



**4045 Sorrento Valley Boulevard, San Diego, CA 92121**  
(Address of principal executive offices) (Zip Code)

**(858) 909-0749**  
(Registrant's telephone number,  
including area code)

Securities registered under Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

**None**

Securities registered under Section 12(g) of the Act:

**Common Stock, \$0.01 par value 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  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes  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 such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 definitions of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company  x

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

As of December 31, 2014, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$9,102,633, based on the closing sales price as reported on the OTCQB Marketplace on that date.

The number of shares outstanding of each of the registrant's classes of common stock, as of September 15, 2015:

| Class                             | Number of Shares |
|-----------------------------------|------------------|
| Common Stock, \$0.01 par value    | 20,389,809       |
| Preferred Stock, \$0.01 par value | 235,384          |

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## PART I

### Item 1. Business.

#### *Our Business*

On September 29, 2014, we changed our name from Senesco Technologies, Inc. to Sevion Therapeutics, Inc.

The primary business of Sevion Therapeutics, Inc., a Delaware corporation incorporated in 1999, and its wholly-owned subsidiaries, Senesco, Inc., a New Jersey corporation incorporated in 1998, and Fabrus, Inc., a Delaware corporation incorporated in 2011, collectively referred to as “Sevion,” “we,” “us” or “our,” is to build and develop a portfolio of innovative therapeutics, from both internal discovery and acquisition, for the treatment of cancer and immunological diseases. The Company’s product candidates are derived from multiple key proprietary technology platforms, such as: cell-based arrayed antibody discovery, ultralong antibody scaffolds and Chimerasome nanocages.

#### **Antibody Technology**

***Antibody Genes*** - We believe our antibody platforms have broad applicability to human health by allowing the discovery of unique monoclonal antibodies against difficult membrane targets in several therapeutic areas. Our antibody therapeutic candidates target the Kv1.3 ion channel, which is important in the pathogenesis of several autoimmune and inflammatory disorders. Other antibodies in our pipeline target important cell surface molecules involved in cancer progression.

***Antibody Discovery Technology*** - Traditional antibody drug discovery methods, such as phage/yeast display or immunization, rely on competitive selection from a pool of antibodies to identify a lead therapeutic candidate. In these methods, a mixture of antibodies compete for binding to a purified target, and the antibody molecules that bind the strongest to the target, referred to as high affinity, are ultimately discovered. While these approaches have led to many successful antibody therapeutics, there are at least two drawbacks. First, the drug targets have been limited to only those proteins which can be easily purified. Many important target classes, including multispansing membrane proteins, cannot be easily purified in functional form. Secondly, when discovery is driven by selection based on competitive binding and affinity, the result is a significant limitation in the number of functional lead antibodies. However, the highest affinity antibody isn’t always the best therapeutic because lower affinity molecules may have unique activities or lower toxicities than the highest affinity binder. Thus, modulating a pathway more subtly to treat disease is often preferable to affecting it in a binary fashion through competition related to high-affinity binding. We

believe the technology to identify (i) antibodies against unpurified targets, particularly multispansing membrane proteins like G Protein Coupled Receptors, or GPCR's, and ion channels, and (ii) a range of antibodies with different affinities and activities will enable us to discover new antibody drug leads compared to existing technologies.

We have developed the world's first "spatially addressed" antibody library with an expansive combinatorial collection of recombinant antibodies in which each well contains a single species of antibody of known concentration, composition and sequence. Our spatially addressed library allows us to evaluate the therapeutic potential of each antibody individually in a non-competitive way and allows direct discovery on the cell surface. This approach is more analogous to traditional small molecule drug discovery and allows us to screen antibodies for functional drug activity as opposed to simple binding properties. This next generation discovery system unlocks epitopes, targets, and functions that are only identifiable in the context of a living cell.

**Modified Cow Antibodies** - Despite the enormous diversity of the antibody repertoire, human antibodies all have a similar geometry, shape and binding mode. Our scientists have discovered and humanized a novel class of therapeutic antibodies derived from cows that have a highly unusual structure for binding targets. This unique ultralong Complementary Determining Region 3, or CDR3, structural domain found in cow antibodies is comprised of a knob on a stalk that protrudes far from the antibody surface, creating the potential for entirely new types of therapeutic functionality. Using both our humanized spatially addressed antibody library and direct engineering of the knob, we are exploring the ability of utilizing the knob and stalk structure to functionally interact with important therapeutic targets, including GPCRs, ion channels and other multispinning membrane therapeutic targets on the cell surface. Our lead antibody, SVN001, was derived from these efforts.

**Antibody Drug Candidates** – We have created functional antibodies that modulate GPCRs and ion channels, two classes of targets that have proven difficult to address using conventional antibody discovery approaches.

SVN001 is an ion channel blocking antibody that is potentially the first therapeutic antibody against this target class. SVN001 targets an ion channel, Kv1.3, which has been implicated in a number of different autoimmune disorders including rheumatoid arthritis, psoriasis and multiple sclerosis. By targeting a unique subset of immune cells, SVN001 is not believed to be broadly immunosuppressive, therefore potentially improving the safety profile compared to typical immunosuppressants.

SVN002 is a unique antibody against an oncology target that holds the potential to significantly impact highly metastatic tumors that are resistant to the class of drugs that target vascular endothelial growth factor, or VEGF. The target is highly expressed in clear cell renal carcinoma, where it is associated with poor prognosis.

### ***Other Antibodies***

We have discovered fully human antibodies against additional oncology targets, including ErbB2, ErbB3, CXCR4, and GLP1R which have been engineered to have activity in *in vitro* systems. These cell surface proteins are validated, therapeutically high value targets in the disease fields of oncology and diabetes. Additionally, we have early stage antibodies against other undisclosed targets which were derived from our addressed library platform.

### ***Research Program***



We were advancing SVN001 through preclinical development where it has demonstrated potent activity as well as advancing SVN002 through preclinical development. However, given the Company's limited capital resources, in December 2014, we decided to temporarily reduce our research and development spending on our antibody program until we are able to consummate a strategic transaction or a financing transaction.

On December 18, 2014, we entered into a Collaboration Agreement with CNA Development, LLC, an affiliate of Janssen Pharmaceuticals, Inc., or Janssen, to discover antibodies using our spatially addressed library platform. The collaboration, facilitated by the Johnson & Johnson Innovation Center in California, will include discovery of antibodies against multiple targets in several therapeutic areas. We and Janssen will jointly conduct research on antibodies discovered by us, and Janssen will have an option to an exclusive license to develop, manufacture, and commercialize candidates resulting from the collaboration. Under the terms of the agreement, we will receive an up-front payment and research support payments for activities conducted in collaboration with Janssen. For candidates licensed by Janssen, we would be eligible to receive payments upon the achievement of certain development and commercial milestones potentially totaling up to \$125 million as well as low single digit royalties on product sales.

In order to pursue the above research initiatives, as well as other research initiatives that may arise, we will use our cash reserves. However, it will be necessary for us to raise a significant amount of additional working capital in the future. If we are unable to raise the necessary funds, we may be required to significantly curtail the future development of some or all of our research initiatives and we will be unable to pursue other possible research initiatives.

We may further expand our research and development program beyond the initiatives listed above to include other diseases and research centers.

### *Intellectual Property*

We continue to develop our intellectual property internally and by in-licensing certain intellectual property related to our antibody platforms and our chimerasome technology.

Prior to the fourth quarter of fiscal 2015, certain patent related costs were capitalized. We concluded, based on historical write offs of patent cost, that the future beneficial value of our patent assets were uncertain and as such made a change to our accounting policy. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis beginning in the fourth quarter of fiscal 2015.

### *Government Regulation*

Our ongoing preclinical research with cell lines and lab animal models of human disease is not currently subject to the FDA requirements that govern clinical trials. Generally, the FDA must approve any drug or biologic product before it

can be marketed in the United States. In addition, prior to being sold outside of the United States, any product candidates must be approved by the regulatory agencies of foreign governments. Prior to filing a new drug application or biologics license application with the FDA, we would have to perform extensive clinical trials, and prior to beginning any clinical trial, we need to perform extensive preclinical testing which could take several years and may require substantial expenditures.

### *Employees*

We have nine (9) employees, three (3) of whom are executive officers and who are involved in our management and we also have five (5) consultants.

We may contract research to university laboratories or to other companies in order to advance the development of our technology.

*Safe Harbor Statement*

The statements contained in this Annual Report on Form 10-K that are not historical facts are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as “believes,” “expects,” “may,” “will,” “should,” or “anticipates” or the negative thereof or other variations thereon or comparable terminology, or by discussions of strategy that involve risks and uncertainties. In particular, our statements regarding the anticipated growth in the markets for our technologies, the continued advancement of our research, the approval of our patent applications, the successful implementation of our commercialization strategy, including the success of our product candidates, statements relating to our patent applications, the anticipated long term growth of our business, the results of our preclinical or clinical studies, if any, the quotation of the Company’s common stock on an over-the-counter securities market, and the timing of the projects and trends in future operating performance are examples of such forward-looking statements. The forward-looking statements include risks and uncertainties, including, but not limited to, our ability to continue as a going concern, our limited operating history, our need for additional capital to fund our operations until we are able to generate a profit, the current economic environment, our outsourcing of our research and development activities, our significant future capital needs, our dependence on our patents and proprietary rights and the enforcement of these rights, the potential for our competitors or third parties to allege that we are infringing upon their intellectual property rights, the potential that our security measures may not adequately protect our unpatented technology, potential difficulty in managing our growth and expanding our operations, our lack of marketing or sales history and dependence on third-party marketing partners, our potential future dependence on joint ventures and strategic alliances to develop and market our technology, the intense competition in the biotechnology industry, the various government regulations that our business is subject to, the potential that our preclinical studies of our product candidates may be unsuccessful, any inability to license from third parties their proprietary technologies or processes which we use in connection with the development of our technology, the length, expense and uncertainty associated with future clinical trials for our product candidates, the potential that, even if we receive regulatory approval, consumers may not accept products containing our technology, our dependence on key personnel, the potential that certain provisions of our charter, by-laws and Delaware law could make a takeover difficult, political and social turmoil, the potential that our management and other affiliates, due to their significant control of our common stock have the ability to significantly influence our actions, the potential that a significant portion of our total outstanding shares of common stock may be sold in the market in the near future, the limited trading market of our common stock, fluctuations in the market price of our common stock, our dividend policy and potential for our stockholders to be diluted.

