Sorrento Therapeutics, Inc.
Form 10-K
March 18, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: December 31, 2010

¨ **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 No.)
6042 Cornerstone Ct. West, Suite B San Diego, California	**92121**
(Address of Principal Executive Offices)	(Zip Code)

(858) 210-3700

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.0001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨ Yes x No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. ¨ Yes x No

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 the filing requirements for at least the past 90 days. ¨ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

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

The aggregate market value of voting stock held by non-affiliates of the registrant is calculated based upon the closing sale price of the common stock on June 30, 2010 (the last trading day of the registrant s second fiscal quarter of 2010), as reported on the Over-the-Counter Bulletin Board, and such aggregate market value was approximately $67,987,724.

At February 28, 2011, the registrant had 249,697,135 shares of common stock outstanding.

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SORRENTO THERAPEUTICS, INC.

ANNUAL REPORT ON FORM 10-K

FISCAL YEAR ENDED DECEMBER 31, 2010

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, or Form 10-K, contains forward-looking statements 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. The forward-looking statements are contained principally in Item 1 Business, Item 1.A Risk Factors and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations but appear throughout the Form 10-K. Examples of forward-looking statements include, but are not limited to our expectations, beliefs or intentions regarding our potential product offerings, business, financial condition, results of operations, strategies or prospects and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. These statements are often identified by the use of words such as anticipate, believe, continue, could, estimate, expect, intend, may, ongoing, opportunity, plan, potential, predicts, seek, should, will, or would, and similar expressions and variations or negatives of these words. These forward-looking statements are based on the expectations, estimates, projections, beliefs and assumptions of our management based on information currently available to management, all of which are subject to change. Such forward-looking statements are subject to risks, uncertainties and other factors that are difficult to predict and could cause our actual results and the timing of certain events to differ materially and adversely from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed under Item 1.A. Risk Factors in this Form 10-K. Furthermore, such forward-looking statements speak only as of the date of this Form 10-K. We undertake no obligation to update or revise publicly any forward-looking statements to reflect events or circumstances after the date of such statements for any reason, except as otherwise required by law.

PART I

Item 1. Business.

Overview

We are a development stage biopharmaceutical company focused on applying and commercializing our proprietary technology, extensive libraries of 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. 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 is to, either independently or through one or more partnerships with pharmaceutical or biopharmaceutical organizations, identify drug development candidates derived from our antibody libraries. In the event we are successful in identifying drug development 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. Our objective is to generate revenue through service, technology access and license fees by offering access to our antibody libraries and development candidates derived from these libraries.

Recent Events

On September 21, 2009, or the Closing Date, QuikByte Software, Inc., a Colorado corporation and shell company, or QuikByte, consummated its acquisition of Sorrento Therapeutics, Inc., a Delaware corporation and private concern, 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 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 as of immediately following the Merger.

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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.

Background to Antibodies

The Function of Antibodies

The human immune system protects the body against a variety of infections and other illnesses. Specialized cells work together with the other components of the immune system to recognize, neutralize and eliminate from the body numerous foreign substances, infectious organisms and malignant cells.

Antibodies are part of the body s principal defense mechanism against disease-causing organisms and other foreign molecules and toxins. Antibodies are protein molecules that are capable of recognizing substances potentially harmful to the human body, known as antigens, and binding to those antigens to neutralize or block them from interacting with and causing damage to the body. Antibodies are capable of recognizing and distinguishing between the subtlest of molecular differences in antigens. Antibodies that bind tightly to antigens are said to have high affinity.

Antibodies are naturally present in the blood and can survive in the circulation for extended periods in order to perform their surveillance and defense functions. Antibodies are made in the immune system by human white blood cells, called leukocytes. Human leukocytes produce millions of different types of antibodies, all with varying shapes that allow them to attach to and, as a result, neutralize different disease targets. For example, certain antibodies seek out and attach to viruses, bacteria and diseased cells, making them susceptible for destruction by the human immune system. Others attach to specific disease targets and block their interaction with other molecules or can be used to deliver a toxic agent to directly kill cancer cells.

As depicted below, the basic structure of an antibody comprises four polypeptides of two different sizes, two identical light chains and two identical heavy chains, named according to their relative size. The heavy and light chains are assembled within the white blood cell to form an antibody molecule. Each chain has a variable region, which contains the binding site for an antigen and gives the antibody its specificity, and a constant region which interacts with other parts of the immune system to facilitate the removal of the pathogen or foreign molecule. The genetic code determining the structure of a given variable region is referred to as immunoglobulin variable domain sequence.

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Different antibodies are produced, in part, through random recombination of genes for the variable regions, as well as random pairing of the heavy and light chains. As a result, the immune system is able to adapt and produce antibodies against virtually any antigen. When an antibody encounters an antigen to which it binds, the white blood cell which produces the antibody proliferates to generate more antibodies against the target antigen. White blood cells which have differentiated to produce a specific antibody are called B lymphocytes.

Antibodies as Products

Recent advances in the technologies for creating and producing antibody products, coupled with a better understanding of how antibodies and the immune system function in key disease states, have led to significant interest in the commercial development of antibodies as therapeutic products. Evidence of this commercial development is discussed in the following publications, among others:

- According to a January 2009 publicly-available abstract for a market report titled Antibodies in Oncology: Drug Pipeline Update 2009, today there are more than 222 companies plus partners developing more than 463 antibody based oncology drugs in more than 820 developmental projects and, in total, these antibody based drugs target around 64 different cancer indications.

- A press release published in pipelinereview.com on November 25, 2008, states: In 2007, total sales for the 20 antibody drugs on the market amounted to more than US $25 billion and antibody sales are forecast to increase to approximately US $50 billion in 2013. Fully human antibodies are recognized as the next generation and the majority of therapeutic antibodies currently in development are humanized or fully human. The average industry timescale from discovery to pre-clinical development of antibody therapies is only two to three years, considerably shorter than the average six years for small molecules. Antibodies also incur lower attrition rates than small molecules.

- A publicly-available summary of the report titled Monoclonal Antibody Therapeutics , published by Bharat Book Bureau in August 2009, states: Monoclonal antibodies achieved total sales of nearly $32bn in 2008 and have grown rapidly to command over 30% of the global biologic drug market and that the authors of the report expect significant opportunities for further commercial growth from 2009 to 2024.

We believe that, as products, antibodies have several potential clinical and commercial advantages over traditional therapies, including small molecule drugs and surgery. These advantages may include the following:

- fewer unwanted and uncomfortable side effects as a result of high specificity for the disease target;

- greater patient compliance (use) as a result of more favorable pharmacokinetics over traditional therapies, including better absorption, distribution, metabolism and excretion; and

- enhanced ability to deliver various payloads, including drugs, radiation and toxins, to specific disease sites while avoiding surrounding (healthy) tissues.

Monoclonal and Chimeric/Humanized Antibodies

The therapeutic antibodies marketed today generally belong to a class of molecules known as monoclonal antibodies , or mAbs. This term is used to refer to a homogeneous population of antibody molecules that are identical in their structure and functional characteristics. Historically, the approach to generating monoclonal antibodies has been to immortalize antibody-producing white blood cells from mice, so that the cells are capable of reproducing over an indefinite period of time. Any of these immortalized, fused cells, known as hybridomas and producing a specific antibody with desired binding characteristics, can then be selected, cloned and expanded, allowing the large scale production of a mouse mAb, or mouse antibody.

However, mouse antibodies are wholly composed of mouse protein sequences and tend to be recognized as foreign by the human immune system. When patients are repeatedly treated with mouse antibodies, they will

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begin to produce antibodies that effectively neutralize the mouse antibody, a reaction referred to as a Human Anti-Mouse Antibody, or HAMA, response. In many cases, the HAMA response prevents the mouse antibodies from having the desired therapeutic effect and may cause the patient to have an allergic reaction.

Recognizing the limitations of mouse mAbs, researchers have developed a number of approaches to make them appear more human-like to a patient s immune system. For example, improved forms of mouse antibodies, referred to as chimeric and humanized antibodies, are genetically engineered and assembled from portions of mouse and human antibody gene fragments. While these chimeric and humanized antibodies are more human-like, they still retain a varying amount of the mouse antibody protein sequence, and accordingly may continue to trigger a HAMA response. Additionally, the chimeric/humanization process can be expensive and time-consuming, often requiring additional weeks or months of secondary manipulation after the initial generation of the mouse mAbs.

Human Antibodies

The probability of inducing a HAMA response can be reduced through the generation of antibody therapeutic products with fully human protein sequences. Researchers have developed several antibody technologies to produce antibodies with 100% or fully human protein sequences. One approach to generating human antibodies, known as antibody display technology, involves cloning and expressing human antibody genes in novel contexts, such as bacteriophages, which are viruses that infect bacteria, yeast or ribosome/mRNA complexes, in order to display libraries of antibody fragments for subsequent *in vitro* selection against antigens. Ribosomes are intracellular organelles that synthesize proteins. The information for the sequence of amino acids used to synthesize a given protein comes from the mRNA sequence, which is read by the ribosome. A ribosome/mRNA complex is mRNA attached to a ribosome for translation into a protein. Our proprietary technology, or the STI Technology, and the Winter II Technology discussed below are both antibody display technologies.

Another approach to develop human antibodies, called human mouse technology , is based on genetically engineered strains of mice in which the attempt has been made to inactivate mouse antibody gene expression and to functionally replace it with human antibody gene expression. The so-called human mouse can be immunized with an antigen of interest, and if, after some time, which is often many months, a sufficient immune response has taken place, human antibody candidates may be obtained.

An additional approach involves the clonal isolation and expansion of human B-lymphocytes. This approach is generally limited to creating antibodies only to non-human antigens or antigens to which the lymphocyte donor had previously responded. Accordingly, it may not be suitable for targeting many key diseases, such as cancer and inflammatory and autoimmune disorders, for which appropriate therapy might require antibodies to human antigens.

Technology Overview Proprietary Human Antibody Library Technology

STI Technology

We believe the STI Technology is a significant improvement over traditional technologies used to construct large human antibody libraries. STI applies ribonucleic acid, or RNA, transcription, for the amplification of the immunoglobulin variable domain sequences. The net result is the ability to produce fully human antibody libraries of far greater diversity (that is, the number of different antibody species) and single class libraries, such as Immunoglobulin G (IgG) for therapeutic antibodies or Immunoglobulin A (IgA) for anti-infective secretory antibodies. It is this dual advantage of high diversity and single class libraries that provides STI with what we believe is the premier antibody library asset in the industry.

Traditional antibody library construction technologies apply gene specific amplification methods, such as polymerase chain reaction, or PCR. While PCR was introduced in the mid 1980s, RNA transcription-based

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amplification has gained popularity since the mid-1990s, primarily for the amplification of complex genetic sequence mixtures prior to micro-array analysis. RNA transcription appears ideally suited for use in the construction of fully human antibody libraries because RNA transcription-based amplification is designed for amplifying a complex population of gene sequences, including the numerous gene sequences coding for the variable domains of human antibodies, in parallel.

The STI Technology is a process that incorporates RNA transcription-based amplification to construct fully human antibody libraries offering what we believe is industry leading diversity. These libraries have facilitated the rapid identification and isolation of highly specific, antibody binders that are fully human and that bind to disease targets appropriate for antibody therapy. The STI Technology was invented by Henry Ji, Ph.D., STI s co-founder and our Chief Scientific Officer. A U.S. patent covering the STI Technology was issued in July 2008 and additional patent application families for the generation, display and screening of antibody libraries are pending.

A traditional technology for the construction of human antibody libraries is the so-called Winter II Technology , developed by the Medical Research Council, at Cambridge, UK, The Scripps Research Institute in La Jolla, CA, and Stratagene, Inc. in La Jolla, CA. The Winter II Technology process applies certain established gene sequence amplification technologies, such as PCR, to construct human antibody libraries. Gene sequence amplification is a process that produces a large number of copies of a given nucleic acid sequence or a group of nucleic acid sequences, which are the sequences in molecules that carry genetic information or form structures within cells most commonly DNA and RNA. PCR is sequence-dependent, which means it amplifies only one or more specific nucleic acid sequences, depending on which primer is used. A primer is a specific synthetic starter sequence used in the amplification process. Once a large number of copies of specific nucleic acid sequences are produced by amplification, the copied nucleic acid sequences are transferred into a display system, which can translate the nucleic acid sequence information into proteins. This translation is referred to as protein expression. The expressed proteins can be used for subsequent in vitro selection against antigens, or antibody targets. The Winter II Technology process is covered by U.S. patents that begin to expire in 2018.

Opportunity

The commercial and clinical success of antibody therapeutics and the general preference for fully human antibodies has led to a recent industry consolidation, whereby a number of technology providers of human antibody discovery platforms have been acquired by large pharmaceutical or biopharmaceutical companies, or have entered into significant collaborative agreements with large pharmaceutical companies, which, in effect, limit third parties access to their discovery platforms. Specifically:

In 2006, AstraZeneca PLC acquired 100% ownership of CAT; Amgen Inc. acquired Abgenix, Inc.; and Glaxo SmithKline PLC entered into a large collaboration agreement with Genmab AS.

In 2007, Glaxo SmithKline PLC acquired Domantis Ltd., Eisai Co. acquired Morphotek, Inc. and Novartis AG entered into a large collaboration agreement with MorphoSys AG.

In 2009, Bristol-Myers Squibb Co. announced an agreement to acquire Medarex, Inc.

We believe this industry consolidation has helped to create a market opportunity for a novel, proprietary technology to create fully human antibodies.

Our Strategy

Our objective is to, either independently or through one or more partnerships with pharmaceutical or biopharmaceutical organizations, identify drug development candidates derived from our antibody libraries. In the event we are successful in identifying drug development 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

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of these candidates. Our objective is to generate revenue through service, technology access and license fees by offering access to our antibody libraries and development candidates derived from these libraries. Key elements of our strategy are:

Screen clinically attractive antigens. Utilizing the STI Technology, we intend to screen clinically attractive antigens in the areas of infectious diseases, cancer, cardiovascular, or autoimmune and inflammatory diseases against our antibody libraries with the goal of identifing high affinity, functional antibodies. We believe these antibodies will represent potential proprietary drug development candidates. The isolated human antibodies selected for respective antigens will be subjected to further biochemical characterization and functional testing, such as binding affinity, specificity and kinetics. The isolated human antibodies may undergo further optimization, applying for example *in vitro* maturation or molecular evolution to improve their affinity and specificity. 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.

Providing technology access to our proprietary human antibody libraries. We plan to make our platform technology available to others and generate revenues by selectively entering into contracts with pharmaceutical and biotechnology companies interested in using the STI Technology to develop antibody-based products.

Among others, we plan to offer services where we construct human antibody libraries from blood samples derived from patient populations proposed by our potential collaboration partners, who may have an interest in the human immune response observed in individuals suffering from a specific condition.

Establishing partnerships to seek development efficiency. We intend to minimize technology risk and optimize development efficiency. For fast follower products, the clinical development program established by the first-in-class provider is a significant advantage, as it represents a development strategy that has been shown to be successful. For first-in-class products, we expect to seek partnerships with biopharmaceutical companies with experience and expertise in the clinical indications under consideration for any drug candidates we develop.

See the section entitled Risk Factors in this Form 10-K for a discussion of some of the risks relating to the execution of our business strategy.

Competitive Analysis

Winter II Technology

The Winter II Technology is a traditional antibody display technology, which is applied by CAT (now owned by AstraZeneca PLC), Domantis Ltd. (now owned by Glaxo SmithKline PLC) and Morphosys AG (engaged in a large collaboration with Novartis AG). The Winter II Technology is a process to generate human antibody libraries via amplification of the highly variable regions of the heavy and light chains of human immunoglobulin genes obtained from human blood samples, followed by cloning and expression in a display system. The Winter II Technology is deemed to be the gold standard for the construction of human antibody libraries.

