved the 2009 Stock Incentive Plan, or the Stock Plan, which became effective in December 2009 and under which 12,000,000 shares of the Company s common stock are reserved for issuance to employees, non-employee directors and consultants of the Company. In addition, this amount will be automatically increased annually on the first day of each fiscal year, beginning in 2011, by the lesser of: (i) 1% of the aggregate number of shares of the

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SORRENTO THERAPEUTICS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2010

(Unaudited)

Company s common stock outstanding on the last day of the immediately preceding fiscal year, (ii) 1,200,000 shares, or (iii) an amount approved by the administrator of the Stock Plan. 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 grants generally vest 25% on each anniversary of the original vesting date over four years. The vesting schedules for grants to non-employee directors and consultants are determined by the Company s Compensation Committee and generally vest either monthly over 12 months or vest 25% on each anniversary of the original vesting date over four years. 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.

During the six months ended June 30, 2010, the Company s Board of Directors awarded a total 1,455,000 options to certain employees and consultants and 10,425,000 shares were available for grant under the Stock Plan.

The Company uses the Black-Scholes valuation model to calculate the fair value of stock options. Stock based compensation expense is recognized over the vesting period using the straight-line method. The fair value of employee stock options was estimated at the grant date using the following assumptions:

Dividend yield	
Volatility	102%
Risk-free interest rate	2.48% -2.85%
Expected life of options	5.7 years

The weighted average grant date fair value per share of employee stock options granted during the three and six months ended June 30, 2010 was $0.055 and $0.051, respectively. There were no options granted during the six months ended June 30, 2009.

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 United States 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 $21,698, $0 and $32,824 for the six months ended June 30, 2010 and 2009 and for the period from inception (January 25, 2006) through June 30, 2010, respectively.

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 $75,648, $0 and $119,046 for the six months ended June 30, 2010 and 2009 and for the period from inception (January 25, 2006) through June 30, 2010, respectively.

As of June 30, 2010, unrecognized compensation cost related to the options was approximately $77,306, which will be recognized over a weighted-average period of 2.7 years.

Note 5. Related Party Transactions

In March, April and June 2010, the Company purchased certain equipment from a company owned by Dr. Henry Ji, the Company s Chief Scientific Officer, and a director and stockholder of the Company, for an aggregate of $9,236. As of June 30, 2010, $6,870 is included in the accompanying condensed financial statements as accounts payable-related parties.

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SORRENTO THERAPEUTICS, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2010

(Unaudited)

Note 6. 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.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

This Quarterly Report on Form 10-Q contains forward-looking statements as defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, in connection with the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially and adversely from those expressed or implied by such forward-looking statements Such forward-looking statements include statements about our expectations, beliefs or intentions regarding our potential product offerings, business, financial condition, results of operations, strategies or prospects. You can identify forward-looking statements by the fact that these statements do not relate strictly to historical or current matters. Rather, forward-looking statements relate to anticipated or expected events, activities, trends or results as of the date they are made and are often identified by the use of words such as anticipate, believe, continue, could, estimate, expect, intend, may, or will, and similar expressions or variations. Because forward-looking statements relate to matters that have not yet occurred, these statements are inherently subject to risks and uncertainties that could cause our actual results to differ materially from any future results expressed or implied by the forward-looking statements. Many factors could cause our actual activities or results to differ materially from the activities and results anticipated in forward-looking statements. These factors include those described under the caption Risk Factors included elsewhere in this Quarterly Report on Form 10-Q and in our other filings with the Securities and Exchange Commission, or the SEC. Furthermore, such forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Overview

We are a development-stage biopharmaceutical company focused on applying and commercializing our proprietary technology platform, an extensive library of full-length, fully human monoclonal antibodies, for the discovery and development of human therapeutic antibodies for the treatment of a variety of disease conditions, including cancer, inflammation, metabolic and infectious diseases.

In April 2010, we completed the construction of an extensive library of full-length, fully human mAbs. Initial analysis indicates a potential diversity of more than one trillion unique mAbs. We believe this makes our library the largest full-length, fully human antibody library available for drug discovery and development partnerships.

Our proprietary mammalian display system enables the expression and isolation of full-length human antibodies. In contrast, antibody libraries displayed in phage or yeast systems typically generate antibody fragments, which require further configuration into full-length antibodies for therapeutic development. We use fluorescence-activated cell sorting (FACS) to rapidly identify high-affinity antibody candidates from our library for immediate downstream development.

We believe the extensive diversity of our library of complete antibodies increases the likelihood of identifying candidates with optimal biological activity against validated disease targets. Our patented technology for the amplification and enrichment of the immunoglobulin variable domain sequences applies ribonucleic acid (RNA) transcription to ensure high representation of the vast diversity of the immunoglobulin gene repertoire. The library was created using an input of antibody-generating source cells from approximately 600 donors and covers all major classes of immunoglobulins (i.e. IgM, IgG1 - 4, IgA, IgD and IgE).

These libraries have been designed to facilitate the rapid identification and isolation of highly specific, antibody therapeutic product candidates that are fully human and that bind to disease targets appropriate for antibody therapy.

Our objective, either independently or through one or more partnerships with pharmaceutical or biopharmaceutical organizations, is to focus our efforts primarily in the identification and isolation of human antibody drug candidates derived from this library. In the event we are successful in developing and isolating any product candidates, we intend to actively seek partners with experience and expertise in the antibody drug development field in order to engage in any clinical development of these candidates.