## **ITEM 1A: Risk Factors**

The more prominent risks and uncertainties inherent in our business are described below. However, additional risks and uncertainties may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations may suffer.

### **Risks Related to Our Business**

*Recurring losses and negative cash flows from operations raise substantial doubt about our ability to continue as a going concern and we may not be able to continue as a going concern.*

Our recurring losses from operations and negative cash flows from operations raise substantial doubt about our ability to continue as a going concern and as a result, our independent registered public accounting firm included an explanatory paragraph in its report on our consolidated financial statements for the fiscal year ended June 30, 2015. Substantial doubt about our ability to continue as a going concern may create negative reactions to the price of the common shares of our stock and we may have a more difficult time obtaining financing.

We have prepared our financial statements on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts of liabilities that might be necessary should we be unable to continue in existence.

Based on the cash on hand as of June 30, 2015 and the aggregate net proceeds from the issuance of preferred stock, common stock and warrants on July 27, 2015, we believe we have enough cash to fund operations through at least June 30, 2016.

*We have a limited operating history and have incurred substantial losses and expect to incur future losses.*

We are a development stage biotechnology company with a limited operating history and limited assets and capital. We have incurred losses each year since inception and had an accumulated deficit of \$107,182,976 at June 30, 2015. We have generated minimal revenues by licensing our technology for certain crops to companies willing to share in our development costs. In addition, our technology may not be ready for commercialization for several years. We

expect to continue to incur losses for the next several years because we anticipate that our expenditures on research and development and administrative activities will significantly exceed our revenues during that period. We cannot predict when, if ever, we will become profitable.

*We will need additional capital to fund our operations until we are able to generate a profit.*

Our operations to date have required significant cash expenditures. Our future capital requirements will depend on the results of our research and development activities, preclinical and clinical studies, and competitive and technological advances.

We will need to obtain more funding in the future through collaborations or other arrangements with research institutions and corporate partners, or public and private offerings of our securities, including debt or equity financing. We may not be able to obtain adequate funds for our operations from these sources when needed or on acceptable terms. Future collaborations or similar arrangements may require us to license valuable intellectual property to, or to share substantial economic benefits with, our collaborators. If we raise additional capital by issuing additional equity or securities convertible into equity, our stockholders may experience dilution and our share price may decline. Any debt financing may result in restrictions on our spending.

If we are unable to raise additional funds, we will need to do one or more of the following:

- delay, scale-back or eliminate some or all of our research and product development programs;
- provide licenses to third parties to develop and commercialize products or technologies that we would otherwise seek to develop and commercialize ourselves;
- seek strategic alliances or business combinations;
- attempt to sell our company;
- cease operations; or
- declare bankruptcy.

Based on the cash on hand as of June 30, 2015 and the aggregate net proceeds from the issuance of preferred stock, common stock and warrants on July 27, 2015, we believe we have enough cash to fund operations through at least June 30, 2016.

***We may be adversely affected by the current economic environment.***

Our ability to obtain financing, invest in and grow our business, and meet our financial obligations depends on our operating and financial performance, which in turn is subject to numerous factors. In addition to factors specific to our business, prevailing economic conditions and financial, business and other factors beyond our control can also affect our business and ability to raise capital. We cannot anticipate all of the ways in which the current economic climate

and financial market conditions could adversely impact our business.

***Materials necessary to manufacture some of our compounds currently under development may not be available on commercially reasonable terms, or at all, which may delay our development and commercialization of these compounds.***

Some of the materials necessary for the manufacture of our compounds under development may, from time to time, be available either in limited quantities, or from a limited number of manufacturers, or both. Our contract manufacturers need to obtain these materials for our preclinical and clinical trials and, potentially, for commercial distribution when and if we obtain marketing approval for these compounds. Suppliers may not sell us these materials at the time we need them or on commercially reasonable terms. If we are unable to obtain the materials needed to conduct our preclinical and clinical trials, product testing and potential regulatory approval could be delayed, adversely affecting our ability to develop the product candidates. Similarly, if we are unable to obtain critical manufacturing materials after regulatory approval has been obtained for a product candidate, the commercial launch of that product candidate could be delayed or there could be a shortage in supply, which could materially affect our ability to generate revenues from that product candidate. If suppliers increase the price of manufacturing materials, the price for one or more of our products may increase, which may make our products less competitive in the marketplace. If it becomes necessary to change suppliers for any of these materials or if any of our suppliers experience a shutdown or disruption at the facilities used to produce these materials, due to technical, regulatory or other reasons, it could harm our ability to manufacture our products.



***We depend on a limited number of technologies and, if our technologies are not commercially successful, we will have no alternative source of revenue.***

Our primary business is the development and licensing of technology to discover and engineer monoclonal antibodies. Our future revenue and profitability critically depend upon our ability, or our licensees' ability, to successfully develop apoptosis and senescence gene technology and later license or market such technology. We have conducted certain preliminary cell-line and animal experiments, which have provided us with data upon which we have designed additional research programs. However, we cannot give any assurance that our technology will be commercially successful or economically viable for any therapeutic applications.

In addition, no assurance can be given that adverse consequences might not result from the use of our technology such as the development of negative effects on patients that receive our product candidates. Our failure to obtain market acceptance of our technology or the failure of our current or potential licensees to successfully commercialize such technology would have a material adverse effect on our business.

***We outsource much of our research and development activities and, if we are unsuccessful in maintaining our alliances with these third parties, our research and development efforts may be delayed or curtailed.***

We rely on third parties to perform much of our research and development activities. At this time, we have limited internal capabilities to perform our own research and development activities. Accordingly, the failure of third party research partners to perform under agreements entered into with us, or our failure to renew important research agreements with these third parties, may delay or curtail our research and development efforts.

***We have significant future capital needs and may be unable to raise capital when needed, which could force us to delay or reduce our research and development efforts.***

As of June 30, 2015, we had a cash balance of \$3,334,626 and working capital of \$2,951,210. Using our available reserves as of June 30, 2015, and the aggregate net proceeds from the issuance of preferred stock, common stock and warrants on July 27, 2015, we believe that we can operate according to our current business plan at least through June 30, 2016.

To date, we have generated minimal revenues and anticipate that our operating costs will exceed any revenues generated over the next several years. Therefore, we will be required to raise additional capital in the future in order to

operate in accordance with our current business plan, and this funding may not be available on favorable terms, if at all. If we are unable to raise additional funds, we will need to do one or more of the following:

- delay, scale back or eliminate some or all of our research and development programs;

· provide a license to third parties to develop and commercialize our technology that we would otherwise seek to develop and commercialize ourselves;

- seek strategic alliances or business combinations;

- attempt to sell our company;

- cease operations; or

- declare bankruptcy.

Investors may experience dilution in their investment from future offerings of our common stock. For example, if we raise additional capital by issuing equity securities, such an issuance would reduce the percentage ownership of existing stockholders. In addition, assuming the exercise of all options and warrants outstanding and the conversion of the preferred stock into common stock, as of June 30, 2015, we had 461,262,961 shares of common stock authorized but unissued and unreserved, which may be issued from time to time by our board of directors. Furthermore, we may need to issue securities that have rights, preferences and privileges senior to our common stock. Failure to obtain financing on acceptable terms would have a material adverse effect on our liquidity.

Since our inception, we have financed all of our operations through equity and debt financings. Our future capital requirements depend on numerous factors, including:

- the scope of our research and development;
- our ability to attract business partners willing to share in our development costs;
- our ability to successfully commercialize our technology;
- competing technological and market developments;
- our ability to enter into collaborative arrangements for the development, regulatory approval and commercialization of other products; and
- the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights.

***Our business depends upon our patents and proprietary rights and the enforcement of these rights. Our failure to obtain and maintain patent protection may increase competition and reduce demand for our technology.***

As a result of the substantial length of time and expense associated with developing products and bringing them to the marketplace in the biotechnology industry, obtaining and maintaining patent and trade secret protection for technologies, products and processes is of vital importance. Our success will depend in part on several factors, including, without limitation:

- our ability to obtain patent protection for our technologies and processes;

our ability to preserve our trade secrets; and

our ability to operate without infringing the proprietary rights of other parties both in the United States and in foreign countries.

Our success depends in part upon the grant of patents from our pending patent applications. In addition, we have licensed certain antibody technology from The Scripps Research Institute, or Scripps, pursuant to a license agreement dated August 8, 2014. If we are in breach of this license agreement, and Scripps elects to terminate the agreement, this termination could have a material adverse effect to our business in the future.

Although we believe that our technology is unique and that it will not violate or infringe upon the proprietary rights of any third party, we cannot assure you that these claims will not be made or if made, could be successfully defended against. If we do not obtain and maintain patent protection, we may face increased competition in the United States and internationally, which would have a material adverse effect on our business.

Since patent applications in the United States are maintained in secrecy until patents are issued, and since publication of discoveries in the scientific and patent literature tend to lag behind actual discoveries by several months, we cannot be certain that we were the first creator of the inventions covered by our pending patent applications or that we were the first to file patent applications for these inventions.

In addition, among other things, we cannot assure you that:

- our patent applications will result in the issuance of patents;
- any patents issued or licensed to us will be free from challenge and if challenged, would be held to be valid;
- any patents issued or licensed to us will provide commercially significant protection for our technology, products and processes;
- other companies will not independently develop substantially equivalent proprietary information which is not covered by our patent rights;
- other companies will not obtain access to our know-how;
- other companies will not be granted patents that may prevent the commercialization of our technology; or
- we will not incur licensing fees and the payment of significant other fees or royalties to third parties for the use of their intellectual property in order to enable us to conduct our business.