Additional Competitors

Another approach to generate human antibodies involves the clonal isolation and expansion of human B-lymphocytes. This approach is generally limited to creating antibodies only to non-human antigens or antigens to which the lymphocyte donor had previously responded. Accordingly, it may not be suitable for targeting many key diseases, such as cancer and inflammatory and autoimmune disorders, for which appropriate therapy might require antibodies to human antigens.

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An additional approach to develop human antibodies, called human mouse technology , is based on genetically engineered strains of mice in which the attempt has been made to inactivate mouse antibody gene expression and to functionally replace it with human antibody gene expression. The so-called human mouse can be immunized with an antigen of interest, and if, after some time, which is often many months, a sufficient immune response has taken place, human antibody candidates may be obtained. Based on publicly-available information, approaches to generate fully human antibodies from mice that we believe are being pursued by our competitors include:

- Transgenic mice containing heavy human chain and human light chain genes on a minilocus (which are mice that possess a relatively small number of representative human heavy and light chain genes in their genome).

- Transchromosomic mice that contain large numbers of human heavy chain and light chain genes on one or more separate, or extra, chromosomes.

- KM-Mouse® animals that are generated as a result of breeding minilocus containing mice with transchromosomic mice. Transchromosomic mice were developed by Kirin Brewing Co., Ltd. It is our understanding that KM-Mouse animals were developed through collaboration between Medarex, Inc. and Kirin Brewing Co. and are currently used by Medarex, Kirin and GenMab A/S.

- We believe Avanir Pharmaceuticals and XTL Biopharmaceuticals Ltd. use technologies in which human B cells and T cells are implanted in mice with compromised immune systems.

- BioSite Incorporated, through a collaboration with Medarex, generates human antibody phage display libraries from immunized KM-Mouse animals. Based on a review of publicly-available information, it is our understanding that these libraries are not used for deriving therapeutic antibody products.

- Morphotek, Inc., a subsidiary of Eisai Co, applies its MORPHODOMA® and Libradoma technologies for the generation of fully human antibodies.

- AnaptysBio, Inc. applies certain components of somatic hypermutation to generate therapeutic antibodies.

- Adimab, Inc. applies a yeast based platform for the development of fully human antibodies, which, it claims, provides results faster when compared to human B-cell/hybridoma cell line based approaches.

The biopharmaceutical space is characterized by intense competition and rapid technological advances. Even if we are able to develop our proprietary platform technology and an antibody library, 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.

Our Technology Advantages

We believe the STI Technology may offer the following advantages over competing technologies:

The STI Technology has been designed to provide the full spectrum of human immunoglobulin gene recombination in fully human mAb libraries. Unlike chimeric and humanization technologies, we believe the STI Technology will allow the generation of antibodies with fully human protein sequences and will not be exposed to the challenges and limitations of animal-to-human gene transfer procedures.

Because the STI Technology represents an *in vitro* human mAb library technology, it enables fast and cost-effective *in vitro* screening of a large number of antigens. The STI Technology is designed so that any antigen of interest can be investigated, without dependence on the successful induction of a host

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immune response against the antigen. As opposed to the human-mouse technology, the STI Technology does not require the establishment and maintenance of large animal husbandries, which are quite costly to establish and maintain. In addition, a given human antigen may not induce an immune response in mice. In such cases, the human-mouse technology appears to be less suitable for delivering human antibody development candidates. Unlike the human-mouse technology, we believe the STI Technology will allow the generation of antibodies with fully human protein sequences and will not be exposed to the challenges and limitations of human-to-animal immunoglobulin gene modification procedures.

The STI Technology delivers fully human mAb libraries. The STI libraries are stable and can be stored for long-term use at minimal maintenance cost.

The STI Technology applies RNA transcription-based amplification for the immunoglobulin variable domain sequences, which is linear and non-preferential, and replicates and amplifies the human immunoglobulin gene pool more faithfully than other amplification technologies, including the Winter II Technology, potentially resulting in human antibody libraries more thoroughly reflecting the human immunoglobulin gene pool.

The STI Technology can potentially produce multiple product candidates against one or more antigens in a pathway of interest more quickly and cost effectively.

In addition, we believe that our platform offers the following advantages over competing platforms:

We are an independent, development stage biotechnology company and, except for our license agreement with OPKO Health, we are not a party to agreements that restrict our right to enter into collaborative arrangements with third parties. By comparison, access to the Winter II Technology is restrictive for U.S. pharmaceutical and biopharmaceutical companies, due to tightly held intellectual property rights in the U.S. and the aforementioned industry consolidation.

We believe that the STI Technology can be applied by us for the construction of fully human antibody libraries without license costs pertaining to the Winter II Technology intellectual property licenses.

Intellectual Property

The STI Technology is an antibody library generation technology which we believe represents a significant improvement over the traditional Winter II Technology. The STI Technology applies RNA transcription for the amplification of human immunoglobulin variable domain sequences. The STI Technology was invented by Henry Ji, Ph.D., STI s co-founder and our Chief Scientific Officer, and assigned to us by Dr. Ji.

A U.S. patent covering the STI Technology was issued to us by the U.S. Patent and Trademark Office in July 2008. Additional families of patent applications for the generation and display of antibody libraries are pending. Proprietary protection for our products, processes and know-how is critical to our business. We rely on patents, trade secrets and proprietary know-how to protect our intellectual property rights. We plan to diligently prosecute and defend our patents and proprietary technology.

License Agreement with OPKO Health, Inc.

In June 2009, we entered into a limited license agreement, or the OPKO License, with OPKO Health, Inc., or OPKO, pursuant to which we granted OPKO an exclusive, royalty-free, worldwide license under all U.S. and foreign patents and patent applications owned or controlled by us or any of our affiliates, or the STI Patents, to (i) develop, manufacture, use, market, sell, offer to sell, import and export certain products related to the development, manufacture, marketing and sale of drugs for ophthalmological indications, or the OPKO Field, and (ii) use and screen any population of distinct molecules covered by any claim of the STI Patents or which is derived by use of any process or method covered by any claim of the STI Patents to identify, select and

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commercialize certain products within the OPKO Field. Subject to certain limitations, OPKO will have the right to sublicense the foregoing rights granted under the OPKO License. Additionally, pursuant to the OPKO License, OPKO has granted us an exclusive, royalty-free, worldwide license to any patent or patent application owned or controlled by OPKO or any of its affiliates, or the OPKO Patents, to develop, use, make, market, sell and distribute certain products in any field of use, other than the OPKO Field, or the STI Field.

We have retained all rights in the STI Patents outside of the OPKO Field and we have agreed not to practice the OPKO Patents or the STI Patents outside the STI Field. Unless otherwise terminated in accordance with its terms, the License Agreement will expire upon the expiration of the last to expire patent within the STI Patents and OPKO Patents on a country-by-country basis.

License Agreement with The Scripps Research Institute

In January 2010, we entered into a license agreement, or the TSRI License, with The Scripps Research Institute, or TSRI. Under the TSRI License, TSRI granted us 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 (MRSA). In consideration for the license, we issued TSRI a warrant for the purchase of common stock, and agreed to pay TSRI a nominal annual royalty, a running royalty based on any sales of licensed products by us or our affiliates and a royalty for any revenues generated by us through our sublicense of patent rights and materials licensed from TSRI under the TSRI License. The TSRI License requires us 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, we may terminate the TSRI License by giving 60 days notice to TSRI and TSRI may terminate the TSRI License immediately in the event of certain breaches of the agreement by us or upon our failure to undertake certain activities in furtherance of commercial development goals. Unless terminated by us or TSRI, the term of the TSRI License will continue until the final expiration of all claims covered by the patent rights licensed by us under the agreement.

Collaboration Agreement

In July 2010, we entered into a feasibility study agreement, or the Collaboration Agreement, with a third party. Under the terms of the Collaboration Agreement, we will provide certain antibody screening services for an upfront cash fee of $200,000 and will be reimbursed for certain costs and expenses associated with providing the services or the third party s use of our laboratory and instrumentation as provided for in the Collaboration Agreement. We completed the screening services in early March 2011.

Clinical Development

If we are successful in developing a fully human antibody library, we intend to focus our effort primarily in the identification and isolation of the human antibody drug candidates and further characterize these antibody candidates in *in vitro* functional testing. Then, in light of our limited financial resources, we intend to actively seek product development partners in the biopharmaceuticals industry with experience and expertise in the antibody drug development field in order to engage in the clinical development of any product candidates we may seek to develop.

Manufacturing, Marketing and Sales

We currently do not have any manufacturing or sales capabilities. We may or may not manufacture the products we develop, if any. We intend to license to, or enter into strategic alliances with, larger companies in the biopharmaceutical businesses, which are equipped to manufacture, market and/or sell our products, if any, through their well-developed manufacturing capabilities and distribution networks. We intend to license some or all of our worldwide patent rights to more than one third party to achieve the fullest development, marketing and distribution of any products we develop.

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Government Regulation

We are in the early stages of developing our antibody libraries and we have not yet developed any product candidate. The U.S. Food and Drug Administration, or FDA, regulates, among other things, the development, testing, manufacture, safety, efficacy, record-keeping, labeling, storage, approval, advertising, promotion, sale and distribution of biopharmaceutical products. Specifically, government authorities in the U.S., at the federal, state, and local level, and foreign countries extensively regulate, among other things, the following areas relating to products and product candidates labeled for use in humans:

- research and development;
- testing, manufacture, labeling and distribution;
- advertising, promotion, sampling and marketing; and
- import and export.

In particular, human therapeutic products are subject to rigorous preclinical and clinical trials to demonstrate safety and efficacy and other approval procedures of the FDA and similar regulatory authorities in foreign countries. Clinical trial programs in humans generally follow a three-phase process. Typically, Phase 1 studies are conducted in small numbers of healthy volunteers or, on occasion, in patients afflicted with the target disease, to determine the metabolic and pharmacological action of the product candidate in humans, the side effects associated with increasing doses, and, if possible, to gain early evidence of effectiveness. In Phase 2, studies are generally conducted in larger groups of patients having the target disease or condition in order to validate clinical endpoints, and to obtain preliminary data on the effectiveness of the product candidate and optimal dosing. This phase also helps determine further the safety profile of the product candidate. In Phase 3, large-scale clinical trials are generally conducted in hundreds of patients having the target disease or condition to provide sufficient data for the statistical proof of effectiveness and safety of the product candidate as required by U.S. and foreign regulatory agencies.

Various federal, state, local, and foreign statutes and regulations also govern testing, manufacturing, labeling, distribution, storage and record-keeping related to such products and their promotion and marketing. The process of obtaining these approvals and the compliance with federal, state, local, and foreign statutes and regulations require the expenditure of substantial time and financial resources. In addition, the current regulatory and political environment at FDA could lead to increased testing and data requirements which could impact regulatory timelines and costs.

There can be no assurance that in the event we seek to develop any product candidate, we or any of our partners would be able to satisfy one or more of these requirements to conduct pre-clinical or clinical trials or receive any regulatory approvals.

Employees

As of December 31, 2010, we had seven employees and eight consultants and advisors. A significant number of our management and our other employees and consultants have worked or consulted with pharmaceutical, biotechnology or medical product companies. While we have been successful in attracting skilled and experienced scientific personnel, there can be no assurance that we will be able to attract or retain the necessary qualified employees and/or consultants in the future. None of our employees are covered by collective bargaining agreements and we consider relations with our employees to be good.

Address

Our principal executive offices are located at 6042 Cornerstone Ct. West, Suite B, San Diego, CA 92121, and our telephone number at that address is (858) 210-3700. Our website is www.sorrentotherapeutics.com. The contents of our website are not part of this Form 10-K.

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Item 1A. Risk Factors.

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 product related 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 libraries of 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 product related 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 expect that we will require additional financing, and an inability to raise the necessary capital or to do so on acceptable terms would threaten the success of our business.

We believe that our current cash balances and cash equivalents will be sufficient to meet our operating and capital requirements, as currently being conducted, for at least one year, and will provide us the financial resources to continue to develop our antibody libraries. 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 from time to time and may choose to raise additional funds through strategic collaborations, licensing arrangements, public or private equity or debt financing, a bank line of credit, 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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In addition, 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 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 require that we 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 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.

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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.

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.

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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 various stages of 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.

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 U.S. 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.

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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 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

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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 U.S. 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. The company has 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 U.S. 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.

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

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, and 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;

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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.

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 98.5% 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 Securities and Exchange Commission, or 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 the Company does 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

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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 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 December 31, 2010, our directors, executive officers and principal stockholders beneficially owned, in the aggregate, over 86% 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.

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.

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We are also subject to the anti-takeover provisions of the Delaware General Corporation Law. Under these provisions, if anyone becomes an interested stockholder, we may not enter into a business combination with that person for three years without special approval, which could discourage a third party from making a takeover offer and could delay or prevent a change in control of us. An interested stockholder means, generally, someone owning 15% or more of our outstanding voting stock or an affiliate of ours that owned 15% or more of our outstanding voting stock during the past three years, subject to certain exceptions as described in the Delaware General Corporation Law.

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 Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, new regulations promulgated by the SEC and rules promulgated by the national securities exchanges. The Dodd-Frank Act, enacted in July 2010, expands federal regulation of corporate governance matters and imposes requirements on public companies to, among other things, provide stockholders with a periodic advisory vote on executive compensation and also adds compensation committee reforms and enhanced pay-for-performance disclosures. While some provisions of the Dodd-Frank Act are effective upon enactment, others will be implemented upon the SEC s adoption of related rules and regulations. The scope and timing of the adoption of such rules and regulations is uncertain and, accordingly, the cost of compliance with the Dodd-Frank Act is also uncertain.

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.

These new or changed laws, regulations and standards are, or will be, 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.

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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.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We currently lease approximately 9,000 square feet of office and laboratory space in San Diego, California. Our lease expires in September 2014, but includes an option to extend the term of the lease for one additional four-year period. We believe that our current facilities are adequate to meet our needs for the foreseeable future and that, should it be needed, suitable additional space will be available to accommodate expansion of our operations on commercially reasonable terms.

Item 3. Legal Proceedings.

We are not currently 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.

Item 4. Removed and Reserved.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock is traded on the Over-the-Counter Bulletin Board, or OTCBB, under the symbol SRNE and began quotation on the OTCBB on an unpriced basis in December 2006.

Our common stock trades only sporadically and has experienced in the past, and is expected to experience in the future, significant price and volume volatility.

The following table sets forth the range of high and low bid quotations for our common stock, as reported by the OTCBB, on a quarterly basis for the fiscal years ended December 31, 2010 and 2009. Quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

For the Fiscal Year Ended on December 31, 2009

	High	Low
Quarter Ended March 31, 2009	$ 0.45	$ 0.10
Quarter Ended June 30, 2009	0.10	0.10
Quarter Ended September 30, 2009 *	1.95	0.10
Quarter Ended December 31, 2009	1.92	0.32

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For the Fiscal Year Ended on December 31, 2010

	High	Low
Quarter Ended March 31, 2010	$ 2.99	$ 0.50
Quarter Ended June 30, 2010	3.00	0.40
Quarter Ended September 30, 2010	1.75	0.40
Quarter Ended December 31, 2010	1.75	0.30

* The Merger was completed on September 21, 2009.

Holders of Record

As of March 9, 2011, there were 283 holders of record of our common stock and an undetermined number of beneficial owners.

Dividend Policy

We paid no cash dividends in respect of our common stock during our two most recent fiscal years, and we have no plans to pay any dividends or make any other distributions in the foreseeable future. The payment by us of dividends, if any, in the future, rests within the discretion of our board of directors and will depend, among other things, upon our earnings, capital requirements and financial condition.