The process of developing and commercializing our products requires significant research and development, preclinical testing and clinical trials, manufacturing arrangements as well as regulatory and marketing approvals. These activities, together with our general and administrative expenses, are expected to result in significant operating losses until the commercialization of our products or our partner collaborations generate sufficient revenues to cover our expenses. We expect that losses will fluctuate from quarter to quarter and that such fluctuations may be substantial. Our ability to achieve profitability depends upon our ability to successfully complete the development of our products, obtain required regulatory approvals and successfully manufacture and market our products.

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Critical Accounting Policies and Estimates

Management s discussion and analysis of our financial condition and results of operations are based upon our financial statements which are prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, related disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We continually evaluate our estimates and judgments, the most critical of which are those related to revenue recognition, allowance for doubtful accounts, inventory valuation, income taxes and stock-based compensation. We base our estimates and judgments on historical experience and other factors that we believe to be reasonable under the circumstances. Materially different results can occur as circumstances change and additional information becomes known.

During the three and six months ended June 30, 2010, there were no significant changes to the items that we disclosed as our critical accounting policies and estimates in Note 2 to our financial statements for the year ended December 31, 2009 contained our 2009 Form 10-K, as filed with the SEC.

Results of Operations

The following describes certain line items set forth in our condensed statements of operations.

Three Months Ended June 30, 2010 Compared to the Three Months Ended June 30, 2009

Grant Revenue. During the three months ended June 30, 2010, we recorded grant revenue of $56,465, as compared to $0 grant revenue during the comparable period of 2009. In May 2010, we were awarded the NIH grant to support our program to generate and develop novel antibody therapeutics and vaccines to combat Staph infections. The project period for the grant, which is renewable annually, covers a two year period which commenced in June 2010, with an expected award of $300,000 per year. We had no other revenue during the three months ended June 30, 2010 and 2009 as we have not yet developed any product candidates for commercialization or received any licensing or royalty payments.

Research and Development Expenses. Research and development expenses for the three months ended June 30, 2010 and 2009 were $313,399 and $0, respectively. Research and development expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, laboratory supplies, consulting costs and other expenses. The increase is attributable to salaries and lab supply costs incurred in connection with research and development activities, which commenced in the second half of 2009. We did not have such activities or costs during the three months ended June 30, 2009. We expect research and development expenses to increase in absolute dollars as we incur incremental expenses associated with continuing expansion of our development programs and efforts to identify and isolate human antibody drug candidates derived from our library.

General and Administrative Expenses. General and administrative expenses for the three months ended June 30, 2010 and 2009 were $319,558 and $25,569, respectively. General and administrative expenses consist primarily of salaries and personnel related expenses for executive, finance and administrative personnel, stock-based compensation expense, professional fees, infrastructure expenses, legal and accounting expenses and other general corporate expenses. The increase is primarily attributable to costs associated with scaling operations, building infrastructure to commence operations and complying with our public reporting obligations, substantially all of which commenced in the second half of 2009. The costs incurred during the three months ended June 30, 2009 are primarily related to legal fees incurred in connection with fundraising efforts and general legal matters. We expect general and administrative expenses to increase in absolute dollars as we incur incremental expenses associated with ongoing operations and compliance with our public reporting obligations.

Net Loss. Net loss for the three months ended June 30, 2010 and 2009 was $575,585 and $24,394, respectively. The increase in net loss is mainly attributable to commencement of operations in the second half of 2009.

Six Months Ended June 30, 2010 Compared to the Six Months Ended June 30, 2009

Grant Revenue. During the six months ended June 30, 2010, we recorded grant revenue of $56,465, as compared to $0 grant revenue during the comparable period of 2009. In May 2010, we were awarded the NIH grant to support our program to generate and develop novel antibody therapeutics and vaccines to combat Staph infections. The project period for the grant, which is renewable annually, covers a two year period which commenced in June 2010, with an expected award of $300,000 per year. We had no other revenue during the six months ended June 30, 2010 and 2009 as we have not yet developed any product candidates for commercialization or received any licensing or royalty payments.

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Research and Development Expenses. Research and development expenses for the six months ended June 30, 2010 and 2009 were $629,931 and $0, respectively. Research and development expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, laboratory supplies, consulting costs and other expenses. The increase is attributable to salaries and lab supply costs incurred in connection with research and development activities, which commenced in the second half of 2009. We did not have such activities or costs during the six months ended June 30, 2009. We expect research and development expenses to increase in absolute dollars as we incur incremental expenses associated with continuing expansion of our development programs and efforts to identify and isolate human antibody drug candidates derived from our library.

General and Administrative Expenses. General and administrative expenses for the six months ended June 30, 2010 and 2009 were $604,420 and $25,569, respectively. General and administrative expenses consist primarily of salaries and personnel related expenses for executive, finance and administrative personnel, stock-based compensation expense, professional fees, infrastructure expenses, legal and accounting expenses and other general corporate expenses. The increase is primarily attributable to costs associated with scaling operations, building infrastructure to commence operations and complying with our public reporting obligations, substantially all of which commenced in the second half of 2009. The costs incurred during the six months ended June 30, 2009 are primarily related to legal fees incurred in connection with fundraising efforts and general legal matters. We expect general and administrative expenses to increase in absolute dollars as we incur incremental expenses associated with ongoing operations and compliance with our public reporting obligations.

Net Loss. Net loss for the six months ended June 30, 2010 and 2009 was $1,175,476 and $24,394, respectively. The increase in net loss is mainly attributable to commencement of operations in the second half of 2009.

Liquidity and Capital Resources

As of June 30, 2010, we had approximately $2.2 million in cash and cash equivalents, attributable primarily to the closing of two private placements of our common stock for aggregate gross proceeds of $4.3 million in 2009.