***Our competitors may allege that we are infringing upon their intellectual property rights, forcing us to incur substantial costs and expenses in resulting litigation, the outcome of which would be uncertain.***

Patent law is still evolving relative to the scope and enforceability of claims in the fields in which we operate. We are like most biotechnology companies in that our patent protection is highly uncertain and involves complex legal and technical questions for which legal principles are not yet firmly established. In addition, if issued, our patents may not contain claims sufficiently broad to protect us against third parties with similar technologies or products, or provide us with any competitive advantage.

The PTO and the courts have not established a consistent policy regarding the breadth of claims allowed in biotechnology patents. The allowance of broader claims may increase the incidence and cost of patent interference proceedings and the risk of infringement litigation. On the other hand, the allowance of narrower claims may limit the scope and value of our proprietary rights.

The laws of some foreign countries do not protect proprietary rights to the same extent as the laws of the United States, and many companies have encountered significant problems and costs in protecting their proprietary rights in these foreign countries.

We could become involved in infringement actions to enforce and/or protect our patents. Regardless of the outcome, patent litigation is expensive and time consuming and would distract our management from other activities. Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we could because they have substantially greater resources. Uncertainties resulting from the initiation and continuation of any patent litigation could limit our ability to continue our operations.

***If our technology infringes the intellectual property of our competitors or other third parties, we may be required to pay license fees or damages.***

If any relevant claims of third party patents that are adverse to us are upheld as valid and enforceable, we could be prevented from commercializing our technology or could be required to obtain licenses from the owners of such patents. We cannot assure you that such licenses would be available or, if available, would be on acceptable terms. Some licenses may be non-exclusive and, therefore, our competitors may have access to the same technology licensed to us. In addition, if any parties successfully claim that the creation or use of our technology infringes upon their intellectual property rights, we may be forced to pay damages, including treble damages.

***Our security measures may not adequately protect our unpatented technology and, if we are unable to protect the confidentiality of our proprietary information and know-how, the value of our technology may be adversely affected.***

Our success depends upon know-how, unpatentable trade secrets, and the skills, knowledge and experience of our scientific and technical personnel. We require all employees to disclose and assign to us the rights to their ideas, developments, discoveries and inventions. All of the current employees have also entered into Non-disclosure, Non-competition and Invention Assignment Agreements. We also attempt to enter into similar agreements with our consultants, advisors and research collaborators. We cannot assure you that adequate protection for our trade secrets, know-how or other proprietary information against unauthorized use or disclosure will be available.

We occasionally provide information to research collaborators in academic institutions and request that the collaborators conduct certain tests. We cannot assure you that the academic institutions will not assert intellectual property rights in the results of the tests conducted by the research collaborators, or that the academic institutions will grant licenses under such intellectual property rights to us on acceptable terms, if at all. If the assertion of intellectual property rights by an academic institution is substantiated, and the academic institution does not grant intellectual property rights to us, these events could limit our ability to commercialize our technology.

***As we evolve from a company primarily involved in the research and development of our technology into one that is also involved in the commercialization of our technology, we may have difficulty managing our growth and expanding our operations.***

As our business grows, we may need to add employees and enhance our management, systems and procedures. We may need to successfully integrate our internal operations with the operations of our marketing partners, manufacturers, distributors and suppliers to produce and market commercially viable products. We may also need to manage additional relationships with various collaborative partners, suppliers and other organizations. Expanding our business may place a significant burden on our management and operations. We may not be able to implement improvements to our management information and control systems in an efficient and timely manner and we may discover deficiencies in our existing systems and controls. Our failure to effectively respond to such changes may make it difficult for us to manage our growth and expand our operations.

***We have no marketing or sales history and depend on third party marketing partners. Any failure of these parties to perform would delay or limit our commercialization efforts.***

We have no history of marketing, distributing or selling biotechnology products, and we are relying on our ability to successfully establish marketing partners or other arrangements with third parties to market, distribute and sell a commercially viable product both here and abroad. Our business plan envisions creating strategic alliances to access needed commercialization and marketing expertise. We may not be able to attract qualified sub-licensees, distributors or marketing partners, and even if qualified, these marketing partners may not be able to successfully market agricultural products or human therapeutic applications developed with our technology. If our current or potential future marketing partners fail to provide adequate levels of sales, our commercialization efforts will be delayed or limited and we may not be able to generate revenue.



***We will depend on joint ventures and strategic alliances to develop and market our technology and, if these arrangements are not successful, our technology may not be developed and the expenses to commercialize our technology will increase.***

In its current state of development, our technology is not ready to be marketed to consumers. We intend to follow a multi-faceted commercialization strategy that involves the licensing of our technology to business partners for the purpose of further technological development, marketing and distribution. We have and are seeking business partners who will share the burden of our development costs while our technology is still being developed, and who will pay us royalties when they market and distribute products incorporating our technology upon commercialization. The establishment of joint ventures and strategic alliances may create future competitors, especially in certain regions abroad where we do not pursue patent protection. If we fail to establish beneficial business partners and strategic alliances, our growth will suffer and the continued development of our technology may be harmed.

***Competition in the human therapeutic industry is intense and technology is changing rapidly. If our competitors market their technology faster than we do, we may not be able to generate revenues from the commercialization of our technology.***

There are many large companies working in the therapeutic antibody field and similarly may develop technologies related to antibody discovery. These companies include Genentech, Inc., Amgen, Inc., Biogen Idec, Inc., Novartis AG, Janssen Biotech, Inc., Sanofi-aventis U.S. LLC, Regeneron Pharmaceuticals, Inc., Bristol-Myers Squibb Company, Teva Pharmaceutical Industries Ltd, Pfizer, Inc., Takeda Pharmaceutical Company Limited, Kyowa Hokko Kirin Pharma, Inc., Daiichi Sankyo Company Limited, Astellas Pharma, Inc., Merck & Co. Inc., AbbVie, Inc., Seattle Genetics, Inc., and Immunogen, Inc. Similarly, there are several small companies developing technologies for antibody discovery, including Adimab LLC, X-body Biosciences, Inc., Innovative Targeting Solutions, Inc., Heptares Therapeutics Ltd, Kymab Ltd., and Novimmune SA. Other companies are working on unique scaffolds, including Ablynx NV and ArGen-X N.V.

We may be unable to compete successfully against our current and future competitors, which may result in price reductions, reduced margins and the inability to achieve market acceptance for products containing our technology. Many of these competitors have substantially greater financial, marketing, sales, distribution and technical resources than us and have more experience in research and development, clinical trials, regulatory matters, manufacturing and marketing. We anticipate increased competition in the future as new companies enter the market and new technologies become available. Our technology may be rendered obsolete or uneconomical by technological advances or entirely different approaches developed by one or more of our competitors, which will prevent or limit our ability to generate revenues from the commercialization of our technology.

***Our business is subject to various government regulations and, if we or our licensees are unable to obtain regulatory approval, we may not be able to continue our operations.***

Use of our technology, if developed for human therapeutic applications, is subject to FDA regulation. The FDA must approve any drug or biologic product before it can be marketed in the United States. In addition, prior to being sold outside of the United States, any of our product candidates must be approved by the regulatory agencies of foreign governments. Prior to filing a new drug application or biologics license application with the FDA, we would have to perform extensive clinical trials, and prior to beginning any clinical trial, we would need to perform extensive preclinical testing which could take several years and may require substantial expenditures.

We expect to perform clinical trials in connection with our product candidates, which are subject to FDA approval. Additionally, federal, state and foreign regulations relating to human therapeutic applications developed through biotechnology are subject to public concerns and political circumstances, and, as a result, regulations have changed and may change substantially in the future. Accordingly, we may become subject to governmental regulations or approvals or become subject to licensing requirements in connection with our research and development efforts. We may also be required to obtain such licensing or approval from the governmental regulatory agencies described above, or from state agencies, prior to the commercialization of our human therapeutic technology. If unfavorable governmental regulations are imposed on our technology or if we fail to obtain licenses or approvals in a timely manner, we may not be able to continue our operations.

***Preclinical studies of our product candidates may be unsuccessful, which could delay or prevent regulatory approval.***

Preclinical studies may reveal that one or more of our product candidates is ineffective or harmful, and/or may be unsuccessful in demonstrating efficacy and safety of our human therapeutic technology, which would significantly limit the possibility of obtaining regulatory approval for any drug or biologic product manufactured with our technology. The FDA requires submission of extensive preclinical, clinical and manufacturing data to assess the efficacy and safety of potential products. Any delay in receiving approval for any applicable IND from the FDA would result in a delay in the commencement of the related clinical trial. Additionally, we could be required to perform additional preclinical studies prior to the FDA approving any applicable IND. Furthermore, the success of preliminary studies does not ensure commercial success, and later-stage clinical trials may fail to confirm the results of the preliminary studies.

***Our success will depend on the success of our clinical trials of our product candidates.***

It may take several years to complete the clinical trials of a product, and failure of one or more of our clinical trials can occur at any stage of testing. We believe that the development of our product candidate involves significant risks at each stage of testing. If clinical trial difficulties and failures arise, our product candidate may never be approved for sale or become commercially viable.

There are a number of difficulties and risks associated with clinical trials. These difficulties and risks may result in the failure to receive regulatory approval to sell our product candidate or the inability to commercialize our product candidate. The possibility exists that:

we may discover that the product candidate does not exhibit the expected therapeutic results in humans, may cause harmful side effects or have other unexpected characteristics that may delay or preclude regulatory approval or limit commercial use if approved;

the results from early clinical trials may not be statistically significant or predictive of results that will be obtained from expanded advanced clinical trials;

institutional review boards or regulators, including the FDA, may hold, suspend or terminate our clinical research or the clinical trials of our product candidate for various reasons, including noncompliance with regulatory requirements or if, in their opinion, the participating subjects are being exposed to unacceptable health risks;

subjects may drop out of our clinical trials;

our preclinical studies or clinical trials may produce negative, inconsistent or inconclusive results, and we may decide, or regulators may require us, to conduct additional preclinical studies or clinical trials; and

the cost of our clinical trials may be greater than we currently anticipate.