Stock Repurchases

We did not repurchase any of our common stock in 2010.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth additional information as of December 31, 2010 with respect to the shares of common stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements in effect as of December 31, 2010. The information includes the number of shares covered by, and the weighted average exercise price of, outstanding options and the number of shares remaining available for future grant, excluding the shares to be issued upon exercise of outstanding options.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders[1]	1,960,000	$ 0.093	10,040,000[2]
Equity compensation plans not approved by security holders[3]	120,000	$ 0.0448	
Total	2,080,000	$ 0.091	10,040,000

(1) Comprised of the Company s 2009 Stock Incentive Plan, or the 2009 Plan.
(2) Comprised solely of shares subject to awards available for future issuance under the 2009 Plan. Pursuant to the terms of the 2009 Plan, the share reserve of the 2009 Plan will automatically increase on the first day of

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each fiscal year, from fiscal year 2011 through 2019, by the lesser of (a) 1,200,000 Shares, (b) one percent (1%) of outstanding shares of common stock as of the last day of the immediately preceding fiscal year (rounded down to the nearest whole share), and (c) such number of shares of common stock approved by the board of directors or applicable committee thereof. Effective January 1, 2011, 13,200,000 shares were authorized under the 2009 Plan, with 11,240,000 shares remaining available for future issuance under the plan.

(3) Comprised solely of shares issued to non-employee directors prior to the Company s adoption of the 2009 Plan.

Item 6. Selected Financial Data.

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 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and the related notes and other information that are included elsewhere in this Form 10-K. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the cautionary note regarding Forward-Looking Statements contained elsewhere in this Form 10-K. Additionally, you should read the Risk Factors section of this Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We are a development-stage biopharmaceutical company focused on applying and commercializing our proprietary technology, extensive libraries of 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. 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 is to, either independently or through one or more partnerships with pharmaceutical or biopharmaceutical organizations, identify drug development candidates derived from our antibody libraries. In the event we are successful in identifying drug development 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. Our objective is to generate revenue through service, technology access and license fees by offering access to our antibody libraries and development candidates derived from these libraries.

Recent Events

On September 21, 2009, or the Closing Date, QuikByte Software, Inc., a Colorado corporation and shell company, or QuikByte, consummated its acquisition of Sorrento Therapeutics, Inc., a Delaware corporation and private concern, or STI, in a reverse merger (the Merger). Pursuant to the Merger, all of the issued and outstanding shares of STI common stock were converted 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 as of immediately following the Merger.

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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.

Results of Operations

The following discussion of our operating results explains material changes in our results of operations for the years ended December 31, 2010 and 2009. The discussion should be read in conjunction with the financial statements and related notes included elsewhere in this Form 10-K.

Comparison of the Years Ended December 31, 2010 and 2009

Revenues. Revenues were $682,568 for the year ended December 31, 2010, as compared to $0 for the year ended December 31, 2009. The increase is due to recorded grant revenue of $659,115 and reimbursable research and development costs revenue of $23,453. In May 2010, we were awarded an Advanced Technology Small Business Technology Transfer Research grant, or the NIH Grant, to support our program to generate and develop novel antibody therapeutics and vaccines to combat Staph infections, including methicillin-resistant Staph. 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. Revenue related to the NIH Grant totaled $264,635 for the year ended December 31, 2010. During 2010, the U.S. Department of the Treasury awarded us two one-time grants totaling $394,480 for investments in qualifying therapeutic discovery projects under section 48D of the Internal Revenue Code. The grants cover reimbursement for qualifying expenses incurred by us in 2010 and 2009. The revenue from reimbursable research and development costs was generated under the Collaboration Agreement. We had no other revenue during the year ended December 31, 2010 as we have not yet met certain deliverables under the Collaboration Agreement, developed any product candidates for commercialization or earned any licensing or royalty payments.

Research and Development Expenses. Research and development expenses for the years ended December 31, 2010 and 2009 were $1,392,345 and $410,171, respectively. Research and development expenses include all costs incurred in the development of our libraries, the costs to identify, isolate and advance human antibody drug candidates derived from our libraries, and the expenses associated with fulfilling our development obligations related to the NIH Grant. Such expenses consist primarily of salaries and personnel related expenses, stock-based compensation expense, laboratory supplies, consulting costs and other expenses. The increase of $982,174 is attributable to salaries, stock-based compensation expense and consulting costs incurred in connection with research and development activities, which commenced in the second half of 2009. We expect research and development expenses to increase in absolute dollars as we incur incremental expenses associated with our efforts to identify, isolate and advance human antibody drug candidates derived from our libraries.

General and Administrative Expenses. General and administrative expenses for the years ended December 31, 2010 and 2009 were $1,102,395 and $543,952, 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 of $558,443 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. 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.

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Interest Income. Interest income for the years ended December 31, 2010 and 2009 was $3,786 and $11,857, respectively. The decrease in interest income resulted from lower interest rates during 2010 as compared to 2009. We expect that continued low interest rates will significantly limit our interest income in the near term.

Net Loss. Net loss for the years ended December 31, 2010 and 2009 was $1,808,386 and $942,266, respectively. The increase in net loss is attributable to the increase in research and development expenses and general and administrative expenses as a result of having a full year of operations completed, as compared to 2009 operational expenses that only commenced in the second half of 2009.

Liquidity and Capital Resources

As of December 31, 2010 and 2009, we had $5.3 million and $3.4 million in cash and cash equivalents, respectively, primarily attributable to the closing of private placements aggregating gross proceeds of $3.6 million and $4.3 million in 2010 and 2009, respectively.

Cash Flows from Operating Activities. Net cash used for operating activities was $1,546,818 for 2010 and is primarily attributable to our net loss of $1,808,386, which was partially offset by $274,367 in non-cash activities relating primarily to stock-based compensation expense. Net cash used for operating activities was $734,964 for 2009 and primarily reflects a net loss of $942,266, partially offset by a net decrease of $150,023 in working capital balances and $57,279 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 $46,035 for 2010 and is attributable to the purchase of lab equipment for research and development activities. Net cash provided by investing activities was $59,335 for 2009 and is attributable to net cash of $104,860 acquired in connection with the Merger, partially offset by $45,525 of investments in furniture and lab equipment for our corporate facility.

We expect to increase our investment in laboratory equipment as we seek to expand and progress our research and development activities.

Cash Flows from Financing Activities. Net cash provided by financing activities for 2010 and 2009 was $3.4 million and $4.1 million, respectively, which were derived from the sale of our common stock in private placement transactions.

Future Liquidity Needs. From inception through December 31, 2010, we have principally financed our operations through private equity financings with aggregate net proceeds of $7.5 million, as we have not generated any product related 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. As and if necessary, we will seek to raise additional funds through various potential sources, such as equity and debt financings, or through corporate collaboration and license agreements. We can give no assurances that we will be able to secure such additional sources of funds to support our operations, or, if such funds are available to us, that such additional financing will be sufficient to meet our needs.

Based on our resources at December 31, 2010, and our current plan of expenditure on research and development programs, we believe that we will have sufficient capital to fund our operations for at least 12 months. 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

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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.

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 its ability to access the capital markets to meet liquidity needs.

Related Party Transactions. In 2010 and 2009, we purchased certain equipment from a company owned by Dr. Henry Ji, our Chief Scientific Officer, and a director and stockholder for $9,236 and $30,535, respectively. From inception through December 31, 2008, certain of our stockholders incurred $40,683 of general and administrative expenses on our behalf. In 2009, the stockholders were reimbursed for all such expenses.

Critical Accounting Policies

Our financial statements are prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

We believe the following accounting policies and estimates are most critical to aid in understanding and evaluating our reported financial results.

Cash and Cash Equivalents. We consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. We minimize our credit risk associated with cash and cash equivalents by periodically evaluating the credit quality of our primary financial institution. The balance at times may exceed federally insured limits. As of December 31, 2010, we have not experienced any losses on such accounts.

Stock-Based Compensation. We account for stock-based compensation in accordance with authoritative guidance for stock-based compensation, which requires us to measure the cost of employee services received in exchange for equity incentive awards, including stock options, based on the grant date fair value of the award. The fair value is estimated using the Black-Scholes option pricing model. The resulting cost is recognized over the period during which the employee is required to provide services in exchange for the award, which is usually the vesting period. We recognize compensation expense over the vesting period using the straight-line method and classify these amounts in the statements of operations based on the department to which the related employee reports. To the extent that we issue future stock incentive awards to employees, our stock-based compensation expense will be increased by the additional unearned compensation resulting from such additional issuances.

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We account for equity instruments, including restricted stock or stock options, issued to non-employees in accordance with authoritative guidance for equity based payments to non-employees. Stock options issued to non-employees are accounted for at their estimated fair value determined using the Black-Scholes option-pricing model. The fair value of options granted to non-employees is re-measured as they vest, and the resulting increase in value, if any, is recognized as expense during the period the related services are rendered. Restricted stock issued to non-employees is accounted for at its estimated fair value upon vesting. We evaluate the assumptions used to value stock awards to non-employees on a periodic basis. If factors change and we employ different assumptions, including any significant change in the estimated fair value of common stock, stock-based compensation expense may differ significantly from what we have recorded historically. In addition, to the extent that we issue future stock incentive awards to non-employees, our stock-based compensation expense will be increased by the additional unearned compensation resulting from such additional issuances.

Revenue Recognition. Our revenues are generated from grant awards and a collaboration agreement. The revenue from grant awards are based upon subcontractor costs and internal costs incurred that are specifically covered by the grant, and where applicable, 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 we incur internal expenses that are related to the grant.

The revenue from the Collaboration Agreement is derived from the completion of certain development services and the reimbursement of certain development costs incurred to provide such development services or from the third party s use of the Company s laboratory and instrumentation as provided for in the Collaboration Agreement. Revenue from upfront, nonrefundable service fees are recognized when earned, as evidenced by written acknowledgement from the collaborator, or other persuasive evidence that all service deliverables have been achieved, provided that the service deliverables are substantive and their achievability was not reasonably assured at the inception of the Collaboration Agreement. Any amounts received prior to satisfying our revenue recognition criteria are recorded as deferred revenue.

Off-Balance Sheet Arrangements

From our inception through December 31, 2010, we did not engage in any off-balance sheet arrangements, as defined in Item 303(a)(4) of Regulation S-K.

Recent Accounting Pronouncements

Refer to Note 2, Summary of Significant Accounting Polices, in the accompanying notes to the financial statements for a discussion of recent accounting pronouncements.

Item 7A. 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 8. Financial Statements and Supplementary Data.

Our financial statements and supplementary data required by this item are set forth at the pages indicated in Item 15(a)(1) and (a)(2), respectively, of this Form 10-K.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

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Item 9A. 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 Securities Exchange Act of 1934, as amended, or 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 chief executive officer and chief 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 chief 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 Form 10-K. Based on the foregoing, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Form 10-K.

Management s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) promulgated by the SEC under the Exchange Act. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2010.

This Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only management s report in this Form 10-K.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors and Executive Officers

The following table sets forth information concerning our executive officers and directors, including their ages, as of March 15, 2011:

Name	Age	Title(s)
Dr. Antonius Schuh	47	Chairman and Chief Executive Officer
Dr. Henry Ji	46	Director, Chief Scientific Officer and Secretary
Richard G. Vincent	47	Chief Financial Officer
Dr. Ernst-Guenter Afting	68	Director
Glenn L. Halpryn	50	Director
Dr. Jane H. Hsiao	63	Director
Dr. Curtis Lockshin	50	Director
Stephen Zaniboni	53	Director

Antonius Schuh, Ph.D. co-founded Sorrento Therapeutics, Inc. in January 2006 and served as its Chairman since such time and as its Chief Executive Officer since November 2008 until our acquisition of the company in September 2009, at which time Dr. Schuh was appointed to serve as our Chairman of the Board and Chief Executive Officer. From April 2006 to September 2008, Dr. Schuh served as Chief Executive Officer of AviaraDx (now bioTheranostics, Inc., a bioMerieux company), a molecular diagnostic testing company that is focused on clinical applications in oncology. From March 2005 to April 2006, Dr. Schuh was Chief Executive Officer of Arcturus Bioscience Inc., a developer of laser capture microdissection and reagent systems for microgenomics. From December 1996 to February 2005, Dr. Schuh was employed by Sequenom Inc., a publicly traded diagnostic testing and genetics analysis company. He started with Sequenom as a Managing Director and was promoted to Executive Vice President, Business Development and Marketing, and from May 2000 to February 2005, served as Sequenom s President and Chief Executive Officer. He also previously served as the Head of Business Development at Helm AG, an international trading and distribution corporation for chemical and pharmaceutical products, and in medical and regulatory affairs positions with Fisons Pharmaceuticals (now part of Sanofi-Aventis). Since March 2009, Dr. Schuh has been appointed to the board of directors of Diogenix, Inc., a privately held molecular diagnostic company, and since May 2009, he has served as a director of Transgenomic, Inc., a public biotechnology company focused on genetic analysis and molecular diagnostics. Dr. Schuh is a certified pharmacist and earned his Ph.D. in pharmaceutical chemistry from the University of Bonn, Germany.

Dr. Schuh is an experienced business leader with the skills necessary to serve as our Chairman. Dr. Schuh has over 15 years of experience in various senior executive positions, including chief executive officer, at other biopharmaceutical companies. As a co-founder of Sorrento Therapeutics, Inc., he has a deep understanding of our business. His experience on the boards of directors of other companies in the biopharmaceutical industry further augments his range of knowledge, providing experience on which he can draw while serving as a member of our board of directors.

Henry Ji, Ph.D. co-founded Sorrento Therapeutics, Inc. in January 2006 and served as its Chief Scientific Officer since November 2008, as a director since January 2006 and as its Secretary since September 2009. Dr. Ji was appointed to serve as our Chief Scientific Officer effective upon our acquisition of Sorrento Therapeutics, Inc. in September 2009. In 2002, Dr. Ji founded BioVintage, Inc., a research and development company focusing on innovative life science technology and product development, and has served as its President since 2002. From 2001 to 2002 Dr. Ji served as Vice President of CombiMatrix Corporation, a publicly traded biotechnology company that develops proprietary technologies, including products and services in the areas of drug development, genetic analysis, molecular diagnostics and nanotechnology. During his tenure at CombiMatrix,

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Dr. Ji was responsible for strategic technology alliances with biopharmaceutical companies. From 1999 to 2001, Dr. Ji served as Director of Business Development, and in 2001 as Vice President, of Stratagene Corporation (later acquired by Agilent Technologies, Inc.) where he was responsible for novel technology and product licensing and development. In 1997, Dr. Ji co-founded Stratagene Genomics, Inc., a wholly owned subsidiary of Stratagene Corporation, and served as its President and Chief Executive Officer from its founding until 1999. Dr. Ji is the holder of several issued and pending patents in the life science research field and is the sole inventor of Sorrento Therapeutics Inc. s intellectual property. Dr. Ji has a Ph.D. in Animal Physiology from the University of Minnesota and a B.S. in Biochemistry from Fudan University.

Dr. Ji has demonstrated significant leadership skills as President of BioVintage, Inc. and Vice President of CombiMatrix Corporation and Strategene Corporation and brings more than 16 years of biotechnology and biopharmaceutical experience to his position on our board of directors. Dr. Ji s extensive knowledge of the industry in which we operate, as well as his unique role in the day-to-day operations of the Company as our Chief Scientific Officer, allows him to bring to our board of directors a broad understanding of the operational and strategic issues facing the Company.