Cash Flows from Operating Activities. Net cash used for operating activities was $1,205,768 for the six months ended June 30, 2010 as compared to $23,338 of net cash provided by operations for the six months ended June 30, 2009. Net cash used in operating activities primarily reflects a net loss of $1,175,476, a net decrease in other working capital balances of $156,107, and $125,815 in non-cash activities relating primarily to stock-based compensation expense.

We expect to continue to incur substantial and increasing losses and have negative net cash flows from operating activities as we seek to expand and support our technology portfolio and research and development activities.

Cash Flows from Investing Activities. Net cash used for investing activities was $46,034 for the six months ended June 30, 2010 as compared to $0 for the six months ended June 30, 2009. The net cash used related primarily to equipment acquired for research and development activities.

Cash Flows from Financing Activities. Cash provided by financing activities for the six months ended June 30, 2010 and 2009 was $30 and $2,274,301, respectively. Cash provided by financing activities for the six months ended June 30, 2009 related to the closing of a private placement in June 2009.

Future Liquidity Needs. From inception through June 30, 2010, we have financed our operations through private equity financing, as we have not generated significant revenue from operations to date, and do not expect to generate significant revenue for several years, if ever. We will need to raise additional capital before we exhaust our current cash resources in order to continue to fund our research and development, including our long-term plans for pre-clinical trials and new product development, as well as to fund operations generally. We are seeking to raise funds through various potential sources, such as equity and debt financings, or through corporate collaboration and license agreements, or through government grants. We can give no assurances that we will be able to secure such financing to support our operations, or, if such financing is available to us, that such additional financing will be sufficient to meet our needs.

Based on our resources at June 30, 2010, and our current plan of expenditure on research and development programs, we believe that we have capital to fund our operations through May 2011. Our actual cash requirements may vary materially from those now planned, however, because of a number of factors, including the pursuit of development of product candidates, competitive and technical advances, costs of commercializing any potential product candidates, and costs of filing, prosecuting, defending and enforcing any patent claims and any other intellectual property rights. If we are unable to raise additional funds when needed, we may not be able to develop any product candidates, we could be required to delay, scale back or eliminate some or all of our research and development programs and we may need to wind down our operations altogether. Each of these alternatives would have a material adverse effect on our business.

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To the extent that we raise additional funds by issuing equity or debt securities, our stockholders may experience additional significant dilution and such financing may involve restrictive covenants. To the extent that we raise additional funds through collaboration and licensing arrangements, it may be necessary to relinquish some rights to our technologies or our product candidates, or grant licenses on terms that may not be favorable to us. These things may have a material adverse effect on our business.

Additionally, recent global market and economic conditions have been unprecedented and challenging with tighter credit conditions and recession in most major economies. As a result of these market conditions, the cost and availability of credit has been and may continue to be adversely affected by illiquid credit markets and wider credit spreads. Concern about the stability of the markets generally and the strength of counterparties specifically has led many lenders and institutional investors to reduce, and in some cases, cease to provide credit to businesses and consumers. These factors have lead to a decrease in spending by businesses and consumers alike, and a corresponding decrease in global infrastructure spending. Continued turbulence in the U.S. and international markets and economies and prolonged declines in business and consumer spending may adversely affect our liquidity and financial condition, including our ability to access the capital markets to meet liquidity needs.

Off-Balance Sheet Arrangements

Since our inception through June 30, 2010, we have not engaged in any off-balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

New Accounting Pronouncements

See the condensed financial statements note 2 Nature of Operations and Summary of Significant Accounting Policies Recent Accounting Pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company, as defined by Section 10(f)(1) of Regulation S-K, we are not required to provide the information set forth in this Item.

Item 4. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s regulations, rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure.

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. As required by Rule 13a-15(b) promulgated by the SEC under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on the foregoing, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended June 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

To the best of our knowledge, we are not a party to any legal proceedings that, individually or in the aggregate, are deemed to be material to our financial condition or results of operations.

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Item 1A. Risk Factors.

An investment in our company involves a significant level of risk. Before you decide to invest or maintain an interest in our common stock, you should consider carefully the risks described below, together with all of the other information in this Quarterly Report on Form 10-Q. We believe the risks described below are the risks that are material to us as of the date this Quarterly Report on Form 10-Q is initially filed with the SEC. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business. If any of the following risks actually occur, our business, financial condition, results of operations and growth prospects would likely be materially adversely affected. In these circumstances, the trading price of our common stock could decline, and you could lose all or part of your investment.

We have marked with an asterisk (*) those risk factors below that include a substantive change from the risk factors included in our Annual Report on Form 10-K filed with the SEC on March 25, 2010.

Risks Related to Our Business

****We are a development-stage company subject to all of the risks and uncertainties of a new business, including the risk that we or our partners may never develop or market any products or generate revenues. We are currently unprofitable and cannot assure you that we will ever become or remain profitable.***

We are a recently formed development-stage biopharmaceutical company that has only recently begun operations and commenced research and development activity. There is no assurance that our recently completed library of full-length, fully human mAbs will be suitable for research, diagnostic or therapeutic use, or that we will be able to identify and isolate therapeutics product candidates, or develop, market and commercialize these candidates. We do not expect any of our product candidates to be commercially available for a number of years, if at all. Even if we are able to commercialize our product candidates, there is no assurance that these candidates would generate revenues or that any revenues generated would be sufficient for us to become profitable or thereafter maintain profitability. We have not generated any revenues to date, and we do not expect to generate any such revenues for a number of years. Additionally, we have incurred operating losses since our inception and we expect to continue to incur significant operating losses for the foreseeable future. We also expect to continue to incur significant operating expenditures in the foreseeable future as we expand our research and development activities and seek to develop our technologies and product candidates. In the event that our operating losses are greater than anticipated or continue for longer than anticipated, we will need to raise significant additional capital sooner, or in greater amounts, than otherwise anticipated in order to be able to continue development of our technologies and maintain our operations.