***Clinical trials for our product candidates will be lengthy and expensive and their outcome is uncertain.***

Before obtaining regulatory approval for the commercial sales of any product containing our technology, we must demonstrate through clinical testing that our technology and any product containing our technology is safe and effective for use in humans. Conducting clinical trials is a time-consuming, expensive and uncertain process and typically requires years to complete. In our industry, the results from preclinical studies and early clinical trials often are not predictive of results obtained in later-stage clinical trials. Some products and technologies that have shown promising results in preclinical studies or early clinical trials subsequently fail to establish sufficient safety and efficacy data necessary to obtain regulatory approval. At any time during clinical trials, we or the FDA might delay or halt any clinical trial for various reasons, including:

occurrence of unacceptable toxicities or side effects;

ineffectiveness of the product candidate;

negative or inconclusive results from the clinical trials, or results that necessitate additional studies or clinical trials;

delays in obtaining or maintaining required approvals from institutions, review boards or other reviewing entities at clinical sites;

· delays in patient enrollment; or

· insufficient funding or a reprioritization of financial or other resources.

Any failure or substantial delay in successfully completing clinical trials and obtaining regulatory approval for our product candidates could severely harm our business.

*If our clinical trials for our product candidates are delayed, we would be unable to commercialize our product candidates on a timely basis, which would materially harm our business.*

Planned clinical trials may not begin on time or may need to be restructured after they have begun. Clinical trials can be delayed for a variety of reasons, including delays related to:

- obtaining an effective IND or regulatory approval to commence a clinical trial;
- negotiating acceptable clinical trial agreement terms with prospective trial sites;
- obtaining institutional review board approval to conduct a clinical trial at a prospective site;
- recruiting qualified subjects to participate in clinical trials;
- competition in recruiting clinical investigators;
- shortage or lack of availability of supplies of drugs for clinical trials;
- the need to repeat clinical trials as a result of inconclusive results or poorly executed testing;
- the placement of a clinical hold on a study;

the failure of third parties conducting and overseeing the operations of our clinical trials to perform their contractual or regulatory obligations in a timely fashion; and

exposure of clinical trial subjects to unexpected and unacceptable health risks or noncompliance with regulatory requirements, which may result in suspension of the trial.

We believe that our product candidates have significant milestones to reach, including the successful completion of clinical trials, before commercialization. If we have significant delays in or termination of clinical trials, our financial results and the commercial prospects for our product candidates or any other products that we may develop will be adversely impacted. In addition, our product development costs would increase and our ability to generate revenue could be impaired.

*Any inability to license from third parties their proprietary technologies or processes which we use in connection with the development of our technology may impair our business.*

Other companies, universities and research institutions have or may obtain patents that could limit our ability to use our technology in a product candidate or impair our competitive position. As a result, we would have to obtain licenses from other parties before we could continue using our technology in a product candidate. Any necessary licenses may not be available on commercially acceptable terms, if at all. If we do not obtain required licenses, we may not be able to develop our technology into a product candidate or we may encounter significant delays in development while we redesign methods that are found to infringe on the patents held by others.

***We face potential product liability exposure far in excess of our limited insurance coverage.***

We may be held liable if any product we or our collaborators develop causes injury or is found otherwise unsuitable during product testing, manufacturing, marketing or sale. Regardless of merit or eventual outcome, product liability claims could result in decreased demand for our product candidates, injury to our reputation, withdrawal of patients from our clinical trials, substantial monetary awards to trial participants and the inability to commercialize any products that we may develop. These claims might be made directly by consumers, health care providers, pharmaceutical companies or others selling or testing our products. We have obtained limited product liability insurance coverage for our clinical trials; however, our insurance may not reimburse us or may not be sufficient to reimburse us for expenses or losses we may suffer. Moreover, if insurance coverage becomes more expensive, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. If we obtain marketing approval for any of our product candidates, we intend to expand our insurance coverage to include the sale of commercial products, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing. On occasion, juries have awarded large judgments in class action lawsuits for claims based on drugs that had unanticipated side effects. In addition, the pharmaceutical and biotechnology industries, in general, have been subject to significant medical malpractice litigation. A successful product liability claim or series of claims brought against us could harm our reputation and business and would decrease our cash reserves.

***We depend on our key personnel and, if we are not able to attract and retain qualified scientific and business personnel, we may not be able to grow our business or develop and commercialize our technology.***

We are highly dependent on our scientific advisors, consultants and third-party research partners. Our success will also depend in part on the continued service of our key employees and our ability to identify, hire and retain additional qualified personnel in an intensely competitive market. Additionally, we do not have employment agreements with our key employees. We do not maintain key person life insurance on any member of management. The failure to attract and retain key personnel could limit our growth and hinder our research and development efforts.

***If we are unable to successfully remediate the material weakness in our internal control over financial reporting, the accuracy and timing of our financial reporting may be adversely affected, which may adversely affect investor confidence in us and, as a result, the value of our common stock.***

In connection with the audit of our fiscal year 2015 consolidated financial statements, our auditors noted a material weakness in our internal controls, principally relating to the review of the accounting and calculation surrounding our equity-linked financial instruments. A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting that results in more than reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. We cannot assure that any



measures that we take to correct this material weakness will fully remediate the deficiencies or material weakness described above. We also cannot assure you that we have identified all of our existing significant deficiencies and material weaknesses, or that we will not in the future have additional significant deficiencies or material weaknesses.

*Certain provisions of our charter, by-laws, Delaware law and stock plans could make a takeover difficult.*

Certain provisions of our certificate of incorporation and by-laws could make it more difficult for a third party to acquire control of us, even if the change in control would be beneficial to stockholders. Our certificate of incorporation authorizes our board of directors to issue, without stockholder approval, 5,000,000 shares of preferred stock with voting, conversion and other rights and preferences that could adversely affect the voting power or other rights of the holders of our common stock.

In addition, we are subject to the Business Combination Act of the Delaware General Corporation Law which, subject to certain exceptions, restricts certain transactions and business combinations between a corporation and a stockholder owning 15% or more of the corporation's outstanding voting stock for a period of three years from the date such stockholder becomes a 15% owner. These provisions may have the effect of delaying or preventing a change of control of us without action by our stockholders and, therefore, could adversely affect the value of our common stock.

Furthermore, in the event of our merger or consolidation with or into another corporation, or the sale of all or substantially all of our assets in which the successor corporation does not assume our outstanding equity awards or issue equivalent equity awards, our current equity plans require the accelerated vesting of such outstanding equity awards.

### **Risks Related to Our Common Stock**

#### ***Penny stock regulations may impose certain restrictions on marketability of our securities.***

The SEC has adopted regulations which generally define a “penny stock” to be any equity security that has a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. As a result, our common stock is subject to rules that impose additional sales practice requirements on broker dealers who sell such securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000 together with their spouse). For transactions covered by such rules, the broker dealer must make a special suitability determination for the purchase of such securities and have received the purchaser’s written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the transaction, of a risk disclosure document mandated by the SEC relating to the penny stock market. The broker dealer must also disclose the commission payable to both the broker dealer and the registered representative, current quotations for the securities and, if the broker dealer is the sole market maker, the broker dealer must disclose this fact and the broker dealer’s presumed control over the market.

Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Broker-dealers must wait two business days after providing buyers with disclosure materials regarding a security before effecting a transaction in such security. Consequently, the “penny stock” rules restrict the ability of broker dealers to sell our securities and affect the ability of investors to sell our securities in the secondary market and the price at which such purchasers can sell any such securities, thereby affecting the liquidity of the market for our common stock.

Stockholders should be aware that, according to the SEC, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include:

- control of the market for the security by one or more broker-dealers that are often related to the promoter or issuer;
- manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases;
- “boiler room” practices involving high pressure sales tactics and unrealistic price projections by inexperienced sales persons;

· excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and

the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, along with the inevitable collapse of those prices with consequent investor losses.

Our management is aware of the abuses that have occurred historically in the penny stock market.

***Our management and other affiliates have significant control of our common stock and could significantly influence our actions in a manner that conflicts with our interests and the interests of other stockholders.***

As of June 30, 2015, our executive officers and directors together beneficially own approximately 21% of the outstanding shares of our common stock, assuming the exercise of options and warrants which are currently exercisable or will become exercisable within 60 days of June 30, 2015, held by these stockholders. Additionally, there are four shareholders that each beneficially own more than 5% of the outstanding shares of our common stock. As a result, these stockholders, acting together, will be able to exercise significant influence over matters requiring approval by our stockholders, including the election of directors, and may not always act in the best interests of other stockholders. Such a concentration of ownership may have the effect of delaying or preventing a change in control of us, including transactions in which our stockholders might otherwise receive a premium for their shares over then-current market prices.

***A significant portion of our total outstanding shares of common stock may be sold in the market in the near future, which could cause the market price of our common stock to drop significantly.***

As of June 30, 2015, we had 18,752,813 shares of our common stock issued and outstanding, 380 shares of Series A convertible preferred stock outstanding which can convert into 506,666 shares of common stock and 235,837 shares of Series C convertible preferred stock outstanding which can convert into 2,358,370 shares of common stock. As of June 30, 2015, all of our outstanding shares of common stock are registered pursuant to registration statements on Forms S-1 or S-3 or are either eligible to be sold under Rule 144 of the Securities Act of 1933, as amended, or are in the public float. In addition, we have registered 1,876,722 shares of our common stock underlying warrants previously issued and still outstanding and we registered 4,917,670 shares of our common stock underlying options granted or to be granted under our stock option plans. Consequently, sales of substantial amounts of our common stock in the public market, or the perception that such sales could occur, may have a material adverse effect on our stock price.

***Our common stock has a limited trading market, which could limit your ability to resell your shares of common stock at or above your purchase price.***

Our common stock is currently quoted on the OTCQB Marketplace, operated by the OTC Markets Group, or OTCQB, and our common stock currently has a limited trading market. We cannot assure you that an active trading market will develop or, if developed, will be maintained. As a result, our stockholders may find it difficult to dispose of shares of our common stock and, as a result, may suffer a loss of all or a substantial portion of their investment.