Richard G. Vincent joined the Company in January 2010, and has served as our Chief Financial Officer, on a part-time basis, since February 2010. Since April 2008, Mr. Vincent has also served as a contract Chief Financial Officer for various other companies, including Meritage Pharma, Inc., Elevation Pharmaceuticals, Inc., Verus Pharmaceuticals, Inc., and Chumby Industries, Inc. From October 2004 to March 2009, Mr. Vincent served as Chief Financial Officer of Verus Pharmaceuticals, Inc., a specialty pharmaceutical company focused on developing and commercializing pediatric drug/device combination products for the treatment of asthma, allergies, and related diseases and conditions. From October 2003 to October 2004, Mr. Vincent served as Chief Financial Officer of Women First HealthCare, Inc., a public specialty pharmaceutical company focused on women s healthcare and dermatology. Mr. Vincent also served as Senior Director of Finance for Elan Pharmaceuticals, Inc., a public biopharmaceutical company engaged in research, development and commercial activities primarily in neuroscience, autoimmune and severe chronic pain, from October 2001 to October 2003. From November 1995 to October 2001, Mr. Vincent served in various senior management capacities for several wireless and technology companies. From 1987 to 1995, Mr. Vincent held a number of positions with Deloitte & Touche LLP, the last of which was senior manager, where he specialized in emerging growth and publicly-reporting companies. Mr. Vincent became a Certified Public Accountant in California in 1989 and holds a B.S. degree in business with an emphasis in accounting from San Diego State University.

Mr. Vincent brings over 20 years of experience serving in key financial roles (including as chief financial officer for various companies) in a variety of privately-held and publicly-traded companies in the pharmaceutical and biopharmaceutical industries as well as serving in the public accounting industry for over nine years. He combines general business expertise and capital-raising experience, with a deep knowledge of financial matters and financial reporting obligations of a public company. In addition, Mr. Vincent has extensive corporate governance and operational management experience with both privately-held and publicly-traded companies, giving him a deep understanding of the challenges faced by public companies and allowing him to bring a variety of viewpoints and perspectives to our Company.

Ernst-Guenter Afting, Ph.D., M.D. has served as a director since September 2009. From 1995 until his retirement in 2006, Dr. Afting served as President and Chief Executive Officer of the GSF-National Research Center for Environment and Health GmbH, a governmental research center in Munich, Germany. From 1993 to 1995, he served as President and Chief Executive Officer of Roussel UCLAF, Paris. Dr. Afting was also a member of the board of the Pharmaceutical Division of Hoechst Group from 1984 to 1993 and was Chairman and Chief Executive Officer of the Divisional Pharmaceutical Board of Hoechst from 1992-1993. Dr. Afting was a member of the advisory committee on science and technology to German Chancellor Helmut Kohl from 1996 to 1997 and from 1996 to 2005 was a member of the German National Advisory Committee on Health Research to the State Secretaries of Science, Technology and Health. Dr. Afting has been a member of the medical faculty at the University of Goettingen since 1985. Dr. Afting currently serves on the boards of Sequenom, Inc., Intercell AG, Enanta Pharmaceuticals, Inc. and Olympus Europa GmbH. He received his Ph.D. in Chemistry and M.D. from the University of Freiburg/Breisgau, Germany.

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With over 20 years of experience serving in key senior executive roles (including as president and chief executive officer) and as an active board member in a variety of privately-held and publicly-traded companies in the pharmaceutical and drug industries, Dr. Afting brings to our board of directors critical insights into the operational requirements of a public company. Dr. Afting s experience and knowledge of the global biotechnology industry provides needed information to our board of directors and management and will be valuable to our overall business and strategies relating to our ongoing development efforts and transition to commercial activities.

Glenn L. Halpryn has served as a director since July 2008. From July 2008 to August 2009, Mr. Halpryn served as our Chairman of the Board, Chief Executive Officer and President. Since August 2010, Mr. Halpryn has served as a Director of ChromaDex Corporation (OTCBB: CDXC.OB). ChromaDex Corporation and its subsidiaries supply phytochemical reference standards and reference materials, related contract services, and products for the dietary supplement, nutraceutical, food and beverage, functional food, pharmaceutical and cosmetic markets. Since April 2010, Mr. Halpryn has served as a Director of CDSI Holdings, Inc., (OTCBB: CDSI.OB), a public shell company seeking new business opportunities. Since 2001, Mr. Halpryn has served as Chief Executive Officer and a director of Transworld Investment Corporation and is an active investor and management member of investor groups in various land acquisition and development projects. Since September 2008, Mr. Halpryn has served as a director of Castle Brands Inc., a developer and international marketer of premium branded spirits whose shares are traded on the NYSE Amex (formerly known as the American Stock Exchange). Since December 2008, Mr. Halpryn has served as a director of SearchMedia Holdings Limited, the second largest outdoor billboard and in-elevator advertisement company in China. Since September 2008, Mr. Halpryn has served as a director of Winston Pharmaceuticals, Inc., a publicly held corporation specializing in the manufacture of skin creams and prescription medication for the treatment of pain management. From December 2006 through 2009, Mr. Halpryn served as a director or held various executive officer positions in the Getting Ready Corporation (a publicly held shell corporation that merged with Winston Pharmaceuticals, Inc. in September 2008), Ideation Acquisition Corporation (a publicly traded special purpose acquisition corporation that merged into SearchMedia Holdings Limited in November 2009), clickNsettle.com (a publicly held shell corporation that merged with Cardo Medical, LLC in September 2008), Longfoot Communications, Inc. (a publicly held shell corporation that merged into Kidvill Holdings, LLC in August 2008). Mr. Halpryn served as a director of Ivax Diagnostics, Inc., a publicly held corporation, from 2002 until September 2008. Mr. Halpryn was Chairman of the Board and Chief Executive Officer of Orthodontix, Inc., a publicly held corporation, from April 2001 until Orthodontix merged with Protalix BioTherapeutics, Inc. (NYSE Amex: PLX) in December 2006.

Mr. Halpryn has over 10 years of leadership experience serving companies in the biotechnology and biopharmaceutical industries. In addition, his service on the boards of directors of a variety of other public companies gives him a deep understanding of the challenges faced by public companies and allows him to bring a variety of viewpoints and perspectives to the deliberations of our board of directors. Mr. Halpryn has a broad understanding of the operational, financial and strategic issues facing public and private companies and his investment, acquisition and development experience will be valuable to our business and strategies relating to our current development activities and efforts to finance the development of future products.

Jane H. Hsiao, Ph.D., MBA. Dr. Hsiao has served as a director since January 2010. Dr. Hsiao has served as Vice-Chairman and Chief Technical Officer of OPKO Health, Inc. since May 2007. Dr. Hsiao served as the Vice Chairman-Technical Affairs of IVAX from 1995 to January 2006. Dr. Hsiao served as Chairman, Chief Executive Officer and President of IVAX Animal Health, IVAX s veterinary products subsidiary, from 1998 to 2006. Dr. Hsiao has served as Chairman of the Board of each of Safestitch Medical, Inc. (OTCBB: SFES) and Non-Invasive Monitoring Systems, Inc. (OTCBB: NIMU), both medical device companies, since September 2007 and October 2008, respectively. Dr. Hsiao is also a director of PROLOR Biotech, Inc. (NYSE Amex:PBTH), a development stage biopharmaceutical company, and Neovasc, Inc. (TSXV:NVC), a company developing and marketing medical specialty vascular devices.

Dr. Hsiao s background in pharmaceutical chemistry and strong technical expertise, as well as her senior management experience, enables her to provide valuable insights and a critical perspective with respect our

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product development efforts and business strategies. In addition, as a result of her role as director and/or chairman of other companies in the biotechnology and life sciences industries, Dr. Hsiao has a keen understanding and appreciation of the many regulatory and development issues facing pharmaceutical and biotechnology companies.

Curtis Lockshin, Ph.D. has served as a director since July 2008. Dr. Lockshin served as a director of Winston Pharmaceuticals, Inc., a publicly held corporation and the parent company of Winston Laboratories, Inc., from September 2008 until May 2010. Dr. Lockshin served as a director of Getting Ready Corporation, a publicly held shell corporation, from December 2006 until its merger with Winston Laboratories in September 2008. Dr. Lockshin served as a director of clickNsettle.com, Inc., a publicly held shell corporation, from October 2007 until its merger with Cardo Medical, LLC in September 2008. Since 2003, Dr. Lockshin has been an independent pharmaceutical & life sciences consultant, focused on small companies that seek to leverage their technology assets inside healthcare, biotechnology and security sectors. From 1998 to 2002, Dr. Lockshin was a Scientist, Associate Director, and Director of Discovery Biology & Informatics at Sepracor Inc., where he was instrumental in establishing the New Leads program, which delivered novel chemical entities into the preclinical pipeline. In 2002-2003, while Director of Discovery Biology at Beyond Genomics, Inc., Dr. Lockshin co-developed strategies for utilizing proprietary technology platforms in clinical trial optimization and prediction of off-target drug activities. Dr. Lockshin s current activities include a business development engagement with TelAztec LCC (Burlington, MA). Since 2004, Dr. Lockshin has served on the board of directors of the Ruth K. Broad Biomedical Research Foundation, a Duke University support corporation, which supports basic research related to Alzheimer s disease and neurodegeneration via intramural, extramural, and international grants. Dr. Lockshin was a director of Orthodontix, Inc. from July until December 2006. Dr. Lockshin is a co-inventor on several U.S. patents and applications covering pharmaceuticals, biomaterials, and optics for remote biochemical sensing. He holds a Bachelor s degree in Life Sciences and a PhD in Biological Chemistry, both from the Massachusetts Institute of Technology.

Dr. Lockshin has over 10 years of experience in the pharmaceutical and life sciences industries and has served on the boards of directors of a variety of other public companies, which gives him a broad understanding of the operational, financial and strategic issues facing public companies. As an experienced scientist and inventor on several patents in the pharmaceuticals industry, Dr. Lockshin combines extensive leadership experience with a deep knowledge of the scientific matters related to our business.

Stephen Zaniboni has served as a director since February 2010. Since June 2010, Mr. Zaniboni has served as Chief Financial Officer of Awarepoint Corporation, a leading provider of healthcare software. Prior to joining Awarepoint Corporation, Mr. Zaniboni served as Chief Financial Officer of XIFIN Inc., the leading provider of revenue cycle management for diagnostic service providers, from January 2009 through June 2010. Prior to joining XIFIN Inc. Mr. Zaniboni served as the Chief Financial Officer of Sorrento Therapeutics, Inc. from January 2006, and as a member of its board of directors from November 2008, through our acquisition of the company in September 2009. From May 2006 to September 2008, Mr. Zaniboni served as Chief Financial Officer of AviaraDx (now bioTheranostics, a bioMerieux company), a molecular diagnostic testing cancer profiling company that is focused on developing and commercializing molecular diagnostic technologies with proven clinical utility. From October 2005 to April 2006, Mr. Zaniboni was Chief Financial Officer of Arcturus Bioscience (acquired by Molecular Devices Corp., now MDS). He joined Arcturus from Sequenom (NASTIQ: SQNM), a publicly traded diagnostic testing and genetics analysis company, where he served as Chief Financial Officer from May 1997 to September 2005. Mr. Zaniboni has also held various financial management positions at Aspect Medical Systems, Behring Diagnostics, and Boston Scientific. He was a practicing CPA with Arthur Andersen and holds a B.S. in accounting from Boston University and an M.B.A. from Boston College.

As an experienced financial and operational leader with companies in the biotechnology industry, Mr. Zaniboni combines general business expertise with a deep knowledge of financial matters and financial reporting. These attributes also allow him to perform an essential role on our board of directors as its audit committee financial expert under applicable rules and regulations of the Securities and Exchange Commission,

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or SEC. In addition, Mr. Zaniboni has extensive corporate governance and operational management experience with both privately-held and publicly-traded companies, giving him a deep understanding of the challenges faced by public companies and allowing him to bring a variety of viewpoints and perspectives to our board of directors.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, requires our directors and executive officers, and persons who beneficially own more than ten percent of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes of ownership of common stock and our other equity securities. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2010, our officers, directors and greater than ten percent beneficial owners complied with all Section 16(a) filing requirements applicable to them.

Code of Ethics

We have adopted the Sorrento Therapeutics, Inc. Code of Business Conduct and Ethics that applies to all of our employees, executive officers and directors. The Code of Business Conduct and Ethics is available to stockholders on our Internet website at www.sorrentotherapeutics.com under Corporate Governance. If we make any substantive amendments to our Code of Business Conduct and Ethics or grant any waiver from a provision of the Code of Business Conduct and Ethics to any executive officer or director, we will promptly disclose the nature of the amendment or waiver on our Internet website at www.sorrentotherapeutics.com under Corporate Governance and/or in our public filings with the SEC.

Consideration of Director Nominees

Director Qualifications

There are no specific minimum qualifications that the Company s Board of Directors, or the Board, requires to be met by a director nominee recommended for a position on our Board, nor are there any specific qualities or skills that are necessary for one or more members of our Board to possess, other than as are necessary to meet the requirements of the rules and regulations applicable to us. The Board considers a potential director candidate s experience, areas of expertise and other factors relative to the overall composition of our Board and its committees, including the following characteristics:

- the highest ethical standards and integrity and a strong personal reputation;
- a background that provides experience and achievement in business, finance, biotechnology or other activities relevant to our business and activities;
- a willingness to act on and be accountable for Board and, as applicable, committee decisions;
- an ability to provide wise, informed and thoughtful counsel to management on a range of issues affecting us and our stockholders;
- an ability to work effectively and collegially with other individuals;
- loyalty and commitment to driving our success and increasing long-term value for our stockholders;

sufficient time to devote to Board and, as applicable, committee membership and matters; and

the independence requirements imposed by the SEC and the NYSE Amex.

The Board retains the right to modify these qualifications from time to time.

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Security Holder Nominations

The Board will consider director candidates recommended by our stockholders of record. The Board does not intend to alter the manner in which it evaluates candidates, including the minimum criteria set forth above, based on whether a candidate was recommended by a stockholder of record or not. Stockholders of record who wish to recommend individuals for consideration by the Board to become nominees for election to the Board at an annual meeting of stockholders must do so by delivering a written recommendation to the Board, c/o Sorrento Therapeutics, Inc., 6042 Cornerstone Ct. West, Suite B, San Diego, California 92121, Attn: Corporate Secretary, no later than the close of business on the 45th day nor earlier than the 75th day prior to the anniversary date of the initial mailing of our proxy statement for our preceding year s annual meeting of stockholders. However, if the meeting date is more than 30 days before or after the 1 year anniversary of the preceding year s annual meeting of stockholders, written recommendations must be received by the Secretary at the principal executive offices by not later than the close of business on the later of (i) the 90th day before such annual meeting or (ii) the 10th day following the day on which public announcement (as defined in the Company s bylaws) of the date of such meeting is first made. Each written recommendation must set forth, among other information:

- the name and address of the stockholder of record and any beneficial owner on whose behalf the nomination is being made;
- the class, series and number of shares of the Company, and any convertible securities of the Company, that are beneficially owned by the stockholder of record and any beneficial owner on whose behalf the nomination is being made;
- any proxy, contract, arrangement, understanding or relationship pursuant to which the stockholder of record and any beneficial owner on whose behalf the nomination is being made has the right to vote any of the Company s voting securities;
- any short interest in the Company s securities held by the stockholder of record and any beneficial owner on whose behalf the nomination is being made;
- the proposed director candidate s name, age, business address and residential address;
- complete biographical information for the proposed director candidate, including the proposed director candidate s principal occupation or employment and business experience for at least the previous five years;
- the class and number of shares of the Company that are beneficially owned by the proposed director candidate as of the date of the written recommendation; and
- any other information relating to the proposed director candidate that is required to be disclosed in solicitations for proxies for election of directors pursuant to Regulation 14A promulgated under the Exchange Act.

Director candidate nominations from stockholders must be provided in writing and must include the written consent of each proposed nominee to serve as director if so elected.