****We will require additional financing, and an inability to raise the necessary capital or to do so on acceptable terms would threaten our business.***

We believe that our current cash balances and cash equivalents will meet our operating and capital requirements, as currently being conducted, into May 2011, and will provide us the financial resources to continue to develop our antibody libraries during this period. However, because of the uncertainties in our business, including the uncertainties discussed in this Risk Factors section, we cannot assure you that this will be the case. Our future capital requirements will depend on many factors, including:

- the progress of the development of our core technology and any product candidates;
- the number of product candidates we pursue;
- the time and costs involved in obtaining regulatory approvals;
- the costs involved in filing and prosecuting patent applications and enforcing or defending patent claims;
- our plans to establish sales, marketing and/or manufacturing capabilities;

our ability to establish, enforce and maintain selected strategic alliances and activities required for product commercialization; and

our revenues, if any, from successful development and commercialization of any product candidates.

In order to carry out our business plan and implement our strategy, including the continued development of antibody libraries, we anticipate that we will need to obtain additional financing in the near future and may choose to raise additional funds through strategic collaborations, licensing arrangements, public or private equity or debt financing, asset sales, government grants, or other arrangements. We cannot be sure that any additional funding, if needed, will be available on terms favorable to us or at all. Furthermore, any additional equity or equity-related financing may be dilutive to our stockholders, and debt or equity financing, if available, may subject us to restrictive covenants and significant interest costs. If we obtain funding through a strategic collaboration or licensing arrangement, we may be required to relinquish our rights to certain of our technologies, products or marketing territories.

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Certain investors, including institutional investors, may be unwilling to invest in our securities since we are traded on the Over-the-Counter Bulletin Board, or the OTCBB, and not on a national securities exchange. Our inability to raise capital when needed would harm our business, financial condition and results of operations, and could cause our stock price to decline or wind down our operations altogether.

We have a limited operating history upon which to base an investment decision and we may be unable to successfully develop our technology on any product candidates.

We are a development-stage company and have not demonstrated our ability to perform the functions necessary for the successful development or commercialization of the technology we are seeking to develop. The successful development, and any commercialization, of our technology and any product candidates would require us to successfully perform a variety of functions, including:

- developing our technology platform;
- identifying, developing, manufacturing and commercializing product candidates;
- entering into successful licensing and other arrangements with product development partners;
- participating in regulatory approval processes;
- formulating and manufacturing products; and
- conducting sales and marketing activities.

Our operations have been limited to organizing our company and acquiring, developing and securing our proprietary technology. These operations provide a limited basis for you to assess our ability to continue to develop our technology, identify product candidates, develop and commercialize any product candidates we are able to identify and enter into successful collaborative arrangements with other companies, as well as for you to assess the advisability of investing in our securities. Each of these requirements will require substantial time, effort and financial resources.

Our antibody libraries and potential product candidates are in early stages of development.

The U.S. Food and Drug Administration, or the FDA, regulates, among other things, the development, testing, manufacture, safety, efficacy, record-keeping, labeling, storage, approval, advertising, promotion, sale and distribution of biopharmaceutical products. We are in the early stages of developing our antibody libraries and any potential product candidates that we develop will require extensive pre-clinical and clinical testing before they will be approved by the FDA or another regulatory authority in a jurisdiction outside the U.S. We have not yet developed any product candidate; if we were to do so there are a number of requirements that we would be required to satisfy in order to begin conducting pre-clinical trials and there can be no assurance that we will develop product candidates or complete the steps necessary to allow us to commence these trials. Even if we were to conduct pre-clinical trials, we cannot predict with any certainty the results of such testing or whether such trials would yield sufficient data to permit us, or those with whom we collaborate, to proceed with clinical development and ultimately submit an application for regulatory approval of our product candidates in the U.S. or abroad, or whether such applications would be approved by the appropriate regulatory agency.

Our product development efforts may not be successful.

Our product development efforts are designed to focus on novel therapeutic approaches and technologies that have not been widely studied. We are applying these approaches and technologies in our attempt to discover new treatments for conditions that are also the subject of research and development efforts of many other companies. These approaches and technologies may never be successful.

Our failure to find third party collaborators to assist or share in the costs of product development could materially harm our business, financial condition and results of operations.

Our strategy for the development and commercialization of our proprietary product candidates may include the formation of collaborative arrangements with third parties. Potential third parties include biopharmaceutical, pharmaceutical and biotechnology companies, academic institutions and other entities. Third-party collaborators may assist us in:

funding research, preclinical development, clinical trials and manufacturing;

seeking and obtaining regulatory approvals; and

successfully commercializing any future product candidates.

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If we are not able to establish further collaboration agreements, we may be required to undertake product development and commercialization at our own expense. Such an undertaking may limit the number of product candidates that we will be able to develop, significantly increase our capital requirements and place additional strain on our internal resources. Our failure to enter into additional collaborations could materially harm our business, financial condition and results of operations.

In addition, our dependence on licensing, collaboration and other agreements with third parties may subject us to a number of risks. These agreements may not be on terms that prove favorable to us and may require us to relinquish certain rights in our technologies and product candidates. To the extent we agree to work exclusively with one collaborator in a given area, our opportunities to collaborate with other entities could be curtailed. Lengthy negotiations with potential new collaborators may lead to delays in the research, development or commercialization of product candidates. The decision by our collaborators to pursue alternative technologies or the failure of our collaborators to develop or commercialize successfully any product candidate to which they have obtained rights from us could materially harm our business, financial condition and results of operations.

We expect to rely on third parties to gain access to antigens.