***The market price of our common stock may fluctuate and may drop below the price you paid.***

We cannot assure you that you will be able to resell the shares of our common stock at or above your purchase price. The market price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control. These factors include:

- quarterly variations in operating results;

the progress or perceived progress of our research and development efforts;

changes in accounting treatments or principles;

announcements by us or our competitors of new technology, product and service offerings, significant contracts, acquisitions or strategic relationships;

additions or departures of key personnel;

future offerings or resales of our common stock or other securities;

stock market price and volume fluctuations of publicly-traded companies in general and development companies in particular; and

general political, economic and market conditions.

For example, during the fiscal year ended June 30, 2015, our common stock traded between \$0.51 and \$2.88 per share.

***Because we do not intend to pay, and have not paid, any cash dividends on our shares of common stock, our stockholders will not be able to receive a return on their shares unless the value of our common stock appreciates and they sell their shares.***

We have never paid or declared any cash dividends on our common stock, and we intend to retain any future earnings to finance the development and expansion of our business. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. Therefore, our stockholders will not be able to receive a return on their investment unless the value of our common stock appreciates and they sell their shares.

***Our stockholders may experience substantial dilution as a result of the conversion of convertible preferred stock, the exercise of options and warrants to purchase our common stock, or due to anti-dilution provisions relating to any on the foregoing.***

As of June 30, 2015, we have outstanding 380 shares of Series A convertible preferred stock which may convert into 506,666 shares of common stock, 235,837 shares of Series C convertible preferred stock outstanding which can convert into 2,358,370 shares of common stock and warrants to purchase 7,332,776 shares of our common stock. In addition, as of June 30, 2015, we have reserved 4,917,670 shares of our common stock for issuance upon the exercise of options granted or available to be granted pursuant to our stock option plan, all of which may be granted in the future. Furthermore, in connection with the preferred stock agreements, we are required to reserve an additional 4,868,740 shares of common stock. The conversion of the convertible preferred stock and the exercise of these options and warrants will result in dilution to our existing stockholders and could have a material adverse effect on our stock price. The conversion price of the convertible preferred stock is also subject to certain anti-dilution adjustments.



**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

Effective October 10, 2014, we lease office space in San Diego, California for a current monthly rental fee of \$22,728. The lease expires on October 31, 2016. The office and laboratory space is in good condition, and we believe they will adequately serve as our headquarters and laboratory over the term of the lease. We also believe that the office and laboratory space is adequately insured by the lessors.

**Item 3. Legal Proceedings.**

We are not currently a party to any legal proceedings; however, we may become involved in various claims and legal actions arising in the ordinary course of business.

**Item 4. Mine Safety Disclosures.**

None.

**PART II**

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

Our common stock currently trades on the OTCQB Marketplace under the symbol SVON.

The following table sets forth, for each of the quarters since the quarter ended September 30, 2013, the range of the high and low bid information for our common shares quoted on the OTCQB Marketplace. The prices in the table represent prices between dealers and do not include adjustments for retail mark-up, markdown or commission and may not represent actual transactions.

| Quarter Ended      | Common Stock |        |
|--------------------|--------------|--------|
|                    | High         | Low    |
| September 30, 2013 | \$7.00       | \$1.90 |
| December 31, 2013  | \$6.35       | \$3.00 |
| March 31, 2014     | \$6.09       | \$3.03 |
| June 30, 2014      | \$3.69       | \$2.40 |
| September 30, 2014 | \$2.88       | \$1.28 |
| December 31, 2014  | \$1.60       | \$0.51 |
| March 31, 2015     | \$0.90       | \$0.51 |
| June 30, 2015      | \$1.57       | \$0.63 |

As of September 15, 2015, the approximate number of holders of record of our common stock was 171. This number does not include “street name” or beneficial holders, whose shares are held of record by banks, brokers and other financial institutions.

We have neither paid nor declared dividends on our common stock since our inception, and we do not plan to pay dividends on our common stock in the foreseeable future. We expect that any earnings, which we may realize, will be retained to finance the growth of our company.



The following table provides information about the securities authorized for issuance under our equity compensation plans as of June 30, 2015.

**EQUITY COMPENSATION PLAN INFORMATION**

|                                                            | Number of securities to be issued upon exercise of outstanding options, warrants and rights and restricted stock units | Weighted-average exercise price of outstanding options, warrants and rights and restricted stock units | Number of securities remaining available for future issuance under equity compensation plans |
|------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| Equity compensation plans approved by security holders     | 1,626,919                                                                                                              | (1) \$ 4.45                                                                                            | 3,290,751 (2)                                                                                |
| Equity compensation plans not approved by security holders | —                                                                                                                      | —                                                                                                      | —                                                                                            |
| Total                                                      | 1,626,919                                                                                                              | (1) \$ 4.45                                                                                            | 3,290,751 (2)                                                                                |

(1) Issued pursuant to our 1998 Stock Plan and 2008 Stock Plan.

(2) Available for future issuance pursuant to our 2008 Stock Plan.

**RECENT SALES OF UNREGISTERED SECURITIES; USE OF PROCEEDS FROM REGISTERED SECURITIES**

None, except as previously disclosed on our Quarterly Reports on Forms 10-Q and Current Reports on Forms 8-K.

The graph below matches Sevion Therapeutics, Inc.'s cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the NYSE MKT Composite index and the RDG MicroCap Biotechnology index. The graph tracks the performance of a \$100 investment in our common stock and in each index (with the reinvestment of all dividends) from June 30, 2010 to June 30, 2015.

|                                   | <b>6/10</b> | <b>6/11</b> | <b>6/12</b> | <b>6/13</b> | <b>6/14</b> | <b>6/15</b> |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Sevion Therapeutics, Inc.</b>  | 100.00      | 88.89       | 66.03       | 8.57        | 8.89        | 3.05        |
| <b>NYSE MKT Composite</b>         | 100.00      | 136.56      | 139.01      | 139.81      | 184.33      | 158.66      |
| <b>RDG MicroCap Biotechnology</b> | 100.00      | 104.62      | 112.91      | 93.36       | 87.91       | 59.50       |

*The stock price performance included in this graph is not necessarily indicative of future stock price performance.*

## Item 6. Selected Financial Data.

The following Selected Financial Data should be read in conjunction with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8. Financial Statements and Supplementary Data” included elsewhere in this Annual Report on Form 10-K.

## SELECTED FINANCIAL DATA

|                                               | Fiscal Year Ended June 30,            |            |            |            |            |
|-----------------------------------------------|---------------------------------------|------------|------------|------------|------------|
|                                               | 2015                                  | 2014       | 2013       | 2012       | 2011       |
|                                               | (In thousands, except per share data) |            |            |            |            |
| Statement of Operations Data:                 |                                       |            |            |            |            |
| Revenue                                       | \$75                                  | \$100      | \$-        | \$200      | \$-        |
| Operating expenses:                           |                                       |            |            |            |            |
| General and administrative                    | 3,170                                 | 3,683      | 2,500      | 2,724      | 2,610      |
| Research and development                      | 4,568                                 | 3,339      | 2,086      | 2,566      | 3,720      |
| Acquisition related costs                     | -                                     | 545        | -          | -          | -          |
| Impairment of Goodwill                        | 8,122                                 | -          | -          | -          | -          |
| Impairment and write-off of patents abandoned | 2,291                                 | 1,681      | 64         | 321        | 1,588      |
| Total operating expenses                      | 18,151                                | 9,248      | 4,650      | 5,611      | 7,918      |
| Loss from operations                          | (18,076 )                             | (9,148 )   | (4,650 )   | (5,411 )   | (7,918 )   |
| Grant income                                  | -                                     | -          | -          | -          | 244        |
| Fair value – stock right                      | 12                                    | -          | -          | -          | -          |
| Fair value – warrant liability                | 3                                     | -          | 371        | 472        | 609        |
| Other noncash expense                         | -                                     | -          | -          | -          | (116 )     |
| Loss on extinguishment of debt                | -                                     | -          | (1,725 )   | -          | -          |
| Interest expense, net                         | (3 )                                  | (77 )      | (119 )     | (127 )     | (88 )      |
| Net loss                                      | (18,064 )                             | (9,225 )   | (6,123 )   | (5,066 )   | (7,269 )   |
| Preferred dividends                           | (839 )                                | (4,629 )   | (863 )     | (1,626 )   | (2,638 )   |
| Net loss available to common shares           | \$(18,903 )                           | \$(13,854) | \$(6,986 ) | \$(6,692 ) | \$(9,907 ) |
| Basic and diluted net loss per common share   | \$(1.31 )                             | \$(2.53 )  | \$(5.11 )  | \$(7.81 )  | \$(14.29 ) |

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|                                                                        |        |       |       |     |     |
|------------------------------------------------------------------------|--------|-------|-------|-----|-----|
| Basic and diluted weighted average number of common shares outstanding | 14,417 | 5,477 | 1,366 | 857 | 693 |
|------------------------------------------------------------------------|--------|-------|-------|-----|-----|

Balance Sheet Data:

|                            |           |          |          |          |          |
|----------------------------|-----------|----------|----------|----------|----------|
| Cash and cash equivalents  | \$3,335   | \$6,111  | \$1,602  | \$2,001  | \$3,610  |
| Working capital            | 2,951     | 5,399    | 310      | 387      | 1,788    |
| Total assets               | 19,547    | 33,335   | 7,097    | 6,955    | 8,597    |
| Accumulated deficit        | (107,183) | (88,280) | (74,426) | (67,440) | (60,748) |
| Total stockholders' equity | 12,225    | 27,490   | 3,786    | 3,453    | 4,517    |

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

The discussion in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contains trend analysis, estimates and other forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include, without limitation, statements containing the words “believes,” “anticipates,” “expects,” “continue,” and other words of similar import or the negative of those terms or expressions. Such forward-looking statements are subject to known and unknown risks, uncertainties, estimates and other factors that may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual results could differ materially from those set forth in such forward-looking statements as a result of, but not limited to, the “Risk Factors” described in Part I, Item 1A. You should read the following discussion and analysis along with the “Selected Financial Data” and the financial statements and notes attached to those statements included elsewhere in this report.

Overview

We do not expect to generate significant revenues for several years, during which time we will engage in significant research and development efforts.