If a proposed director candidate is recommended by a security holder in accordance with the procedural requirements discussed above, the Corporate Secretary will provide the foregoing information to the Board.

Board Leadership Structure

Our Board believes that our Chief Executive Officer is best situated to serve as Chairman because he is the director that is most familiar with our business and industry, possesses detailed and in-depth knowledge of the issues, opportunities and challenges facing us and is therefore best positioned to develop agendas that ensure that the Board s time and attention are focused on the most critical matters. Our independent directors

bring experience, oversight and expertise from outside the company and industry, while the Chief Executive Officer

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brings company-specific experience and expertise. The Board believes that the combined role of Chairman and Chief Executive Officer facilitates information flow between management and the Board, which are essential to effective governance.

Board s Role in Risk Oversight

Our Board has an active role, as a whole and also at the committee level, in overseeing management of our risks. The Board regularly reviews information regarding our credit, liquidity and operations, as well as the risks associated with each. Our Compensation Committee is responsible for overseeing the management of risks relating to our executive compensation plans and arrangements. Our Audit Committee oversees management of financial risks and manages risks associated with the independence of the Board of Directors and potential conflicts of interest and oversees management of risks associated with health and safety concerns. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, our entire Board of Directors is informed about such risks by the committees.

Information Regarding Board Committees

Our Board has established standing Audit and Compensation Committees to devote attention to specific subjects and to assist it in the discharge of its responsibilities. Both committees operate under a written charter adopted by our Board of Directors, each of which is available on our Internet website at www.sorrentotherapeutics.com under Corporate Governance.

Audit Committee

We have a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. Our Audit Committee is comprised of Dr. Afting, Dr. Lockshin and Mr. Zaniboni and Mr. Zaniboni serves as the Chairperson of the Audit Committee. The functions of this Committee include, among others:

- evaluating our independent registered public accountant s qualifications, independence and performance;
- determining the engagement of our independent auditors;
- approving the retention of our independent auditors to perform any proposed audit and permissible non-audit services;
- monitoring the rotation of partners of our independent auditors on our engagement terms as required by law;
- reviewing our financial statements;
- reviewing our critical accounting policies and estimates;
- discussing with our management and our independent auditors the results of the annual audit and the review of our quarterly financial statements; and
- reviewing and evaluating, at least annually, the performance of the Audit Committee and its members, including compliance of the Audit Committee with its charter.

Typically, the Audit Committee meets at least quarterly and with greater frequency if necessary. Our Board has adopted a written charter of the Audit Committee that is available to stockholders on our Internet website at www.sorrentotherapeutics.com under Corporate Governance.

The Company s Common Stock is quoted on the Over-the-Counter Bulletin Board, or OTCBB. Since the OTCBB does not have rules regarding independence of audit committee members, the Board makes its

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determination as to the independence of our Audit Committee members based on the definition of independence as defined under the rules of the NYSE Amex. Under the applicable rules and regulations of the NYSE Amex, each member of a company s audit committee must be considered independent in accordance with Section 803A of the NYSE Amex LLC Company Guide and Rule 10A-3(b)(1) under the Exchange Act. Our Board reviews the NYSE Amex standards and Exchange Act definitions of independence for Audit Committee members on an annual basis and has determined that all members of the Company s Audit Committee are independent (as independence is currently defined in Section 803A of the NYSE Amex Listed Company Manual). Our Board has determined that all members of our Audit Committee also meet the requirements for financial literacy under the NYSE Amex listing standards.

Our Board has determined that Mr. Zaniboni, the chairman of our Audit Committee, is an audit committee financial expert, as defined under applicable SEC rules, and that Mr. Zaniboni meets the background and financial sophistication requirements under Section 803A of the NYSE Amex LLC Company Guide. In making this determination, the Board made a qualitative assessment of Mr. Zaniboni s level of knowledge and experience based on a number of factors, including his formal education and experience. Both our independent registered public accounting firm and internal financial personnel regularly meet privately with our Audit Committee and have unrestricted access to this committee.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Our Audit Committee is composed of independent directors, as determined in accordance with Section 803A of the NYSE Amex LLC Company Guide and Rule 10A-3 of the Exchange Act. The Audit Committee operated pursuant to a written charter adopted by the Board, a copy of which may be viewed on our Internet website at www.sorrentotherapeutics.com under Corporate Governance.

As described more fully in its charter, the purpose of the Audit Committee is to assist our Board with its oversight responsibilities regarding the integrity of our financial statements, our compliance with legal and regulatory requirements, assessing the independent registered public accounting firm s qualifications and independence and the performance of the persons performing internal audit duties for us and the independent registered public accounting firm. Management is responsible for preparation, presentation and integrity of our financial statements as well as our financial reporting process, accounting policies, internal audit function, internal accounting controls and disclosure controls and procedures. The independent registered public accounting firm is responsible for performing an independent audit of our financial statements in accordance with generally accepted auditing standards and to issue a report thereon. The Audit Committee s responsibility is to monitor and oversee these processes. The following is the Audit Committee s report submitted to the Board for 2010.

The Audit Committee has:

- reviewed and discussed our audited financial statements with management and Mayer Hoffman McCann P.C., the independent registered public accounting firm;
- discussed with Mayer Hoffman McCann P.C. the matters required to be discussed by AU Section 380, Communications with Audit Committees, as may be modified or supplemented; and
- received from Mayer Hoffman McCann P.C. the written disclosures and the letter regarding their communications with the Audit Committee concerning independence as required by the Public Company Accounting Oversight Board and discussed the auditors independence with them.

In addition, the Audit Committee has met separately with management and with Mayer Hoffman McCann P.C.

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Based on the review and discussions referred to above, the Audit Committee recommended to the Board that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2010 for filing with the Securities and Exchange Commission. The Audit Committee also has engaged Mayer Hoffman McCann P.C. as the Company s independent auditors for the fiscal year ending December 31, 2011.

Audit Committee

Dr. Ernst-Guenter Afting

Dr. Curtis Lockshin

Mr. Stephen Zaniboni

This foregoing audit committee report is not soliciting material, is not deemed filed with the SEC, and shall not be deemed incorporated by reference by any general statement incorporating by reference this Annual Report on Form 10-K into any filing of ours under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent we specifically incorporate this report by reference.

Item 11. Executive Compensation.

Compensation Committee

Our Compensation Committee is comprised of Mr. Halpryn, Dr. Lockshin and Mr. Zaniboni. Mr. Halpryn serves as the Chairperson of our Compensation Committee. The functions of this committee include, among others:

- determining the compensation and other terms of employment of our executive officers and reviewing and approving corporate performance goals and objectives relevant to such compensation;
- evaluating and recommending the type and amount of compensation to be paid or awarded to our Board members;
- evaluating and recommending to our Board the equity incentive plans, compensation plans and similar programs advisable for us, as well as modification or termination of existing plans and programs;
- administering our equity incentive plans;
- establishing policies with respect to equity compensation arrangements;
- reviewing and approving the terms of any employment agreements, severance arrangements, change in control protections and any other compensatory arrangements for our executive officers; and
- reviewing and evaluating, at least annually, the performance of the Compensation Committee and its members, including compliance of the Compensation Committee with its charter.

Our Board has adopted a written charter of the Compensation Committee that is available to stockholders on our Internet website at www.sorrentotherapeutics.com under Corporate Governance. The Compensation Committee meets periodically throughout the year as

necessary. The agenda for each meeting is usually developed by the Chairperson of the Compensation Committee, in consultation with our Chief Executive Officer and other representatives of senior management as necessary. The Compensation Committee meets regularly in executive session. However, from time to time, various members of management and other employees as well as outside advisors or consultants may be invited by the Compensation Committee to make presentations, provide financial or other background information or advice or otherwise participate in Compensation Committee meetings. The Chief Executive Officer may not participate in or be present during any deliberations or determinations of the Compensation Committee regarding his compensation. The charter of the Compensation Committee grants the Compensation Committee full access to all of our books, records, facilities and personnel,

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as well as authority to obtain, at our expense, advice and assistance from internal and external legal, accounting or other advisors and consultants and other external resources that the Compensation Committee considers necessary or appropriate in the performance of its duties. In particular, the Compensation Committee has the sole authority to retain or consult compensation consultants to assist in its evaluation of executive and director compensation, including the authority to approve the consultant s reasonable fees and other retention terms.

The Compensation Committee meets outside the presence of all of our executive officers, including the named executive officers, in order to consider appropriate compensation for our Chief Executive Officer. For all other named executive officers, the Compensation Committee meets outside the presence of all executive officers except our Chief Executive Officer. The annual performance reviews of our executive officers are considered by the Compensation Committee when making decisions on setting base salary, targets for and payments under our bonus plan and grants of equity incentive awards. When making decisions on executive officers, the Compensation Committee considers the importance of the position to us, the past salary history of the executive officer and the contributions we expect the executive officer to make to the success of our business.

Compensation Discussion and Analysis

The primary goals of our Board with respect to executive compensation are to attract and retain talented and dedicated executives, to tie annual and long-term cash and stock incentives to achievement of specified performance objectives, and to create incentives resulting in increased stockholder value. To achieve these goals, our Compensation Committee recommends to our Board executive compensation packages, generally comprising a mix of salary, discretionary bonus and equity awards. Although we have not adopted any formal guidelines for allocating total compensation between equity compensation and cash compensation, we have implemented and maintain compensation plans that tie a substantial portion of our executives overall compensation to achievement of corporate goals.

Summary Compensation Table

The following table provides information regarding the compensation earned during the years ended December 31, 2010 and 2009 by our (i) Chairman and Chief Executive Officer, and (ii) Chief Scientific Officer and Secretary. We refer to these two individuals collectively as our named executive officers. None of our other executive officers earned in excess of $100,000 in 2010.

Name and Principal Position	Year	Salary ($) (1)	Bonus ($)	Stock / Option Awards ($) (2)	Fees Earned Or Paid in Cash ($)	All Other Compensation ($)	Total ($)
Antonius Schuh, Ph.D.[3] Chairman of the Board and Chief Executive Officer	2010	250,000		8,550		18,204	276,754
	2009	114,583				6,933	121,516
Henry Ji, Ph.D.[4] Chief Scientific Officer and Secretary	2010	240,000		8,550		23,136	271,686
	2009	110,000				6,989	116,989

(1) 2009 amounts received for services as employees of the Company from July 16, 2009 through December 31, 2009.

(2) The dollar amounts listed do not necessarily reflect the dollar amounts of compensation actually realized or that may be realized by our named executive officers. These amounts represents the grant date fair value of incentive stock option awards under the Company s stock incentive plans based upon the fair market value of the Company s common stock price on the date of grant, and calculated assuming that the highest level of performance will be achieved. Information regarding assumptions made in valuing the stock awards can be found in Note 5 of the Notes to Financial Statements included in this Annual Report on Form 10-K.

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(3) Dr. Schuh was appointed Chairman of the Board and Chief Executive Officer in September 2009 in connection with the completion of the Merger of the Company and Sorrento Therapeutics, Inc., as more fully described below in the section entitled Certain Relationships and Related Transactions-2009 Transactions.

(4) Dr. Ji was appointed Chief Scientific Officer and Secretary in September 2009 in connection with the completion of the Merger of the Company and Sorrento Therapeutics, Inc.

The Company paid no perquisites or other personal benefits to its executive officers during the years ended December 31, 2010 and 2009.

OUTSTANDING EQUITY AWARDS AT DECEMBER 31, 2010

The following table presents the outstanding option awards held by each of our named executive officers as of December 31, 2010, including the value of the options awards.

	Option Award						Stock Awards	
Name	Option Grant Date	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Earned Options Unexercisable (#)	Number of Securities Underlying Unexercised Unearned Options Unexercisable (#) (1)	Option Exercise Price ($) (2)	Option Expiry Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested
Antonius Schuh	02/16/10			150,000	$ 0.07	02/15/20		
Henry Ji	02/16/10			150,000	$ 0.07	02/15/20		

(1) 25% of the shares subject to the option became exercisable on 02/16/11 and 25% of the unexercisable shares relating to the option award will become exercisable on each of 2/16/12, 2/16/13 and 2/16/14.

(2) Represents the fair market value of a share of our common stock, as determined by the Board of Directors, on the option s grant date.

Benchmarking of Cash and Equity Compensation

We have consulted with a compensation consultant to assist in the establishment of guidelines for cash and equity compensation with respect to executive compensation. We may retain the services of third-party executive compensation specialists from time to time in connection with the establishment of cash and equity compensation and related policies and we intend to take into account input from other independent members of our Board and publicly available data relating to the compensation practices and policies of other companies within and outside our industry.

Elements of Compensation

We evaluate individual executive performance with a goal of setting compensation at levels the Board or any applicable committee thereof believes are comparable with executives in other companies of similar size and stage of development while taking into account our relative performance and our own strategic goals. The compensation received by our executive officers consists of the following elements:

Base Salary. Base salaries for our executives are established based on the scope of their responsibilities and individual experience, taking into account competitive market compensation paid by other companies for similar positions within our industry.

Discretionary Annual Bonus. In addition to base salaries, our Board or applicable committee thereof has the authority to award discretionary annual bonuses to our executive officers. The annual incentive bonuses are intended to compensate officers for achieving corporate goals and value-creating milestones.

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Equity-Based Incentives. Salaries and bonuses are intended to compensate our executive officers for short-term performance. We also have adopted an equity incentive approach intended to reward longer-term performance and to help align the interests of our executive officers with those of our stockholders. We believe that long-term performance is achieved through an ownership culture that rewards performance by our executive officers through the use of equity incentives. Our equity incentive plan has been established to provide our employees, including our executive officers, with incentives to help align those employees interests with the interests of our stockholders.

When making equity-award decisions, the Compensation Committee considers market data, the grant size, the forms of long-term equity compensation available to it under our existing plans and the status of previously granted awards. The amount of equity incentive compensation granted in 2009 reflects the executives expected contributions to our future success. Existing ownership levels are not a factor in award determination, as the Compensation Committee does not want to discourage executives from holding significant amounts of our stock.

Future equity awards that we make to our executive officers will be driven by our sustained performance over time, our executive officers ability to impact our results that drive stockholder value, their level of responsibility within our Company, their potential to fill roles of increasing responsibility, and competitive equity award levels for similar positions in comparable companies. Equity forms a key part of the overall compensation for each executive officer and is evaluated each year as part of the annual performance review process and incentive payout calculation.

The amounts awarded to executive officers are based on the Compensation Committee s subjective determination of what is appropriate to incentivize the executives. Generally, the grants to executive officers vest over a four-year period with 25% vesting on each anniversary of the grant date. All options were granted at the fair market value on the date of grant, as determined by our Board. All equity awards to our employees, including executive officers and to directors, have been granted and reflected in our financial statements, based upon the applicable accounting guidance, with the exercise price equal to the fair market value on the grant date based on the valuation determined by our Board.

Severance and Change-in-Control Benefits. Each of Dr. Antonius Schuh s and Dr. Henry Ji s employment letter with the Company, each of which were entered into as of the September 21, 2009, or the Employment Letters, provides that in the event his employment with us is terminated prior to the end of the term specified in the Employment Letter for any reason other than for cause , then concurrent with such termination, he will be entitled to receive (i) all compensation accrued, but unpaid, up to the date of termination, and (ii) severance in an amount equal to one year s then base salary. In addition, the vesting of all stock options or other equity awards then held by him will accelerate in full and be exercisable for a period of 90 days after any such termination. For each of the Employment Letters, cause is defined to mean (i) any dishonesty that is intended to materially injure the business of the Company, (ii) conviction of any felony, or (iii) any wanton or willful dereliction of duties that are not cured after being provided with 30 days written notice.