We expect to gain access to antigens through contractual arrangements with leading academic researchers and companies involved in the identification and development of antigens or from publicly available sources. In the event we are unable to access antigens in sufficient quantities, or at all, we will be unable to execute our business plan. In addition, we may be unable to purchase or secure access to antigens at a cost favorable to us, which may have an adverse impact on our business and financial condition.

We expect to rely on third parties to conduct any clinical trials for our product candidates, and if they do not properly and successfully perform their legal and regulatory obligations, as well as their contractual obligations to us, we may not be able to obtain regulatory approvals for any product candidates we develop.

In the event we develop product candidates, we expect to rely on contract research organizations and other third parties to assist us in managing, monitoring and otherwise carrying out these trials, including with respect to site selection, contract negotiation and data management. Because we would not control these third parties, they may not treat our clinical studies as their highest priority, or in the manner in which we would prefer, which could result in delays. Moreover, if third parties did not successfully carry out their duties under their agreements with us, if the quality or accuracy of the data they obtain is compromised due to failure to adhere to our clinical protocols or regulatory requirements, or if they otherwise failed to comply with clinical trial protocols or meet expected deadlines, the clinical trials conducted on our behalf may not meet regulatory requirements. If our clinical trials do not meet regulatory requirements or if these third parties need to be replaced, our clinical trials may be extended, delayed, suspended or terminated, and we may not be able to obtain regulatory approval of some or all of the product candidates we may develop.

****If we cannot compete successfully against other biopharmaceutical companies, we may not be successful in developing and commercializing our technology and our business will suffer.***

The biopharmaceutical space is characterized by intense competition and rapid technological advances. Even if we are able to develop our proprietary platform technology and additional antibody libraries, each will compete with a number of existing and future technologies and product candidates developed, manufactured and marketed by others. Specifically, we will compete against fully integrated pharmaceutical companies and smaller companies that are collaborating with larger pharmaceutical companies, academic institutions, government agencies and other public and private research organizations. Many of these competitors have technologies already FDA-approved or in development. In addition, many of these competitors, either alone or together with their collaborative partners, operate larger research and development programs and have substantially greater financial resources than we do, as well as significantly greater experience in:

- developing product candidates and technologies generally;
- undertaking pre-clinical testing and clinical trials;
- obtaining FDA and other regulatory approvals of product candidates;

formulating and manufacturing product candidates; and

launching, marketing and selling product candidates.

If our technology fails to compete effectively against third party technologies, our business will be adversely impacted.

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Because our development activities are expected to rely heavily on sensitive and personal information, an area which is highly regulated by privacy laws, we may not be able to generate, maintain or access essential patient samples or data to continue our research and development efforts in the future on reasonable terms and conditions, which may adversely affect our business.

We may have access to very sensitive data regarding patients whose tissue samples are used in our studies. This data will contain information that is personal in nature. The maintenance of this data is subject to certain privacy-related laws, which impose upon us administrative and financial burdens, and litigation risks. For instance, the rules promulgated by the Department of Health and Human Services under the Health Insurance Portability and Accountability Act, or HIPAA, create national standards to protect patients medical records and other personal information in the United States. These rules require that healthcare providers and other covered entities obtain written authorizations from patients prior to disclosing protected health care information of the patient to companies. If the patient fails to execute an authorization or the authorization fails to contain all required provisions, then we will not be allowed access to the patient s information and our research efforts can be substantially delayed. Furthermore, use of protected health information that is provided to us pursuant to a valid patient authorization is subject to the limits set forth in the authorization (i.e., for use in research and in submissions to regulatory authorities for product approvals). As such, we are required to implement policies, procedures and reasonable and appropriate security measures to protect individually identifiable health information we receive from covered entities, and to ensure such information is used only as authorized by the patient. Any violations of these rules by us could subject us to civil and criminal penalties and adverse publicity, and could harm our ability to initiate and complete clinical studies required to support regulatory applications for our proposed products. In addition, HIPAA does not replace federal, state, or other laws that may grant individuals even greater privacy protections. We can provide no assurance that future legislation will not prevent us from generating or maintaining personal data or that patients will consent to the use of their personal information, either of which may prevent us from undertaking or publishing essential research. These burdens or risks may prove too great for us to reasonably bear, and may adversely affect our ability to achieve profitability or maintain profitably in the future.

We may be exposed to liability claims associated with the use of hazardous materials and chemicals.

Our research and development activities may involve the controlled use of hazardous materials and chemicals. Although we believe that our safety procedures for using, storing, handling and disposing of these materials comply with federal, state and local laws and regulations, we cannot completely eliminate the risk of accidental injury or contamination from these materials. In the event of such an accident, we could be held liable for any resulting damages and any liability could materially adversely affect our business, financial condition and results of operations. In addition, the federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of hazardous or radioactive materials and waste products may require us to incur substantial compliance costs that could materially harm our business.

If we are unable to retain and recruit qualified scientists and advisors, or if any of our key executives, key employees or key consultants discontinues his or her employment or consulting relationship with us, it may delay our development efforts or otherwise harm our business.

We are highly dependent on the key members of our management and scientific staff, especially our Chief Executive Officer and President, Antonius Schuh, Ph.D., and our Chief Scientific Officer, Henry Ji, Ph.D. The loss of any of our key employees or key consultants could impede the achievement of our research and development objectives. Furthermore, recruiting and retaining qualified scientific personnel to perform research and development work in the future is critical to our success. We may be unable to attract and retain personnel on acceptable terms given the competition among biotechnology, biopharmaceutical and health care companies, universities and non-profit research institutions for experienced scientists. Certain of our current officers, directors, scientific advisors and/or consultants or certain of the officers, directors, scientific advisors and/or consultants hereafter appointed may from time to time serve as officers, directors, scientific advisors and/or consultants of other biopharmaceutical or biotechnology companies. We do not maintain key man insurance policies on any of our officers or employees. All of our employees are employed at will and, therefore, each employee may leave our employment at anytime.