Our protein biologics technology comprises (i) a platform to discover and engineer human antibodies directly on the cell surface, (ii) antibodies derived from cows that contain ultralong binding regions that may be useful in binding certain therapeutic epitopes, and (iii) a chimerasome nanocage capable of encapsulating therapeutic payloads for drug delivery.

Our preclinical antibody development program comprises an antibody against the ion channel Kv1.3, which is an important molecule in regulating T-cell activation in a number of autoimmune diseases. We have performed experiments showing that this antibody potently blocks activation of human T-cells *in vitro*. Future development efforts will include a Phase I clinical trial.

Consistent with our commercialization strategy, we may license our technology as the opportunities may arise, that may result in additional license fees, revenues from contract research and other related revenues. Successful future operations will depend on our and our partners’ ability to transform our research and development activities into a commercially feasible technology.





## **Critical Accounting Policies and Estimates**

### *Revenue Recognition*

We record revenue under technology license and development agreements related to the following. Actual fees received may vary from the recorded estimated revenues.

Nonrefundable upfront license fees that are received in exchange for the transfer of our technology to licensees, for which no further obligations to the licensee exist with respect to the basic technology transferred, are recognized as revenue on the earlier of when payments are received or collections are assured.

Nonrefundable upfront license fees that are received in connection with agreements that include time-based payments are, together with the time-based payments, deferred and amortized ratably over the estimated research period of the license.

Milestone payments, which are contingent upon the achievement of certain research goals, are recognized as revenue when the milestones, as defined in the particular agreement, are achieved.

Direct and indirect costs reimbursed are offset against R&D Costs.

The effect of any change in revenues from technology license and development agreements would be reflected in revenues in the period such determination was made. Historically, no such adjustments have been made.

### *Estimates of Expenses*

Our research and development agreements with third parties provide for an estimate of our expenses and costs, which are variable and are based on the actual services performed by the third party. We estimate the aggregate amount of the expenses based upon the projected amounts that are set forth in the agreements, and we accrue the expenses for which we have not yet been invoiced or prepay the expenses that have been invoiced but the services have not yet been performed. In estimating the expenses, we consider, among other things, the following factors:

the existence of any prior relationship between us and the third party provider;

the past results of prior research and development services performed by the third party provider; and

the scope and timing of the research and development services set forth in the agreement with the third party provider.

After the research services are performed and we are invoiced, we make any adjustments that are necessary to accurately report research and development expense for the period.

### *Income Taxes*

We account for income taxes in accordance with an asset and liability approach requiring the recognition of deferred tax assets and liabilities for the expected tax consequences of events that have been recognized in the financial statements or tax returns. Deferred tax assets and liabilities are recorded without consideration as to their ability to be realized. The deferred tax asset includes net operating loss and credit carryforwards, and the cumulative temporary differences related to stock-based compensation. The portion of any deferred tax asset, for which it is more likely than not that a tax benefit will not be realized, must then be offset by recording a valuation allowance against the asset.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Management believes it is more likely than not that we will not realize the deferred tax assets in excess of deferred tax liabilities, and as such, a full valuation allowance is maintained against the net deferred tax assets.

While we believe that our tax positions are fully supportable, there is a risk that certain positions could be challenged successfully. In these instances, we look to establish reserves. If we determine that a tax position is more likely than not of being sustained upon audit, based solely on the technical merits of the position, we recognize the benefit. We measure the benefit by determining the amount that has likelihood greater than 50% of being realized upon settlement. We presume that all tax positions will be examined by a taxing authority with full knowledge of all relevant information. We regularly monitor our tax positions, tax assets and tax liabilities. We reevaluate the technical merits of our tax positions and recognize an uncertain tax benefit or derecognize a previously recorded tax benefit when (i) there is a completion of a tax audit, (ii) there is a change in applicable tax law including a tax case or legislative guidance, or (iii) there is an expiration of the statute of limitations. Significant judgment is required in accounting for tax reserves.

#### *Stock-based Compensation*

We measure all employee stock-based compensation awards using a fair value method and record such expense in our consolidated financial statements. Such expense is amortized on a straight line basis over the requisite service period of the award.

We estimate the grant date fair value of stock options using the Black-Scholes option-pricing model which requires the input of highly subjective assumptions. These assumptions include estimating the expected term of the award, the estimated volatility of our stock price over the expected term and the probability of achievement of any performance goals that may be required to be achieved in order for the stock options to vest. Changes in these assumptions and in the estimated forfeitures of stock option awards may materially affect the amount of stock-based compensation recognized in our consolidated statements of operations.

In connection with any performance goals that may be required to be achieved in order for the stock options to vest, our management reviews the specific goals of such plans to determine if such goals have been achieved or are probable that they will be achieved. If the goals have been achieved or are probable of being achieved, then the amount of compensation expense determined on the date of grant related to those specific goals is charged to compensation expense at such time.

*Patent Costs*

We expense patent related costs as incurred as research and development costs in the consolidated statements of operations. Prior to the fourth quarter of fiscal 2015, certain patent related costs were capitalized. We concluded, based upon historical write offs of patent costs, that the future beneficial value of our patent assets were uncertain and as such made a change to our accounting policy. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis beginning in the fourth quarter of fiscal 2015.

Accordingly, we incurred approximately \$508,205 expense impact from expensing patent-related assets during the fourth quarter of fiscal 2015 as a result of this change in estimate and our basic and diluted earnings per share for fiscal 2015 decreased by \$0.03. We will apply this approach prospectively for future patent costs.

### *Goodwill and Intangible Assets*

Goodwill represents the excess of purchase price over the fair value of net assets acquired by the Company. Goodwill is not amortized, but assessed for impairment on an annual basis or more frequently if impairment indicators exist. The impairment model prescribes a two-step method for determining impairment.

The first step compares a reporting unit's fair value to its carrying amount to identify potential goodwill impairment. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the second step of the impairment test must be completed to measure the amount of the reporting unit's goodwill impairment loss, if any. Step two requires an assignment of the reporting unit's fair value to the reporting unit's assets and liabilities to determine the implied fair value of the reporting unit's goodwill. The implied fair value of the reporting unit's goodwill is then compared with the carrying amount of the reporting unit's goodwill to determine the goodwill impairment loss to be recognized, if any. For the fiscal year ended June 30, 2015, the Company determined that there was impairment to goodwill and recorded an adjustment to Goodwill in the amount of \$8,121,966.

Intangible assets include in-process research and development (IPR&D) of pharmaceutical product candidates. IPR&D are considered indefinite-lived intangible assets and are assessed for impairment annually or more frequently if impairment indicators exist. If the associated research and development effort is abandoned, the related assets will be written-off and the Company will record a non-cash impairment loss on its consolidated statement of operations. For those compounds that reach commercialization, the IPR&D assets will be amortized over their estimated useful lives. For the year ended June 30, 2015, the Company determined that there was no impairment to IPR&D.

### *Warrant Liability and Stock Rights*

The fair value of warrant liability and Stock Rights are estimated using a Monte Carlo valuation model. The unobservable input used by the Company is the estimation of the likelihood of a reset occurring on the warrants and the anti-dilutive Rights. These estimates of the likelihood of completing an equity raise that would meet the criteria to trigger the reset provisions and anti-dilutive Rights are based on numerous factors, including the remaining term of the financial instruments and the Company's overall financial condition. Changes in these assumptions may materially affect the amount of the warrant liability recorded on our consolidated balance sheet.



*Impairment of intangible assets*

We assess the impairment in value of intangible assets at least annually or sooner if circumstances indicate that their carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- significant negative industry trends;
- significant underutilization of the assets;
  - significant changes in how we use the assets or its plans for their use;  
and
- changes in technology and the appearance of competing technology.

If a triggering event occurs and if our review determines that the future undiscounted cash flows related to the groups, including these assets, will not be sufficient to recover their carrying value, we will reduce the carrying values of these assets down to its estimate of fair value.



## Liquidity and Capital Resources

### *Overview*

For the fiscal year ended June 30, 2015, net cash of \$7,344,696 was used in operating activities primarily due to a net loss of \$18,063,785 which was reduced by non-cash expenses of \$11,817,748 and increased by changes in operating assets and liabilities in the amount of \$1,098,659.

The \$1,098,659 change in operating assets and liabilities was the result of a decrease in accounts payable and accrued expenses in the amount of \$1,176,268 due to the timing of expenses and payments, which was partially offset by an increase in deferred revenue of \$75,000.

During the fiscal year ended June 30, 2015, cash used by investing activities amounted to \$259,587, which was related to capitalized patent costs and fixed assets purchased.

Cash provided by financing activities during the fiscal year ended June 30, 2015 amounted to \$4,827,569, as a result of the issuance of common stock, preferred stock and warrants.

As of June 30, 2015, our cash balance totaled \$3,334,626, and we had working capital of \$2,951,210.

### *Capital Resources*

During the fiscal year ended June 30, 2015, we received \$150,000 under our license and development agreements of which \$75,000 remains as deferred revenue. We have not been profitable since inception, we will continue to incur additional operating losses in the future, and we will require additional financing to continue the development and subsequent commercialization of our technology. While we do not expect to generate significant revenues from the licensing of our technology for several years, we may enter into additional licensing or other agreements with marketing and distribution partners that may result in additional license fees, receive revenues from contract research, or other related revenue.

*Financing*

In May 2015 and June 2015, we received aggregate net proceeds of \$4,827,569 from the issuance of preferred stock, common stock and warrants. In addition, in July 2015, we received aggregate net proceeds of \$1,152,397 from the issuance of preferred stock, common stock and warrants.