Other Compensation. We intend to provide benefits and perquisites for our executive officers at levels comparable to those provided to other executive officers in our industry. Our Board or any applicable committee thereof, in its discretion, may revise, amend or add to the benefits and perquisites of any executive officer as it deems it advisable and in the best interest of the Company and our stockholders.

Employment Agreements

Pursuant to the Employment Letters, Drs. Schuh and Ji are employed as our Chief Executive Officer and Chief Scientific Officer, respectively. Each Employment Letter is for a term of three years from September 21, 2009. Under their respective Employment Letters, Dr. Schuh will receive an initial annual salary of $250,000, Dr. Ji will receive an initial annual salary of $240,000, and each will be eligible to participate in any cash-bonus program and equity award plan of the Company in such amounts as our Board or any applicable committee thereof shall determine in its sole discretion.

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Offer Letter with Richard Vincent

In January 2010, we entered into a consulting agreement with Richard Vincent, an independent contractor. Under this agreement, Mr. Vincent: (i) currently receives a daily retainer of $1,000, and (ii) is eligible for an annual bonus at the sole discretion of the board of directors or a committee thereof. Either we or Mr. Vincent may terminate the agreement at any time.

Non-Employee Director Compensation

The following table summarizes the total compensation paid to or earned by each of the Company s directors who served during all or a portion of the year ended December 31, 2010. The compensation of directors who are named executive officers is detailed above under the heading Summary Compensation Table.

Name(1)	Fees Earned or Paid in Cash ($)	Option Awards ($) (2)	Total ($)
Ernst-Guenter Afting	6,000	3,285	9,285
Glenn Halpryn	6,000	3,680	9,680
Curtis Lockshin	6,000	4,470	10,470
Jane Hsiao	4,500	4,220	8,720
Stephen Zaniboni	4,500	6,985	11,485
Lewis J. Shuster(3)	5,645		5,645

(1) Dr. Schuh, our Chairman and Chief Executive Officer and a named executive officer, and Dr. Ji, our Chief Scientific Officer and Secretary and a named executive officer, are not included in this table as they are employees and thus receive no compensation for their service as directors. Dr. Schuh s and Dr. Ji s compensation for 2010 is included in the Summary Compensation Table above.

(2) These amounts represent the aggregate grant date fair value of awards for grants of options to each listed director in fiscal 2010, computed in accordance with FASB ASC Topic 718. These amounts do not represent the actual amounts paid to or realized by the directors during fiscal 2010. The value as of the grant date for stock options is recognized over the number of days of service required for the stock option to vest in full. For a detailed description of the assumptions used for purposes of determining grant date fair value, see Note 5 to the Financial Statements included in this Annual Report on Form 10-K. As of December 31, 2010, each of our non-employee directors held the following number of options: Ernst-Guenter Afting, 75,000; Glenn Halpryn 80,000; Curtis Lockshin 90,000; Jane Hsiao 60,000; and Stephen Zaniboni 95,000.

(3) Resigned as of February 1, 2010.

From January 2010 through December 2010, the outside directors of the Company received a quarterly fee of $1,500 for their services as directors, which are payable quarterly. Additionally, we reimburse each outside director for reasonable travel expenses related to such director s attendance at board of directors and committee meetings.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information as of March 1, 2011, with respect to the beneficial ownership of shares of our common stock by:

- each person or group known to us to be the beneficial owner of more than five percent of our common stock;
- each of our directors;

each of our named executive officers; and

all of our current directors and executive officers as a group.

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This table is based upon information supplied by officers, directors and principal stockholders and a review of Schedules 13D and 13G, if any, filed with the SEC. Other than as set forth below, we are not aware of any other beneficial owner of more than five percent of our common stock as of March 1, 2011. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock that they beneficially own, subject to applicable community property laws.

Applicable percentage ownership is based on 249,697,135 shares of common stock outstanding as of March 1, 2011, adjusted as required by rules promulgated by the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities. In addition, the rules include shares of common stock issuable pursuant to the exercise of stock options that are either immediately exercisable or exercisable on or before April 30, 2011, which is 60 days after March 1, 2011. These shares are deemed to be outstanding and beneficially owned by the person holding those options for the purpose of computing the percentage ownership of that person, but they are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

Unless otherwise noted below, the address of each beneficial owner listed in the table is c/o Sorrento Therapeutics, Inc., 6042 Cornerstone Ct. West, Suite B, San Diego, California 92121.

	Beneficial Ownership of Common Stock	
Name of Beneficial Owner	**Number of Shares**	**Percentage of Class**
Named Executive Officers and Directors:		
Dr. Antonius Schuh, Chairman and Chief Executive Officer	25,521,829[1]	10.2%
Dr. Henry Ji, Director, Chief Scientific Officer and Secretary	43,791,532[2]	17.5%
Ernst-Guenter Afting, Director	925,430[3]	*
Glenn L. Halpryn, Director and Former Principal Executive Officer	18,839,503[4]	7.5%
4400 Biscayne Boulevard, Suite 950 Miami, Florida 33137		
Jane Hsaio, Ph.D., Director	2,271,719[5]	*
Dr. Curtis Lockshin, Director	15,000[6]	*
4400 Biscayne Boulevard, Suite 950 Miami, Florida 33137		
Stephen Zaniboni, Director	25,541,829[7]	10.2%
All Officers and Directors as a Group (8 Persons)	116,906,842[8]	46.8%
5% Stockholders:		
Dr. Antonius Schuh, Chairman and Chief Executive Officer	25,521,829[1]	10.2%
Dr. Henry Ji, Director, Chief Scientific Officer and Secretary	43,791,532[2]	17.5%
OPKO Health, Inc.	59,015,257	23.6%
4400 Biscayne Boulevard, Suite 900 Miami, Florida 33137		
Donald Scifres	36,158,594[9]	14.5%
One First Street, Suite 14 Los Altos, CA 94022		
Halpryn Group VI, LLC	17,194,228	6.9%
4400 Biscayne Boulevard, Suite 950		

Miami, Florida 33137		
Steven Jerry Glauser	21,292,847[10]	8.5%

1400 16th Street, Suite 510

Denver, Colorado 80202

* Less than 1%.

(1) Comprised of 37,500 shares of common stock issuable pursuant to stock options exercisable within 60 days of March 1, 2011 and 25,484,329 shares of common stock held in a trust, of which Dr. Schuh is the trustee.

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(2) Comprised of 37,500 shares of common stock issuable pursuant to stock options exercisable within 60 days of March 1, 2011 and 43,754,032 shares of common stock held in a family trust, of which Dr. Ji is a co-trustee with his wife Vivian Q. Zhang. Each of Dr. Ji and Vivian Q. Zhang, while acting as co-trustees, have the power to act alone and have those actions binding on both trustees and the trust assets, including voting and dispositive power over the shares of common stock held by the family trust.

(3) Comprised of 7,500 shares of common stock issuable pursuant to stock options exercisable within 60 days of March 1, 2011 and 917,930 shares of common stock held in a trust account, of which Dr. Afting is the trustee.

(4) Comprised of 10,000 shares of common stock issuable pursuant to stock options exercisable within 60 days of March 1, 2011, 864,173 shares of common stock held directly, 17,184,228 shares of common stock held by Halpryn Group VI, LLC, of which Mr. Halpryn is a member, and 781,102 shares of common stock held by IVC Investors, LLLP, in which Mr. Halpryn has an interest. Mr. Halpryn disclaims beneficial ownership of the shares of common stock held by each of Halpryn Group VI, LLC and IVC Investors, LLLP, except to the extent of any pecuniary interest therein.

(5) Comprised of 40,000 shares of common stock issuable pursuant to stock options exercisable within 60 days of March 1, 2011 and 2,231,719 shares of common stock held indirectly through Hsu Gamma Investment, L.P., of which Dr. Hsiao is the general partner.

(6) Comprised of 15,000 shares of common stock issuable pursuant to stock options exercisable within 60 days of March 1, 2011.

(7) Comprised of 57,500 shares of common stock issuable pursuant to stock options exercisable within 60 days of March 1, 2011 and 22,935,897 of shares of common stock held in a trust, of which Mr. Zaniboni is the trustee.

(8) Comprised of shares included under Named Executive Officers and Directors and zero shares of common stock held by our Chief Financial Officer.

(9) These shares are held in a trust account, of which Mr. Scifres is the trustee.

(10) Comprised of 4,108,619 shares of common stock held directly and 17,184,228 shares of common stock held by Halpryn Group VI, LLC, of which Mr. Glauser is a member. Mr. Glauser disclaims beneficial ownership of the shares of common stock held by Halpryn Group VI, LLC, except to the extent of any pecuniary interest therein.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Certain Relationships and Related Transactions

The following is a description of transactions or series of transactions since January 1, 2010, or any currently proposed transaction, to which we have been a party, in which the amount involved in the transaction or series of transactions exceeds the lesser of $120,000 or one percent of the average of the Company s total assets as of December 31, 2010 and December 31, 2009, and in which any of our directors, executive officers or persons who we know held more than five percent of any class of our capital stock, including their immediate family members, had or will have a direct or indirect material interest, other than compensation arrangements that are described under Employment Agreements above.

2010 Transactions

On December 21, 2010, we completed a private placement of an aggregate of 25,714,286 shares of our common stock in consideration for an aggregate investment of $3.6 million (the Financing), of which $3.5 million as invested (and 25,000,000 shares of our common stock acquired) by Donald Scifres, an existing stockholder (the Stockholder). Immediately prior to the completion of the Financing, the Stockholder held 4.7% of the outstanding shares of the Company and upon completion of the Financing, the Stockholder held 14.5% of the outstanding shares of common stock of Company.

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2011 Transaction

On March 7, 2011, the Company granted a non-qualified option to purchase 500,000 shares of our common stock to Richard Vincent, Chief Financial Officer, with a grant date fair value of $63,500. Such fair value does not necessarily reflect the dollar amount of compensation that may be realized by the recipient. Information regarding assumptions made in valuing Company stock awards can be found in Note 5 of the Notes to Financial Statements included in this Annual Report on Form 10-K.

Stock Option Grants

We have granted stock options to our non-employee directors and executive officers.

Indemnification Agreements with Directors and Executive Officers

We have entered into indemnity agreements with certain directors, officers and other key employees of ours under which we agreed to indemnify those individuals under the circumstances and to the extent provided for in the agreements, for expenses, damages, judgments, fines, settlements and any other amounts they may be required to pay in actions, suits or proceedings which they are or may be made a party or threatened to be made a party by reason of their position as a director, officer or other agent of ours, and otherwise to the fullest extent permitted under Delaware law and our bylaws. We also have an insurance policy covering our directors and executive officers with respect to certain liabilities, including liabilities arising under the Securities Act of 1933, as amended, or otherwise. We believe that these provisions and insurance coverage are necessary to attract and retain qualified directors, officers and other key employees.

Review, Approval or Ratification of Transactions with Related Persons

The Board conducts an appropriate review of and oversees all related party transactions on a continuing basis and reviews potential conflict of interest situations where appropriate. The Board has not adopted formal standards to apply when it reviews, approves or ratifies any related party transaction. However, the Board has followed the following standards: (i) all related party transactions must be fair and reasonable to the Company and on terms comparable to those reasonably expected to be agreed to with independent third parties for the same goods and/or services at the time they are authorized by the Board and (ii) all related party transactions should be authorized, approved or ratified by the affirmative vote of a majority of the directors who have no interest, either directly or indirectly, in any such related party transaction.

Director Independence

The Board has the responsibility for establishing corporate policies and for the overall performance of the Company, although it is not involved in day-to-day operations. Our common stock is quoted on the OTCBB. Since the OTCBB does not have rules regarding director independence, the Board makes its determination as to director independence based on the definition of independence as defined under the rules of the NYSE Amex. Our Board consults with our counsel to ensure that the Board s determinations are consistent with all relevant securities and other laws and regulations regarding the definition of independent, including those set forth in applicable NYSE Amex rules, as in effect from time to time. Consistent with these considerations, after review of all relevant transactions or relationships between each director, or any of his family members, and Sorrento, our senior management and our independent auditors, our Board has determined that all of our directors, other than Drs. Schuh and Ji, are independent, as defined in Section 803A of the NYSE Amex LLC Company Guide.

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Item 14. Principal Accounting Fees and Services.

The following table represents aggregate fees billed to the Company for the years ended December 31, 2010 and 2009 by Mayer Hoffman McCann P.C., or Mayer Hoffman, and Pender Newkirk & Company LLP, respectively, our principal auditors for such periods. All fees described below were approved by the Audit Committee.

	Year Ended	
	December 31, 2010	December 31, 2009
Audit Fees[1]	$ 51,714	$ 45,134
Audit-Related Fees		
Tax Fees	11,000	
All Other Fees		
Total Fees	$ 62,714	$ 45,134

(1) Audit fees for the year ended December 31, 2010 related to the annual audit for 2009 and the review of the quarterly financial statements of the Company and other SEC filings. Audit fees for the fiscal year ended December 31, 2009 included fees for (a) professional services rendered for the annual audits for the years ended December 31, 2008 and 2007, (b) review of interim financial statements included in quarterly reports, (c) a registration statement on Form S-8 in connection with our 2009 Plan and (d) services that were provided by the independent registered public accounting firm in connection with statutory and regulatory filings or engagements (including the Merger transaction activities).

Audit Committee s Pre-Approval Polices and Procedures

The Audit Committee has adopted a policy for the pre-approval of audit and non-audit services rendered by our independent auditors, Mayer Hoffman. The policy generally pre-approves specified services in the defined categories of audit services, audit-related services and tax services up to specified amounts. Pre-approval may also be given as part of the Audit Committee s approval of the scope of the engagement of the independent auditors or on an individual explicit case-by-case basis before the independent auditors are engaged to provide each service. The pre-approval of services may be delegated to one or more of the Audit Committee s members, but the decision must be reported to the full Audit Committee at its next scheduled meeting. By the adoption of this policy, the Audit Committee has delegated the authority to pre-approve services to the Chairperson of the Audit Committee, subject to certain limitations.

The Audit Committee has determined that the rendering of the services other than audit services by Mayer Hoffman is compatible with maintaining the principal accountant s independence.

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) Financial Statements

The Financial Statements of Sorrento Therapeutics, Inc. and Report of Independent Registered Public Accounting Firm, are included in a separate section of this Form 10-K beginning on page F-1.

(a)(2) Financial Statement Schedules

The schedules required to be filed by this item have been omitted because of the absence of conditions under which they are required, or because the required information is included in the financial statements or the notes thereto.