We plan to grant stock options or other forms of equity awards in the future as a method of attracting and retaining employees, motivating performance and aligning the interests of employees with those of our stockholders. If we are unable to implement and maintain equity compensation arrangements that provide sufficient incentives, we may be unable to retain our existing employees and attract additional qualified candidates. If we are unable to retain our existing employees, including qualified scientific personnel, and attract additional qualified candidates, our business and results of operations could be adversely affected.

We will need to increase the size of our company and may not effectively manage our growth.

Our success will depend upon growing our business and our employee base. Over the next 12 months, we plan to add additional employees to assist us with research and development. Our future growth, if any, may cause a significant strain on our management, and our operational, financial and other resources. Our ability to manage our growth effectively will require us to implement and

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improve our operational, financial and management systems and to expand, train, manage and motivate our employees. These demands may require the hiring of additional management personnel and the development of additional expertise by management. Any increase in resources devoted to research and product development without a corresponding increase in our operational, financial and management systems could have a material adverse effect on our business, financial condition, and results of operations.

Any disruption in our research and development facilities could adversely affect our business, financial condition and results of operations.

Our principal executive offices, which house our research and development programs, are located in San Diego, California. Our facilities may be affected by natural or man-made disasters. Earthquakes are of particular significance since our facilities are located in an earthquake-prone area. We are also vulnerable to damage from other types of disasters, including power loss, attacks from extremist organizations, fire, floods and similar events. In the event that our facilities were affected by a natural or man-made disaster, we may be forced to curtail our operations and/or rely on third-parties to perform some or all of our research and development activities. Although we believe we possess adequate insurance for damage to our property and the disruption of our business from casualties, such insurance may not be sufficient to cover all of our potential losses and may not continue to be available to us on acceptable terms, or at all. In the future, we may choose to expand our operations in either our existing facilities or in new facilities. If we expand our worldwide manufacturing locations, there can be no assurance that this expansion will occur without implementation difficulties, or at all.

Risks Related to Our Intellectual Property

Our ability to protect our intellectual property rights will be critically important to the success of our business, and we may not be able to protect these rights in the United States or abroad.

Our success, competitive position and future revenues will depend in part on our ability to obtain and maintain patent protection for our product candidates, methods, processes and other technologies, to prevent third parties from infringing on our proprietary rights and to operate without infringing upon the proprietary rights of third parties. We will be able to protect our proprietary rights from unauthorized use by third parties only to the extent that our proprietary rights are covered by valid and enforceable patents or are effectively maintained as trade secrets. We attempt to protect our proprietary position by filing U.S. and foreign patent applications related to our proprietary technology, inventions and improvements that are important to the development of our business. We have one issued U.S. patent; examination of the European equivalent currently is in progress, and a continuation application has been filed in the U.S. and is now pending. However, the patent position of biopharmaceutical companies involves complex legal and factual questions, and therefore we cannot predict with certainty whether any patent applications that we have filed or that we may file in the future will be approved or any resulting patents will be enforced. In addition, third parties may challenge, seek to invalidate or circumvent any of our patents, once they are issued. Thus, any patents that we own or license from third parties may not provide any protection against competitors. Any patent applications that we have filed or that we may file in the future, or those we may license from third parties, may not result in patents being issued. Also, patent rights may not provide us with adequate proprietary protection or competitive advantages against competitors with similar technologies. Other patents in this industry claim amplification to produce antibody libraries.

In addition, the laws of certain foreign countries do not protect our intellectual property rights to the same extent as do the laws of the United States. If we fail to apply for intellectual property protection or if we cannot adequately protect our intellectual property rights in these foreign countries, our competitors may be able to compete more effectively against us, which could adversely affect our competitive position, as well as our business, financial condition and results of operations.

If any of our trade secrets, know-how or other proprietary information is disclosed, the value of our trade secrets, know-how and other proprietary rights would be significantly impaired and our business and competitive position would suffer.

Our success also depends upon the skills, knowledge and experience of our scientific and technical personnel and our consultants and advisors, as well as our licensors. To help protect our proprietary know-how and our inventions for which patents may be unobtainable or difficult to obtain, we rely on trade secret protection and confidentiality agreements. To this end, we require all of our employees, consultants, advisors and contractors to enter into agreements which prohibit the disclosure of confidential information and, where applicable, require disclosure and assignment to us of the ideas, developments, discoveries and inventions important to our business. These agreements may not provide adequate protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure or the lawful development by others of such information. If any of our trade secrets, know-how or other proprietary information is disclosed, the value of our trade secrets, know-how and other proprietary rights would be significantly impaired and our business and competitive position would suffer.

Third party competitors may seek to challenge the validity of our patents, thereby rendering them unenforceable.

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Claims that we infringe upon the rights of third parties may give rise to costly and lengthy litigation, and we could be prevented from selling products, forced to pay damages, and defend against litigation.

Third parties may assert patent or other intellectual property infringement claims against us or our strategic partners or licensees with respect to our technologies and potential product candidates. If our products, methods, processes and other technologies infringe upon the proprietary rights of other parties, we could incur substantial costs and we may have to:

- obtain licenses, which may not be available on commercially reasonable terms, if at all, any may be non-exclusive, thereby giving our competitors access to the same intellectual property licensed to us;
- redesign our products or processes to avoid infringement;
- stop using the subject matter claimed in the patents held by others;
- pay damages; and
- defend litigation or administrative proceedings which may be costly whether we win or lose, and which could result in a substantial diversion of our valuable management resources.