*Contractual Obligations*

The following table lists our cash contractual obligations as of June 30, 2015:

| Contractual Obligations             | Payments Due by Period |                     |             |             |                      |
|-------------------------------------|------------------------|---------------------|-------------|-------------|----------------------|
|                                     | Total                  | Less than<br>1 year | 1 - 3 years | 3 - 5 years | More than<br>5 years |
| Facility, Rent and Operating Leases | \$373,215              | \$278,873           | \$ 94,342   | \$ —        | \$ —                 |

| Contractual Obligations            | Payments Due by Period |                     |             |             |                      |
|------------------------------------|------------------------|---------------------|-------------|-------------|----------------------|
|                                    | Total                  | Less than<br>1 year | 1 - 3 years | 3 - 5 years | More than<br>5 years |
| Total Contractual Cash Obligations | \$373,215              | \$278,873           | \$ 94,342   | \$ —        | \$ —                 |

We expect our capital requirements to increase significantly over the next several years as we commence new research and development efforts, increase our business and administrative infrastructure and embark on developing in-house business capabilities and facilities. Our future liquidity and capital funding requirements will depend on numerous factors, including, but not limited to, the levels and costs of our research and development initiatives and the cost and timing of the expansion of our business development and administrative staff.

We anticipate that, based upon our current cash balance at June 30, 2015 and the aggregate net proceeds from the issuance of preferred stock, common stock and warrants on July 27, 2015, we will be able to fund our operations at least through June 30, 2016.

Over the next 12 months, we plan to fund our research and development and commercialization activities:

- by utilizing our current cash balance and investments,
- by raising capital through the placement of equity or debt instruments
- by completing a strategic transaction, and
- by raising capital through the execution of additional licensing agreements for our technology.

We cannot assure you that we will be able to raise money through any of the foregoing transactions, or on favorable terms, if at all.

## Results of Operations

### Fiscal Year ended June 30, 2015

On May 16, 2014, we acquired Fabrus, Inc., or Fabrus. Accordingly, the results of operations for the fiscal year ended June 30, 2014 include the accounts of Fabrus only for the period from May 16, 2014 through June 30, 2014 versus a full year for 2015.

#### *Revenue*

During the fiscal year ended June 30, 2015, revenue in the amount of \$75,000 represented the amortization of deferred revenue for a collaboration and option agreement.

During the fiscal year ended June 30, 2014, we earned revenue in the amount of \$100,000, which consisted of a milestone payment in connection with a license agreement.

#### *Operating expenses*

|                                     | Fiscal Year ended June 30 |              |              |         |
|-------------------------------------|---------------------------|--------------|--------------|---------|
|                                     | 2015                      | 2014         | Change       | %       |
| General and administrative          | \$ 3,170,499              | \$ 3,683,350 | \$(512,851 ) | -13.9 % |
| Research and development            | 4,568,435                 | 3,338,687    | 1,229,748    | 36.8 %  |
| Acquisition Costs                   | -                         | 544,978      | (544,978 )   | -100.0% |
| Impairment of goodwill              | 8,121,966                 | -            | 8,121,966    | -       |
| Impairment and Write-off of patents | 2,290,836                 | 1,680,781    | 610,055      | 36.3 %  |
| Total Operating Expenses            | \$ 18,151,736             | \$ 9,247,796 | \$ 8,903,940 | 96.3 %  |

#### *General and administrative expenses*

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General and administrative expenses consist of the following:

|                                         | Fiscal Year ended June 30 |                     | Change             | %            |          |
|-----------------------------------------|---------------------------|---------------------|--------------------|--------------|----------|
|                                         | 2015                      | 2014                |                    |              |          |
| Payroll and benefits                    | \$ 1,122,624              | \$ 622,421          | \$ 500,203         | 80.4         | %        |
| Professional fees                       | 670,507                   | 277,712             | 392,795            | 141.4        | %        |
| Stock-based compensation                | 401,412                   | 1,185,118           | (783,706)          | -66.1        | %        |
| Delaware Franchise Tax                  | 258,685                   | 5,781               | 252,904            | 4374.7       | %        |
| Investor relations                      | 166,692                   | 731,749             | (565,057)          | -77.2        | %        |
| Consultants                             | 116,217                   | 216,869             | (100,652)          | -46.4        | %        |
| Depreciation and amortization           | 2,818                     | 333,465             | (330,647)          | -99.2        | %        |
| Other General & Administrative Expenses | 431,544                   | 310,235             | 121,309            | 39.1         | %        |
| <b>Total G&amp;A</b>                    | <b>\$ 3,170,499</b>       | <b>\$ 3,683,350</b> | <b>\$(512,851)</b> | <b>-13.9</b> | <b>%</b> |

Payroll and benefits for the fiscal year ended June 30, 2015 was higher than for the fiscal year ended June 30, 2014 as a result of severance payments due to terminated employees as a result of closing the New Jersey office in November 2014 and due to separating the position of CEO and President effective May 16, 2014.

Professional fees for the fiscal year ended June 30, 2015 increased mostly due to the increase in accounting costs with the additional bookkeeping, consulting and auditing fees related to the acquisition of Fabrus, Inc. in May 2014.

Stock-based compensation for the fiscal years ended June 30, 2015 and June 30, 2014 consisted of the amortized portion of the Black-Scholes value of options and warrants granted to directors, employees and consultants. During the fiscal years ended June 30, 2015 and 2014, 1,203,676 and 778,480 options, respectively, were granted to such individuals. In addition, during the fiscal years ended June 30, 2015 and 2014, 556,061 and 30,924 options, respectively, expired or were forfeited.

Stock-based compensation for the fiscal year ended June 30, 2015 was lower than the fiscal year ended June 30, 2014 primarily due to options issued during the fiscal year ended June 30, 2015 had a lower Black-Scholes value than options issued during the fiscal year ended June 30, 2014 combined with the cancellation of options for terminated employees.

Delaware Franchise Tax increased for the fiscal year ended June 30, 2015 due to increase in the computed tax calculation resulting from the reverse stock split in during the fiscal year ended June 30, 2014 and acquisition of Fabrus, Inc. in May 2014.

Investor relations fees for the fiscal year ended June 30, 2015 was lower than for the fiscal year ended June 30, 2014 primarily as a result of an investor relations program started in October 2013, the termination of an investor relations consulting agreement in September 2013 and a special meeting of stockholders held in August 2013, which were not incurred during the current year.

Consulting fees for the fiscal year ended June 30, 2015 were lower than for the fiscal year ended June 30, 2014 primarily due to certain financial advisory agreements entered into during the fiscal year ended June 30, 2014.

Depreciation and amortization for the fiscal year ended June 30, 2015 was lower than for the fiscal year ended June 30, 2014 primarily as a result of abandoning certain patents and the change in accounting estimate to expense patent costs as incurred in the fourth quarter of fiscal year 2015.

Other general and administrative expenses for the fiscal year ended June 30, 2015 were higher than for the fiscal year ended June 30, 2014 primarily due to an increase in cash director fees.

We expect cash-based general and administrative expenses to decline over the next twelve months.

*Research and development expenses*

|                                                   | Fiscal Year ended June 30 |              | Change       | %        |
|---------------------------------------------------|---------------------------|--------------|--------------|----------|
|                                                   | 2015                      | 2014         |              |          |
| Phase 1b/2a clinical trial                        | \$ 1,585,082              | \$ 2,170,160 | \$(585,078 ) | -27.0 %  |
| Payroll                                           | 1,392,426                 | 297,872      | 1,094,554    | 367.5 %  |
| Patent Costs                                      | 771,181                   | 32,072       | 739,109      | 2304.5 % |
| Facility Rent                                     | 328,189                   | 22,074       | 306,115      | 1386.8 % |
| Research Contract with the University of Waterloo | 284,600                   | 413,220      | (128,620 )   | -31.1 %  |
| Depreciation                                      | 174,255                   | 16,191       | 158,064      | 976.2 %  |
| Stock-based compensation                          | 79,270                    | 112,106      | (32,836 )    | -29.3 %  |
| Gain on forgiveness of debt                       | (442,689 )                | -            | (442,689 )   | -        |
| Other research and development                    | 396,121                   | 274,992      | 121,129      | 44.0 %   |
| Total research and development                    | \$ 4,568,435              | \$ 3,338,687 | \$ 1,229,748 | 36.8 %   |

The cost of the Phase 1b/2a clinical trial for our former product candidate SNS01-T for the fiscal year ended June 30, 2015 was lower than for the fiscal year ended June 30, 2014 as patient dosing was concluded during the quarter ended September 30, 2014. This was partially offset by writing off all prepaid costs related to the decision to terminate the program

Payroll for the fiscal year ended June 30, 2015 was higher than for the fiscal year ended June 30, 2014 primarily as a result of an increase in the number of employees effective with the Fabrus acquisition on May 16, 2014.

Patent Costs for the fiscal year ended June 30, 2015 was higher than for the fiscal year ended June 30, 2014 primarily as a result of our change in accounting policy to expense patent costs as incurred

Facility Rent for the fiscal year ended June 30, 2015 was higher than for the fiscal year ended June 30, 2014 due to the acquisition of Fabrus with its research facility.

The cost associated with the research contract with the University of Waterloo for the fiscal year ended June 30, 2015 was lower than for the fiscal year ended June 30, 2014 due to termination of the agreement on December 31, 2014.

Depreciation for the fiscal year ended June 30, 2015 was higher than for the fiscal year ended June 30, 2014 due to the acquisition of Fabrus with its research operations.



Stock-based compensation for the fiscal year ended June 30, 2015 was lower than the fiscal year ended June 30, 2014 primarily due to options issued during the fiscal year ended June 30, 2015 had a lower Black-Scholes value than options issued during the fiscal year ended June 30, 2014 combined with the cancellation of options for terminated employees.

The Gain on Forgiveness of Debt for the fiscal year ended June 30, 2015 represents settlements of accounts payable with certain vendors for an amount less than was recorded and no debt was forgiven during the fiscal year ended June 30, 2014.

Other research and development costs for the fiscal year ended June 30, 2015 were higher than for the fiscal year ended June 30, 2014 primarily due to costs to run the laboratory in connection with the acquisition of Fabrus on May 16, 2014.

If we are successful in our efforts to raise additional capital or complete a strategic transaction, we expect our research and development costs to increase as we increase our efforts towards the development of our antibody program.

#### *Impairment and write-off of patents*

During the fiscal years ended June 30, 2015 and June 30, 2014, we reviewed our patent portfolio and determined that our agricultural patent were impaired. We also identified several patents and patents pending that we believe we no longer need to maintain without having a material impact on the portfolio. Therefore, we wrote-off the net book value of those patents and patents pending and the in the amounts of \$2,290,836 and \$1,680,781, respectively.