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(a)(3) Exhibits

Exhibit No.	Description
2.1*	Merger Agreement, dated July 14, 2009, by and among QuikByte Software, Inc., Sorrento Therapeutics, Inc., Sorrento Merger Corp., Inc., the Stockholders Agent and the Parent Representative (incorporated by reference to Exhibit 2.1 to the Registrant s Current Report on Form 8-K filed with the SEC on July 14, 2009).
2.2	First Amendment to Merger Agreement, dated August 26, 2009, by and among QuikByte Software, Inc., Sorrento Therapeutics, Inc., Sorrento Merger Corp., Inc., the Stockholders Agent and the Parent Representative (incorporated by reference to Exhibit 2.2 to the Registrant s Current Report on Form 8-K filed with the SEC on August 26, 2009).
2.3	Plan of Conversion (incorporated by reference to Exhibit 2.1 to the Registrant s Current Report on Form 8-K filed with the SEC on October 23, 2009).
3.1	Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K filed with the SEC on October 23, 2009).
3.2	Certificate of Ownership and Merger (incorporated by reference to Exhibit 3.2 to the Registrant s Current Report on Form 8-K filed with the SEC on December 7, 2009).
3.3	Bylaws (incorporated by reference to Exhibit 3.2 to the Registrant s Current Report on Form 8-K filed with the SEC on October 23, 2009).
4.1	Specimen Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant s Current Report on Form 8-K filed with the SEC on October 23, 2009).
9.1	Form of Stockholder Voting Agreement by and among QuikByte Software, Inc. and the Stockholders of Sorrento Therapeutics, Inc. set forth on the signature page thereto, dated as of July 14, 2009 (incorporated by reference to Exhibit 9.1 to the Registrant s Current Report on Form 8-K filed with the SEC on September 21, 2009).
10.1	Form of Stock Purchase Agreement, dated September 18, 2009, by and among QuikByte Software, Inc. and the Investors listed on Exhibit A thereto (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed with the SEC on September 21, 2009).
10.2	Form of Lockup Agreement (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed with the SEC on September 21, 2009).
10.3	Escrow Agreement, dated September 21, 2009, by and among QuikByte Software, Inc., the Stockholders Agent, the Parent Representative and Bank of America, N.A. (incorporated by reference to Exhibit 10.3 to the Registrant s Current Report on Form 8-K/A filed with the SEC on September 22, 2009).
10.4	Stock Purchase Agreement dated December 21, 2010 by and between the Company and the investors whose names appear on the signature pages thereof (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed with the SEC on December 23, 2010).
10.5±	Employment Letter, dated September 18, 2009, between QuikByte Software, Inc. and Dr. Antonius Schuh (incorporated by reference to Exhibit 10.4 to the Registrant s Current Report on Form 8-K filed with the SEC on September 21, 2009).
10.6±	Employment Letter, dated September 18, 2009, between QuikByte Software, Inc. and Dr. Henry Ji, (incorporated by reference to Exhibit 10.5 to the Registrant s Current Report on Form 8-K filed with the SEC on September 21, 2009).
10.7±	Consulting Agreement, dated August 24, 2009, between Sorrento Therapeutics, Inc. and Martina Molsbergen (incorporated by reference to Exhibit 10.6 to the Registrant s Annual Report on Form 10-K filed with the SEC on March 25, 2010).

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Exhibit No.	Description
10.8±	Employment Letter, dated October 12, 2009, between Sorrento Therapeutics, Inc. and Charles P. Rodi, Ph.D. (incorporated by reference to Exhibit 10.7 to the Registrant s Annual Report on Form 10-K filed with the SEC on March 25, 2010).
10.9	Standard Multi-Tenant Office Lease-Net, dated July 28, 2008, by and between Sorrento Therapeutics, Inc. and Suntree Garden, LLC (incorporated by reference to Exhibit 10.6 to the Registrant s Current Report on Form 8-K filed with the SEC on September 21, 2009).
10.10	First Amendment to Office Lease, dated August 18, 2009, by and between Sorrento Therapeutics, Inc. and Suntree Garden, LLC (incorporated by reference to Exhibit 10.7 to the Registrant s Current Report on Form 8-K filed with the SEC on September 21, 2009).
10.11	Second Amendment to Office Lease, dated October 1, 2009, by and between Sorrento Therapeutics, Inc. and Suntree Garden, LLC (incorporated by reference to Exhibit 10.10 to the Registrant s Annual Report on Form 10-K filed with the SEC on March 25, 2010).
10.12	Third Amendment to Office Lease, dated November 11, 2010, by and between Sorrento Therapeutics, Inc. and Suntree Garden, LLC.
10.13	Fourth Amendment to Office Lease, dated January 17, 2011, by and between Sorrento Therapeutics, Inc. and Suntree Garden, LLC.
10.14	Share Purchase Agreement, dated June 10, 2009, between Sorrento Therapeutics, Inc. and OPKO Health, Inc. (incorporated by reference to Exhibit 10.8 to the Registrant s Current Report on Form 8-K filed with the SEC on September 21, 2009).
10.15	Limited License Agreement, dated June 10, 2009, between Sorrento Therapeutics, Inc. and OPKO Health, Inc. (incorporated by reference to Exhibit 10.9 to the Registrant s Current Report on Form 8-K filed with the SEC on September 21, 2009).
10.16+	Patent Assignment Agreement, dated June 10, 2009, between Henry H. Ji and Sorrento Therapeutics, Inc. (incorporated by reference to Exhibit 10.10 to the Registrant s Current Report on Form 8-K filed with the SEC on September 21, 2009).
10.17+	License Agreement, dated January 8, 2010, by and between The Scripps Research Institute and the Company (incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q filed with the SEC on May 14, 2010).
10.18	Form of Stock Option Agreement (incorporated by reference to Exhibit 10.11 to the Registrant s Current Report on Form 8-K/A filed with the SEC on September 22, 2009).
10.19±	Form of Indemnity Agreement (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed with the SEC on October 23, 2009).
10.20±	2009 Stock Incentive Plan, and forms of agreements related thereto (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed with the SEC on October 23, 2009).
10.21±	2009 Equity Incentive Plan, and forms of agreement related thereto (incorporated by reference to Exhibit 10.17 to the Registrant s Annual Report on Form 10-K filed with the SEC on March 25, 2010).
23.1	Consent of Mayer Hoffman McCann P.C.
31.1	Certification of Antonius Schuh, Ph.D., Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Richard G. Vincent, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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Exhibit No.	Description
32.1	Certification of Antonius Schuh, Ph.D., Chief Executive Officer, and Richard G. Vincent, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

\+ The SEC has granted confidential treatment with respect to certain portions of this exhibit. Omitted portions have been filed separately with the SEC.

± Management contract or compensatory plan.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 18, 2011

SORRENTO THERAPEUTICS, INC.

By: /s/ Antonius Schuh
Antonius Schuh, Ph.D.

Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title(s)	Date
/s/ Antonius Schuh	Chairman and Chief Executive Officer	March 18, 2011
Antonius Schuh, Ph.D.	*(Principal Executive Officer)*	
/s/ Richard G. Vincent	Chief Financial Officer	March 18, 2011
Richard G. Vincent	*(Principal Financial and Accounting Officer)*	
/s/ Henry Ji	Director, Chief Scientific Officer & Secretary	March 18, 2011
Henry Ji, Ph.D.		
/s/ Ernst-Guenter Afting	Director	March 18, 2011
Ernst-Guenter Afting, Ph.D., M.D.		
/s/ Glenn L. Halpryn	Director	March 18, 2011
Glenn L. Halpryn		
/s/ Jane H. Hsiao	Director	March 18, 2011
Jane H. Hsiao, Ph.D., M.B.A.		
/s/ Curtis Lockshin	Director	March 18, 2011
Curtis Lockshin, Ph.D.		
/s/ Stephen Zaniboni	Director	March 18, 2011
Stephen Zaniboni		

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Sorrento Therapeutics, Inc.

(a Development Stage Company)

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Sorrento Therapeutics, Inc.

San Diego, California

We have audited the accompanying balance sheets of **Sorrento Therapeutics, Inc.** (the Company) as of December 31, 2010 and 2009, and the related statements of operations, stockholders equity (deficit), and cash flows for the years then ended and for the period from January 25, 2006 (Inception) through December 31, 2010. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sorrento Therapeutics, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended and for the period from January 25, 2006 (Inception) through December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

/s/ Mayer Hoffman McCann P.C.

San Diego, CA

March 18, 2011

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SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

BALANCE SHEETS

	December 31, 2010	2009
Assets		
Current assets		
Cash and cash equivalents	$ 5,277,578	$ 3,429,906
Grants and other receivables	246,045	
Prepaid expenses and other	29,811	27,863
Total current assets	5,553,434	3,457,769
Property and equipment, net	95,927	73,305
Other	38,420	22,727
Total assets	$ 5,687,781	$ 3,553,801
Liabilities and stockholders equity		
Current liabilities		
Accounts payable	$ 181,799	$ 285,882
Accounts payable related parties		30,535
Deferred revenue	200,000	
Accrued payroll and related	54,377	17,982
Accrued expenses	167,781	18,671
Total current liabilities	603,957	353,070
Commitments and contingencies (Note 6)		
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 250,801,270 and 225,084,127 shares issued and outstanding at December 31, 2010 and 2009, respectively	25,080	22,508
Additional paid-in capital	7,927,244	4,238,367
Stockholder note receivable		(30)
Deficit accumulated during the development stage	(2,868,500)	(1,060,114)
Total stockholders equity	5,083,824	3,200,731
Total liabilities and stockholders equity	$ 5,687,781	$ 3,553,801

See accompanying notes to financial statements.

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SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF OPERATIONS

	Years Ended December 31,		Period from January 25, 2006 (inception) through December 31,
	2010	2009	2010
Revenues:			
Grant	$ 659,115	$	$ 659,115
Reimbursable research and development costs	23,453		23,453
Total revenues	682,568		682,568
Expenses:			
Research and development	1,392,345	410,171	1,802,516
General and administrative	1,102,395	543,952	1,764,195
Total expenses	2,494,740	954,123	3,566,711
Loss from operations	(1,812,172)	(954,123)	(2,884,143)
Interest income	3,786	11,857	15,643
Net loss	$ (1,808,386)	$ (942,266)	$ (2,868,500)
Net loss per share basic and diluted	$ (0.01)	$ (0.01)	
Weighted average number of shares during the period basic and diluted	220,849,883	152,093,973	

See accompanying notes to financial statements.

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SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Stockholder Note Receivable	Deficit Accumulated During the Development Stage	Total
Balance, January 25, 2006 (Inception)		$	$	$	$	$
Issuance of common stock for $400 cash to founders	101,937,315	10,194	(9,794)			400
Net loss and comprehensive loss					(75,801)	(75,801)
Balance, December 31, 2006	101,937,315	10,194	(9,794)		(75,801)	(75,401)
Net loss and comprehensive loss					(16,302)	(16,302)
Balance, December 31, 2007	101,937,315	10,194	(9,794)		(92,103)	(91,703)
Net loss and comprehensive loss					(25,745)	(25,745)
Balance, December 31, 2008	101,937,315	10,194	(9,794)		(117,848)	(117,448)
Issuance of restricted common stock for $291 cash to consultants in March	7,403,861	740	(449)			291
Issuance of common stock for $10 cash and a $30 note to consultants in March	1,019,374	102	(62)	(30)		10
Issuance of common stock for cash at $0.039 per share in June, net of issuance costs of $25,999	59,015,257	5,902	2,268,099			2,274,001
Issuance of common stock for cash at $0.0448 per share in September	44,634,374	4,463	1,995,537			2,000,000
Issuance of common stock to former QuikByte stockholders in connection with the Merger	11,073,946	1,107	99,279			100,386
Costs associated with the Merger			(168,767)			(168,767)
Stock-based compensation			54,524			54,524
Net loss and comprehensive loss					(942,266)	(942,266)
Balance, December 31, 2009	225,084,127	22,508	4,238,367	(30)	(1,060,114)	3,200,731
Collection of note receivable				30		30
Issuance of common stock for cash at $0.14 per share in December, net of issuance costs of $159,905	25,717,143	2,572	3,437,923			3,440,495
Stock-based compensation			250,954			250,954
Net loss and comprehensive loss					(1,808,386)	(1,808,386)
Balance, December 31, 2010	250,801,270	$ 25,080	$ 7,927,244	$	$ (2,868,500)	$ 5,083,824

See accompanying notes to financial statements.

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SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		Period from January 25, 2006 (inception) through December 31,
	2010	2009	2010
Operating activities			
Net loss	$ (1,808,386)	$ (942,266)	$ (2,868,500)
Adjustments to reconcile net loss to net cash used for operating activities:			
Depreciation and amortization	23,413	2,755	26,168
Stock-based compensation	250,954	54,524	305,478
Increase (decrease) in cash resulting from changes in:			
Grants and other receivables	(246,045)		(246,045)
Prepaid expenses and other	(17,641)	(30,440)	(48,081)
Accounts payable	(104,083)	185,293	157,175
Accounts payable related parties	(30,535)	(40,683)	
Deferred revenue	200,000		200,000
Accrued expenses and other liabilities	185,505	35,853	222,158
Net cash used for operating activities	(1,546,818)	(734,964)	(2,251,647)
Investing activities			
Purchases of property and equipment	(46,035)	(45,525)	(122,095)
Cash received in connection with Merger		104,860	104,860
Net cash provided by (used for) investing activities	(46,035)	59,335	(17,235)
Financing activities			
Proceeds from issuance of common stock, net of issuance costs	3,440,525	4,105,535	7,546,460
Net cash provided by financing activities	3,440,525	4,105,535	7,546,460
Net change in cash	1,847,672	3,429,906	5,277,578
Cash at beginning of period	3,429,906		
Cash at end of period	$ 5,277,578	$ 3,429,906	$ 5,277,578
Supplemental disclosures:			
Cash paid during the period for:			
Income taxes	$ 1,600	$ 800	$ 3,200
Non-cash financing activities:			

In March 2009, the Company issued 764,530 shares of common stock for a $30 note receivable, which was collected in March 2010.

In December 2009, 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 $30,535. The purchase price is included in accounts payable related parties as of

December 31, 2009. In March, April and June 2010, the Company purchased additional equipment from Dr. Henry Ji for an aggregate of $9,236. All such amounts owed were paid in full as of December 31, 2010.

See accompanying notes to financial statements.

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SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

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 U.S., 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.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Basis of Presentation

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

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SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (Continued)

As of December 31, 2010, the Company has devoted substantially all of its efforts to product development, raising capital and building infrastructure, and has not realized revenues from its planned principal operations. Accordingly, the Company is considered to be in the development stage.

Liquidity

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 financial statements, the Company has a net loss of $1,808,386 and net cash used for operations of $1,546,818 for the year ended December 31, 2010. The Company also has an accumulated deficit of $2,868,500. The Company has working capital of $4,949,477 and management believes the Company has the ability to meet all obligations due over the course of the next twelve months.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Management believes that these estimates are reasonable; however, actual results may differ from these estimates.

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

The Company s financial instruments consist of cash and cash equivalents, grants receivable, prepaid expenses and other assets, accounts payable, accrued expenses and deferred revenue. Fair value estimates of these instruments are made at a specific point in time, based on relevant market information. These estimates may be subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. As of December 31, 2010 and 2009, the carrying amount of cash and cash equivalents, grants receivable, prepaid expenses and other assets, accounts payable, accrued liabilities and deferred revenue are generally considered to be representative of their respective fair values because of the short-term nature of those instruments.

Grants Receivable

Grants receivable at December 31, 2010 represents amounts due under: (i) a federal contract with the National Institute of Allergy and Infectious Diseases, or NIAID, a division of the National Institutes of Health, or NIH, and (ii) a U.S. Department of Treasury, or U.S. Treasury grant award. The Company considers the grants receivable to be fully collectible; accordingly, no allowance for doubtful amounts has been established. If amounts become uncollectible, they are charged to operations.

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SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (Continued)

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets, which are generally three to five years. Leasehold improvements are amortized over the lesser of the life of the lease or the life of the asset. Depreciation expense for the years ended December 31, 2010 and 2009 and for the period from inception (January 25, 2006) through December 31, 2010 was $23,413, $2,755 and $26,168, respectively. As of December 31, 2010 and 2009, accumulated depreciation was $26,168 and $2,755, respectively.

Impairment of Long-Lived Assets

The Company evaluates its long-lived assets with definite lives, such as property and equipment, for impairment. The Company records impairment losses on long-lived assets used for operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the carrying value of the assets. There have not been any impairment losses of long-lived assets through December 31, 2010.

Research and Development Costs

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

Income Taxes

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

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

The Company has deferred tax assets, which are subject to periodic recoverability assessments. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount that more likely than not will be realized. The Company evaluates the recoverability of the deferred tax assets annually.

Revenue Recognition

The Company s revenues are generated from the NIH and U.S. Treasury grant awards and a feasibility study agreement, or the Collaboration Agreement, that we entered into with a third party in July 2010. The revenue from the NIH and U.S. Treasury grant awards are based upon subcontractor costs and internal costs incurred that are specifically covered by the grant, and where applicable, 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.