Even if we were to prevail, any litigation could be costly and time-consuming and would divert the attention of our management and key personnel from our business operations. Furthermore, as a result of a patent infringement suit brought against us or our strategic partners or licensees, we or our strategic partners or licensees may be forced to stop or delay developing, manufacturing or selling technologies or potential products that are claimed to infringe a third party s intellectual property unless that party grants us or our strategic partners or licensees rights to use its intellectual property. Ultimately, we may be unable to develop some of our technologies or potential products or may have to discontinue development of a product candidate or cease some of our business operations as a result of patent infringement claims, which could severely harm our business.

Our position as a relatively small company may cause us to be at a significant disadvantage in defending our intellectual property rights and in defending against infringement claims by third parties.

Litigation relating to the ownership and use of intellectual property is expensive, and our position as a relatively small company in an industry dominated by very large companies may cause us to be at a significant disadvantage in defending our intellectual property rights and in defending against claims that our technology infringes or misappropriates third party intellectual property rights. Even if we are able to defend our position, the cost of doing so may adversely affect our ability to grow, generate revenue or become profitable. Although we have not yet experienced patent litigation, we may in the future be subject to such litigation and may not be able to protect our intellectual property at a reasonable cost, or at all, if such litigation is initiated. The outcome of litigation is always uncertain, and in some cases could include judgments against us that require us to pay damages, enjoin us from certain activities or otherwise affect our legal or contractual rights, which could have a significant adverse effect on our business.

Risks Related to Ownership of Our Common Stock

The market price of our common stock may fluctuate significantly, and investors in our common stock may lose all or a part of their investment.

The market price of our common stock may fluctuate significantly in response to numerous factors, some of which are beyond our control, such as:

future issuances of common stock or other securities;

the addition or departure of key personnel;

the results of lawsuits;

announcements by us or our competitors of acquisitions, investments or strategic alliances; and

general market conditions and other factors, including factors unrelated to our operating performance.

Further, the equity markets in general have recently experienced extreme price and volume fluctuations. Continued market fluctuations could result in extreme volatility in the price of our common stock, which could cause a decline in the value of our common stock. Price volatility of our common stock might worsen if the trading volume of our common stock is low.

Some or all of the restricted shares of our common stock issued to former stockholders of STI in connection with the Merger or held by other of our stockholders may be offered from time to time in the open market pursuant to an effective registration statement or Rule 144, and these sales may have a negative effect on the price of our common stock.

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Trading of our common stock is limited, and trading restrictions imposed on us by applicable regulations and by lockup agreements we have entered into with our principal stockholders may further reduce our trading, making it difficult for our stockholders to sell their shares.

Trading of our common stock is currently conducted on the OTCBB. The liquidity of our common stock is limited, not only in terms of the number of shares that can be bought and sold at a given price, but also as it may be adversely affected by delays in the timing of transactions and reduction in security analysts and the media s coverage of us, if at all. Additionally, approximately 98.3% of our issued and outstanding shares of common stock are subject to lock-up agreements, which limit sales of such shares through September 21, 2011.

The foregoing factors may result in lower prices for our common stock than might otherwise be obtained and could also result in a larger spread between the bid and asked prices for our common stock. In addition, without a large public float, our common stock is less liquid than the stock of companies with broader public ownership, and, as a result, the trading price of our common stock may be more volatile. In the absence of an active public trading market, an investor may be unable to liquidate his investment in our common stock. Trading of a relatively small volume of our common stock may have a greater impact on the trading price of our stock than would be the case if our public float were larger. We cannot predict the price at which our common stock will trade at any given time.

We do not expect to pay dividends on our common stock, and investors will be able to receive cash in respect of their shares of our common stock only upon the sale of such shares.

We have no intention in the foreseeable future to pay any cash dividends on our common stock. Therefore, an investor in our common stock may obtain an economic benefit from the common stock only after an increase in its trading price and only then by selling the common stock.

Because our common stock is a penny stock, it may be more difficult for investors to sell shares of our common stock, and the market price of our common stock may be adversely affected.

According to the definition adopted by the SEC, our common stock is a penny stock because, among other things, its price is below $5.00 per share, it is not listed on a national securities exchange and we do not meet certain net tangible asset or average revenue requirements. Broker-dealers that sell penny stock must provide purchasers of such stock with a standardized risk-disclosure document prepared by the SEC. This document provides information about penny stock and the nature and level of risks involved in investing in penny stock. A broker must also give a purchaser, orally or in writing, bid and offer quotations and information regarding broker and salesperson compensation, make a written determination that the penny stock is a suitable investment for the purchaser and obtain the purchaser s written agreement to the purchase. Broker-dealers must also provide customers that hold penny stock in their accounts with such broker-dealer a monthly statement containing price and market information relating to the penny stock. If a penny stock is sold to an investor in violation of the penny stock rules, the investor may be able to cancel its purchase and get its money back.

If applicable, the penny stock rules may make it difficult for investors to sell their shares of our common stock. Because of the rules and restrictions applicable to a penny stock, there is less trading in penny stock, and the market price of our common stock may be adversely affected. Also, many brokers choose not to participate in penny stock transactions. Accordingly, investors may not always be able to publicly resell their shares of our common stock at times and prices that they feel are appropriate.

Existing stockholders interest in us may be diluted by additional issuances of equity securities.

We may issue additional equity securities to fund future expansion and, possibly, pursuant to employee benefit plans. We may also issue additional equity for other purposes. These securities may have the same rights as our common stock or, alternatively, may have dividend, liquidation or other preferences to our common stock. The issuance of additional equity securities will dilute the holdings of existing stockholders and may reduce the share price of our common stock.