The revenue from the Collaboration Agreement is derived from the completion of certain development services and the reimbursement of certain development costs incurred to provide such development services or

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SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (Continued)

from the third party s use of the Company s laboratory and instrumentation as provided for in the Collaboration Agreement. Revenue from upfront, nonrefundable service fees are recognized when earned, as evidenced by written acknowledgement from the collaborator, or other persuasive evidence that all service deliverables have been achieved, provided that the service deliverables are substantive and their achievability was not reasonably assured at the inception of the Collaboration Agreement. Any amounts received prior to satisfying the Company s revenue recognition criteria are recorded as deferred revenue on its balance sheets.

Stock-Based Compensation

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

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

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources. The Company is required to record all components of comprehensive income (loss) in the financial statements in the period in which they are recognized. Net income (loss) and other comprehensive income (loss), including foreign currency translation adjustments and unrealized gains and losses on investments, are reported, net of their related tax effect, to arrive at comprehensive income (loss). For the years ended December 31, 2010 and 2009, the comprehensive loss was equal to the net loss.

Net Loss Per Share

Net loss per share is presented as both basic and diluted net loss per share. Basic net loss per share excludes any dilutive effects of options, shares subject to repurchase and warrants. Diluted net loss per share includes the impact of potentially dilutive securities. During 2010 and 2009, we had securities outstanding which could potentially dilute basic earnings per share in the future, but were excluded from the computation of diluted net loss per share, as their effect would have been anti-dilutive.

These outstanding securities consist of the following:

	Years Ended December 31,	
	2010	**2009**
Unvested Restricted Common stock subject to repurchase	4,165,023	6,015,791
Outstanding options	2,080,000	160,000
Outstanding warrants	200,000	
Weighted average exercise price of options	$ 0.091	$ 0.0448

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SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (Continued)

Recent Accounting Pronouncements

In June 2009, the Company adopted changes issued by the FASB to accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued, otherwise known as subsequent events. Specifically, these changes set forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. In February 2010, the FASB issued Accounting Standards Update, or ASU, No. 2010-09, *Amendments to Certain Recognition and Disclosure Requirements*. This update removes the requirement for a filer with the Securities and Exchange Commission, or SEC, to disclose the date through which subsequent events have been evaluated and became effective immediately. The adoption of this guidance did not have a material impact on the Company s financial statements.

In August 2009, the FASB issued changes to fair value accounting for liabilities. These changes clarify existing guidance that in circumstances in which a quoted price in an active market for the identical liability is not available, an entity is required to measure fair value using either a valuation technique that uses a quoted price of either a similar liability or a quoted price of an identical or similar liability when traded as an asset, or another valuation technique that is consistent with the principles of fair value measurements, such as an income approach (e.g., present value technique). This guidance also states that both a quoted price in an active market for the identical liability and a quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. These changes became effective for the Company on October 1, 2009. The Company determined that the adoption of these changes did not have an impact on the financial statements.

In September 2009, the Company adopted changes issued by the FASB to the authoritative hierarchy of GAAP. These changes establish the FASB Accounting Standards Codification , or Codification, as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue ASUs. ASUs will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on the Company s financial statements.

In October 2009, the FASB issued authoritative guidance that amends existing guidance for identifying separate deliverables in a revenue-generating transaction where multiple deliverables exist, and provides guidance for allocating and recognizing revenue based on those separate deliverables. The guidance is expected to result in more multiple-deliverable arrangements being separable than under current guidance. This guidance is effective for the Company beginning on January 1, 2011 and is required to be applied prospectively to new or significantly modified revenue arrangements. The Company does not expect this guidance to have a material impact on its financial statements in future periods.

In January 2010, the FASB issued ASU 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

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SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (Continued)

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 December 31, 2010.

In April 2010, the FASB issued ASU No. 2010-17 thereby amending ASC 605 for revenue recognition related to the milestone method of revenue recognition. ASU No. 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development arrangements. A company may make an accounting policy election to use the milestone method of revenue recognition for transactions within the scope of the amendments. The amendments will be effective in fiscal years beginning on or after June 15, 2010, and early adoption is permitted. We will adopt the amendments on January 1, 2011 on a prospective basis. We evaluated the impact of adopting ASU No. 2010-17 and believe it will have no material effect on the Company s financial statements.

3. Significant Agreements and Contracts

License Agreement with OPKO Health, Inc.

In June 2009, the Company entered into a limited license agreement, or the OPKO License, with OPKO Health, Inc., or OPKO, pursuant to which the Company granted OPKO an exclusive, royalty-free, worldwide license under all U.S. and foreign patents and patent applications owned or controlled by the Company or any of its affiliates, or the STI Patents, to: (i) develop, manufacture, use, market, sell, offer to sell, import and export certain products related to the development, manufacture, marketing and sale of drugs for ophthalmological indications, or the OPKO Field, and (ii) use and screen any population of distinct molecules covered by any claim of the STI Patents or which is derived by use of any process or method covered by any claim of the STI Patents to identify, select and commercialize certain products within the OPKO Field. Subject to certain limitations, OPKO will have the right to sublicense the foregoing rights granted under the OPKO License. Additionally, pursuant to the OPKO License, OPKO has granted the Company an exclusive, royalty-free, worldwide license to any patent or patent application owned or controlled by OPKO or any of its affiliates to develop, use, make, market, sell and distribute certain products in any field of use, other than the OPKO Field, or the OPKO Patents.

The Company has retained all rights to the STI Patents outside of the OPKO Field and has agreed not to practice the OPKO Patents or the STI Patents outside the STI current field of use. Unless otherwise terminated in accordance with its terms, the License Agreement will expire upon the expiration of the last to expire patent within the STI Patents and OPKO Patents on a country-by-country basis.

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

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SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (Continued)

generated by the Company through its sublicense of patent rights and materials licensed from TSRI under the TSRI License. The TSRI License requires the Company to indemnify TSRI for certain breaches of the agreement and other matters customary for license agreements. The parties may terminate the TSRI License at any time by mutual agreement. In addition, the Company may terminate the TSRI License by giving 60 days notice to TSRI and TSRI may terminate the TSRI License immediately in the event of certain breaches of the agreement by the Company or upon the Company s failure to undertake certain activities in furtherance of commercial development goals. Unless terminated earlier by either or both parties, the term of the TSRI License will continue until the final expiration of all claims covered by the patent rights licensed under the agreement. For the year ended December 31, 2010, the Company recorded $86,519 in patent prosecution and maintenance costs associated with the TSRI License, which has been included in general and administrative expenses.

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 year ended December 31, 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. During the year ended December 31, 2010, the Company recorded $264,635 of revenue associated with the NIH Grant.

Collaboration Agreement

In July 2010, the Company entered into the Collaboration Agreement, with a third party. Under the terms of the Collaboration Agreement, the Company will provide certain antibody screening services for an upfront cash fee of $200,000 and will be reimbursed for certain costs and expenses associated with providing the services or the third party s use of the Company s laboratory and instrumentation as provided for in the Collaboration Agreement, or the Development Costs. The upfront fee and reimbursable Development Costs will be accounted for as separate units of accounting. The Company records the gross amount of the reimbursable Development Costs as revenue and the costs associated with these reimbursements are reflected as a component of research and development expense in the statements of operations.

Any amounts received by the Company pursuant to the Collaboration Agreement prior to satisfying the Company s revenue recognition criteria are recorded as deferred revenue on the balance sheets. As of December 31, 2010, the Company had received and recorded $200,000 in deferred revenue as no targets were delivered in 2010. The deferred revenue is recognized over the period ending on the anticipated delivery of each target deliverable associated with the certain development services, which management believes represents the conclusion of all significant obligations on the part of the Company. For the Company s current agreement, this period was estimated to be seven months.

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SORRENTO THERAPEUTICS, INC.

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS (Continued)

U.S. Treasury Grants

During 2010, the U.S. Treasury awarded the Company two one-time grants totaling $394,480 for investments in qualifying therapeutic discovery projects under section 48D of the Internal Revenue Code. The grants cover reimbursement for qualifying expenses incurred by the Company in 2010 and 2009. The proceeds from this grant are classified in Revenues Grant in the statements of operations.

4. Related Party Transactions

In 2009 and 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 $30,535 and $9,236, respectively. Such amounts were paid in full in 2010.

From inception through December 31, 2008, certain stockholders of the Company incurred $40,683 of general and administrative expenses on behalf of the Company. In August 2009, such stockholders were reimbursed for all expenses incurred on behalf of the Company.

5. Stockholders Equity (Deficit)

Common Stock

In February 2006, in conjunction with the founding of the Company, 101,937,315 shares of common stock were issued to founders, at the pre-Merger par value, for total consideration of $400 in cash.

In March 2009, the Company issued 7,403,861 shares of restricted common stock to certain consultants, at the pre-Merger par value, for aggregate gross proceeds of $291.

In March 2009, the Company issued 1,019,374 shares of unrestricted common stock to certain consultants for aggregate cash gross proceeds of $10 and issued a note receivable for $30.

In June 2009, the Company issued 59,015,257 shares of common stock at $0.039 per share for aggregate gross proceeds of $2.3 million to OPKO in a private placement transaction. Related stock issuance costs totaled $25,999.

In September 2009, and in connection with the Merger, the Company: (i) issued 44,634,374 shares of common stock, in a private placement transaction, at $0.0448 per share for aggregate gross proceeds of $2.0 million, and (ii) issued 11,073,946 shares of common stock to the former stockholders of QuikByte in exchange for the net assets of QuikByte as well as all of their outstanding shares in QuikByte immediately prior to the Merger. Total stock issuance and Merger costs totaled $168,767.

In December 2010, the Company issued 25,717,143 shares of common stock, in a private placement transaction, at $0.14 per share for aggregate gross proceeds of $3.6 million. Related stock issuance costs totaled $159,905.

Stock Incentive Plans

2009 Equity Incentive Plan

In February 2009, prior to the Merger, 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

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SORRENTO THERAPEUTICS, INC.

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NOTES TO FINANCIAL STATEMENTS (Continued)

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. 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 December 31, 2010, 4,165,023 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, 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 outstanding options vested on the one year anniversary of the vesting commencement date in October 2010. 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. There were no option grants in 2010 and no further shares are available for grant under this plan. The aggregate intrinsic value for such options as of December 31, 2010 was $11,424.

The following table summarizes stock option activity as of December 31, 2010, and the changes for the year then ended:

	Options Outstanding	Weighted-Average Exercise Price
Outstanding at December 31, 2008		
Options Granted	200,000	$ 0.0448
Options Canceled	(40,000)	$ 0.0448
Options Exercised		
Outstanding at December 31, 2009	160,000	$ 0.0448
Options Granted		
Options Canceled	(40,000)	$ 0.0448
Options Exercised		
Outstanding and Vested at December 31, 2010	120,000	$ 0.0448

Exercisable at December 31, 2010

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 Company s common stock outstanding on the last day

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SORRENTO THERAPEUTICS, INC.

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NOTES TO FINANCIAL STATEMENTS (Continued)

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 will 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 will be determined by the Company s Compensation Committee. Stock options are generally not exercisable prior to the applicable vesting date, unless otherwise accelerated under the terms of the applicable stock plan agreement. Unvested shares of the Company s common stock issued in connection with an early exercise however, may be repurchased by the Company upon termination of the optionee s service with the Company.

The following table summarizes stock option activity as of December 31, 2010, and the changes for the year then ended:

	Options Outstanding	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2009			
Options Granted	1,960,000	$ 0.09	
Options Canceled			
Options Exercised			
Outstanding at December 31, 2010	1,960,000	$ 0.09	$ 65,756
Vested and Exercisable at December 31, 2010	390,000	$ 0.07	$ 27,300

The Company uses the Black-Scholes valuation model to calculate the fair value of stock options. The fair value of employee stock options was estimated at the grant date using the following assumptions:

	Years Ended December 31,	
	2010	2009
Weighted-average grant date fair value	$ 0.07	$ 0.28
Dividend yield		
Volatility	102%	103%
Risk-free interest rate	2.47%	2.47%
Expected life of options	5.6 years	5 years

The assumed dividend yield was based on the Company s expectation of not paying dividends in the foreseeable future. Due to the Company s limited historical data, the estimated volatility incorporates the historical and implied volatility of comparable companies whose share prices are publicly available. The risk-free interest rate assumption was based on the U.S. Treasury s rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. The weighted average expected life of options was estimated using the average of the contractual term and the weighted average vesting term of the options.

The total employee stock-based compensation recorded as operating expenses was $40,439, $11,126 and $51,565 for the years ended December 31, 2010 and 2009 and for the period from inception (January 25, 2006) through December 31, 2010, respectively.

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The total unrecognized compensation cost related to unvested stock option grants as of December 31, 2010 was $70,196, and the weighted average period over which these grants are expected to vest is 2.9 years.

The Company records equity instruments issued to non-employees as expense at their fair value over the related service period as determined in accordance with the authoritative guidance and periodically revalues the equity instruments as they vest. Stock-based compensation expense related to non-employee consultants recorded as operating expenses was $210,515, $43,398 and $253,913 for the years ended December 31, 2010 and 2009 and for the period from inception (January 25, 2006) through December 31, 2010, respectively.

Common Stock Reserved for Future Issuance

Common stock reserved for future issuance consists of the following at December 31, 2010:

Common stock warrants outstanding under the TSRI License	200,000
Common stock options outstanding under the EIP	120,000
Authorized for future grant or issuance under the Stock Plan	12,000,000
	12,320,000

6. Commitments and Contingencies

Litigation

In the normal course of business, the Company may be named as a defendant in one or more lawsuits. Management is currently not aware of any pending lawsuits.

Operating Lease

The Company leases its corporate office facility under a non-cancelable operating lease that, as amended, expires on September 30, 2014. The lease contains an option to extend the term by four years at the then prevailing rate. As amended in January 2011, the lease provides for a monthly base rent of $9,255 with scheduled annual base rent increases of 2.75%-3.00% over the lease term. The Company has provided a security deposit of $22,757 to secure its obligations under the lease, which has been included in other assets in the accompanying financial statements.

Minimum future non-cancelable annual operating lease obligations are as follows for the years ending December 31:

2011	$ 103,109
2012	115,098
2013	118,332
2014	90,569
	$ 427,108

Rental expense paid for the years ended December 31, 2010 and 2009 and for the period from inception (January 25, 2006) through December 31, 2010 under the above lease totaled $84,135, $20,712 and $104,847, respectively.

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7. Income Taxes

Deferred income taxes 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. Significant components of the Company s net deferred tax assets are as follows as of December 31, 2010 and 2009:

	2010	2009
Deferred tax assets:		
Net operating loss carryforwards and credits	$ 1,037,000	$ 404,000
Stock based compensation	25,000	23,000
Accrued expenses and other	21,000	6,000
Total deferred tax assets	1,083,000	433,000
Less valuation allowance	(1,083,000)	(433,000)
Net deferred tax assets	$	$

As of December 31 2010, the Company had net operating loss carryforwards of approximately $2,345,000 and $2,200,000 for federal and state income tax purposes, respectively. These may be used to offset future taxable income and will begin to expire in varying amounts in 2028 to 2030. The Company also has research and development credits of approximately $68,000 and $78,000 for federal and state income tax purposes, respectively.

Pursuant to Internal Revenue Code Section 382, use of the Company s net operating loss and credit carryforwards may be limited if the Company experiences a cumulative change in ownership of greater than 50% in a moving three-year period.

The Company is subject to taxation in the U.S. and California jurisdictions. Currently, no historical years are under examination. The Company s tax years ending December 31, 2010 and 2009 are subject to examination by the U.S. and state taxing authorities due to the carryforward of unutilized net operating losses and research and development credits.