Directors, executive officers, principal stockholders and affiliated entities own a significant percentage of our capital stock, and they may make decisions that you do not consider to be in your best interests or those of our other stockholders.

As of June 30, 2010, our directors, executive officers and principal stockholders beneficially owned, in the aggregate, over 83% of our outstanding voting securities. As a result, if some or all of them acted together, they would have the ability to exert substantial influence over the election of our board of directors and the outcome of issues requiring approval by our stockholders. This concentration of ownership may also have the effect of delaying or preventing a change in control of our company that may be favored by other stockholders. This could prevent transactions in which stockholders might otherwise recover a premium for their shares over current market prices.

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Our certificate of incorporation, as amended, and bylaws provide for indemnification of officers and directors at our expense and limits their liability, which may result in a major cost to us and hurt the interests of our stockholders because corporate resources may be expended for the benefit of officers and/or directors.

Our certificate of incorporation, as amended, bylaws and applicable Delaware law provide for the indemnification of our directors, officers, employees, and agents, under certain circumstances, against attorney s fees and other expenses incurred by them in any litigation to which they become a party arising from their association with or activities on our behalf. We will also bear the expenses of such litigation for any of our directors, officers, employees, or agents, upon such person s promise to repay us, therefore if it is ultimately determined that any such person shall not have been entitled to indemnification. This indemnification policy could result in substantial expenditures by us, which we will be unable to recover.

****Our corporate documents and Delaware law contain provisions that could discourage, delay or prevent a change in control of our company, prevent attempts to replace or remove current management and reduce the market price of our common stock.***

Provisions in our certificate of incorporation, as amended, and bylaws may discourage, delay or prevent a merger or acquisition involving us that our stockholders may consider favorable. For example, our certificate of incorporation, as amended, authorizes our board of directors to issue up to 100,000,000 shares of blank check preferred stock. As a result, without further stockholder approval, the board of directors has the authority to attach special rights, including voting and dividend rights, to this preferred stock. With these rights, preferred stockholders could make it more difficult for a third party to acquire us.

****Compliance with changing regulations concerning corporate governance and public disclosure may result in additional expenses.***

There have been changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, new regulations promulgated by the SEC and rules promulgated by the national securities exchanges. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. As a result, our efforts to comply with evolving laws, regulations and standards are likely to continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. Members of our board of directors and our principal executive officer and principal financial officer could face an increased risk of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified directors and executive officers, which could harm our business. If the actions we take in our efforts to comply with new or changed laws, regulations and standards differ from the actions intended by regulatory or governing bodies, we could be subject to liability under applicable laws or our reputation may be harmed.

In addition, Sarbanes-Oxley specifically requires, among other things, that we maintain effective internal controls for financial reporting and disclosure of controls and procedures. In particular, we must perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of Sarbanes-Oxley. Our testing, or the subsequent testing by our independent registered public accounting firm, if and when required, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

State securities laws may limit secondary trading, which may restrict the States in which and conditions under which you can sell shares.

Secondary trading in our common stock will not be possible in any state until our common stock is qualified for sale under the applicable securities laws of the state or there is confirmation that an exemption, such as listing in certain recognized securities manuals, is available for secondary trading in the state. If we fail to register or qualify, or to obtain or verify an exemption for the secondary trading of, our common stock in any particular state, the common stock could not be offered or sold to, or purchased by, a resident of that state. We currently do not intend and may not be able to qualify securities for resale in some or all of the states that do not offer manual exemptions and require shares to be qualified before they can be resold by our stockholders. In the event that a significant number of states refuse to permit secondary trading in our common stock, the liquidity for the common stock could be significantly impacted.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
None.

Item 3. Defaults Upon Senior Securities.
None.

Item 4. Removed and Reserved.
Not applicable.

Item 5. Other Information.
None.

Item 6. Exhibits.
The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed as part of this Quarterly Report on Form 10-Q and such Exhibit Index is incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SORRENTO THERAPEUTICS, INC.

Date: August 12, 2010 By: /s/ ANTONIUS SCHUH, PH.D.
Antonius Schuh, Ph.D.
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: August 12, 2010 By: /s/ RICHARD GLENN VINCENT
Richard Glenn Vincent
Chief Financial Officer
(Principal Financial and Accounting Officer)

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EXHIBIT INDEX

2.1*	Merger Agreement, dated July 14, 2009, by and among the Company, Sorrento Therapeutics, Inc., Sorrento Merger Corp., Inc., the Stockholders Agent and the Parent Representative, filed as Exhibit 2.1 to the Company s Current Report on Form 8-K filed with the SEC on July 14, 2009 and incorporated by reference herein.
2.2	First Amendment to Merger Agreement, dated August 26, 2009, by and among the Company, Sorrento Therapeutics, Inc., Sorrento Merger Corp., Inc., the Stockholders Agent and the Parent Representative, filed as Exhibit 2.2 to the Company s Current Report on Form 8-K filed with the SEC on August 26, 2009 and incorporated by reference herein.
3.1	Amended and Restated Articles of Incorporation of the Company, filed as Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q filed with the SEC on November 13, 2008 and incorporated by reference herein.
3.2	Amended and Restated Bylaws of the Company, filed as Exhibit 3.2 to the Company s Current Report on Form 8-K filed with the SEC on July 7, 2008 and incorporated by reference herein.
31.1	Certification of Antonius Schuh, Ph.D., Principal Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended.
31.2	Certification of Richard Glenn Vincent, Principal Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, as amended.
32.1	Certification of Antonius Schuh, Ph.D., Principal Executive Officer, and Richard Glenn Vincent, Principal Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended.

* Non-material schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby undertakes to furnish supplementally copies of any of the omitted schedules and exhibits upon request by the SEC.