#### Fiscal Year ended June 30, 2014

On May 16, 2014, we acquired Fabrus, Inc., or Fabrus. Accordingly, the results of operations for the fiscal year ended June 30, 2014 include the accounts of Fabrus for the period from May 16, 2014 through June 30, 2014.

#### *Revenue*

During the fiscal year ended June 30, 2014, we earned revenue in the amount of \$100,000, which consisted of a milestone payment in connection with an agricultural license agreement.

We did not earn any revenue during the fiscal year ended June 30, 2013.

*Operating expenses*

|                                | Fiscal Year Ended June 30, |              |              |        |
|--------------------------------|----------------------------|--------------|--------------|--------|
|                                | 2014                       | 2013         | Change       | %      |
| General and administrative     | \$ 3,683,350               | \$ 2,499,624 | \$ 1,183,726 | 47.4 % |
| Research and development       | 3,338,687                  | 2,086,666    | 1,252,021    | 60.0 % |
| Acquisition related costs      | 544,978                    | -            | 544,978      | -      |
| Impairment of patents          | 1,350,591                  | -            | 1,350,591    | -      |
| Write-off of patents abandoned | 330,190                    | 64,210       | 265,980      | 414.2% |
| Total operating expenses       | \$ 9,247,796               | \$ 4,650,500 | \$ 4,597,296 | 98.9 % |

*General and administrative expenses*

General and administrative expenses consist of the following:

|                                           | Fiscal Year ended June 30, |              | Change       | %       |
|-------------------------------------------|----------------------------|--------------|--------------|---------|
|                                           | 2014                       | 2013         |              |         |
| Stock-based compensation                  | \$ 1,185,118               | \$ 639,828   | \$ 545,290   | 85.2 %  |
| Payroll and benefits                      | 622,421                    | 594,456      | 27,965       | 4.7 %   |
| Investor relations                        | 731,749                    | 103,816      | 627,933      | 604.9%  |
| Professional fees                         | 277,712                    | 475,274      | (197,562 )   | (41.6)% |
| Depreciation and amortization             | 333,465                    | 293,629      | 39,836       | 13.6 %  |
| Consultants                               | 216,869                    | 35,594       | 181,275      | 509.3%  |
| Other general and administrative expenses | 316,016                    | 357,027      | (41,011 )    | (11.5)% |
| Total general and administrative expenses | \$ 3,683,350               | \$ 2,499,624 | \$ 1,183,726 | 47.4 %  |

Stock-based compensation for the fiscal years ended June 30, 2014 and June 30, 2013 consisted of the amortized portion of the Black-Scholes value of options, restricted stock units and warrants granted to directors, employees and consultants. During the fiscal years ended June 30, 2014 and 2013, 778,480 and 89,670 options, respectively, were granted to such individuals.

Stock-based compensation for the fiscal year ended June 30, 2014 was higher than the fiscal year ended June 30, 2013 primarily due to more options being issued during the fiscal year ended June 30, 2014. Additionally, 105,000 shares of common stock were issued in connection with certain consulting agreements during the year ended June 30, 2014.

Payroll and benefits for the fiscal year ended June 30, 2014 was higher than for the fiscal year ended June 30, 2013, primarily due to separating the position of CEO and President effective May 16, 2014.

Investor relations fees for the fiscal year ended June 30, 2014 was higher than for the fiscal year ended June 30, 2013 primarily as a result of a new investor relations program started in October 2013, the termination of an investor relations consulting agreement in September 2013 and a special meeting of stockholders held in August 2013.

Professional fees for the fiscal year ended June 30, 2014 was lower than for the fiscal year ended June 30, 2013 primarily as a result of a decrease in legal fees as, during the fiscal year ended June 30, 2014 it was not necessary to address certain items that were being addressed during the fiscal year ended June 30, 2013.

Depreciation and amortization for the fiscal year ended June 30, 2014 was higher than for the fiscal year ended June 30, 2013 primarily as a result of an increase in amortization of patent costs.

Consulting fees for the fiscal year ended June 30, 2014 were higher than for the fiscal year ended June 30, 2013 primarily due to certain financial advisory agreements entered into during the fiscal year ended June 30, 2014.

Other general and administrative expenses for the fiscal year ended June 30, 2014 were lower than for the fiscal year ended June 30, 2013 primarily due to a decrease in cash director fees, which was partially offset by an increase in insurance and conferences.

*Research and development expenses*

|                                                   | Fiscal Year Ended June 30, |              |              |         |
|---------------------------------------------------|----------------------------|--------------|--------------|---------|
|                                                   | 2014                       | 2013         | Change       | %       |
| Stock-based compensation                          | \$ 112,106                 | \$ 84,865    | \$27,241     | 32.1 %  |
| Phase 1b/2a clinical trial                        | 2,170,160                  | 1,035,079    | 1,135,081    | 109.7 % |
| Research contract with the University of Waterloo | 413,220                    | 628,997      | (215,777 )   | 34.3 %  |
| Payroll                                           | 297,872                    | 174,360      | 123,512      | 70.8 %  |
| Other research and development                    | 345,329                    | 163,365      | 181,964      | 111.4 % |
| Total research and development                    | \$ 3,338,687               | \$ 2,086,666 | \$ 1,252,021 | 60.0 %  |

Stock-based compensation for the fiscal year ended June 30, 2014 was higher than the fiscal year ended June 30, 2013 primarily due to the number of options granted during the fiscal year ended June 30, 2014 being higher than the fiscal year ended June 30, 2013.

The cost of the Phase 1b/2a clinical trial for the fiscal year ended June 30, 2014 was higher than for the fiscal year ended June 30, 2013 primarily due to the number of patients being treated and the number of sites treating patients during the fiscal year ended June 30, 2014 being higher than for the fiscal year ended June 30, 2013.

The cost associated with the research contract with the University of Waterloo for the fiscal year ended June 30, 2014 was lower than for the fiscal year ended June 30, 2013 primarily due to a decrease in amount being funded for agricultural and human health research at this site.

Payroll for the fiscal year ended June 30, 2014 was higher than for the fiscal year ended June 30, 2013 primarily as a result of an increase in the number of employees effective with the Fabrus acquisition on May 16, 2014.

Other research and development costs for the fiscal year ended June 30, 2014 were higher than for the fiscal year ended June 30, 2013 primarily due to costs to run the laboratory in connection with the acquisition of Fabrus on May 16, 2014.

*Impairment of patents*

During the year ended June 30, 2014, we determined that the carrying cost of our agricultural patents exceeded the expected future undiscounted cash flows. Accordingly, we recorded an impairment of the agricultural patents for the fully net carrying cost of \$1,350,591.

*Write-off of patents abandoned*

During the fiscal years ended June 30, 2014 and June 30, 2013, we reviewed our patent portfolio in order to determine if we could reduce our cost of patent prosecution and maintenance. We identified several patents and patents pending that we believe we no longer need to maintain without having a material impact on the portfolio. We determined that we would no longer incur the cost to prosecute or maintain those patents or patents pending. Therefore, we wrote-off the net book value of those patents and patents pending in the amounts of \$330,190 and \$64,210, respectively.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

*Foreign Currency Risk*

Our financial statements are denominated in United States dollars and, except for our agreement with the University of Waterloo, which was denominated in Canadian dollars, all of our contracts are denominated in United States dollars. Therefore, we believe that fluctuations in foreign currency exchange rates will not result in any material adverse effect on our financial condition or results of operations. In the event we derive a greater portion of our revenues from international operations or in the event a greater portion of our expenses are incurred internationally and denominated in a foreign currency, then changes in foreign currency exchange rates could affect our results of operations and financial condition.

*Interest Rate Risk*

Our exposure to market risks for interest rate changes is not significant. Interest rates on our short-term debt are subject to change, however, the effect of interest rate changes would not be material.

Our investments in cash represent high-quality financial instruments, primarily money market funds, with an effective duration of the portfolio of less than one year which we believe are subject to limited credit risk. We currently do not hedge our interest rate exposure. Due to the short-term nature of our investments, which we plan to hold until maturity, we do not believe that we have any material exposure to interest rate risk arising from our investments.



## **Item 8. Financial Statements and Supplementary Data.**

The financial statements required to be filed pursuant to this Item 8 are included in this Annual Report on Form 10-K. A list of the financial statements filed herewith is found at "Item 15. Exhibits, Financial Statement Schedules."

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

None.

Item 9A. Controls and Procedures.

### *Evaluation of Disclosure Controls and Procedures*

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, as of June 30, 2015, of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act. The purpose of this evaluation was to determine whether as of the evaluation date our disclosure controls and procedures were effective to provide reasonable assurance that the information we are required to disclose in our filings with the Securities and Exchange Commission, or SEC, under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation, our management has concluded, as discussed below, that material weaknesses existed in our internal control over financial reporting as of June 30, 2015 and as a result, our disclosures controls and procedures were not effective. Notwithstanding the material weaknesses that existed as of June 30, 2015, our chief executive officer and chief financial officer have concluded that the financial statements included in this Annual Report on Form 10-K present fairly, in all material aspects, the financial position, results of operations and cash flows of the Company in conformity with accounting principles generally accepted in the United States of America ("GAAP").

### *Management's Annual Report on Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial

reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;  
provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the
- (ii) Company are being made only in accordance with authorizations of management and directors of the Company;  
and

- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of 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 ("COSO"). Based on our assessment and those criteria, management concluded that the Company did not maintain effective internal controls over financial reporting as of June 30, 2015. Management identified the following material weakness:

1. The Company did not adequately review the accounting and calculation surrounding its equity-linked financial instruments which resulted in material adjustments to the financial statements.

This annual filing does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to an amendment to the Sarbanes-Oxley Act which exempts Smaller Reporting Companies from the requirements of Section 404(b).

#### *Changes in Internal Controls over Financial Reporting*

During the fiscal quarter ended June 30, 2015, other than the material weakness identified above, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### *Inherent Limitation on the Effectiveness of Internal Controls*

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, any system of internal control over

financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute assurances. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

**Item 9B. Other Information.**

None.

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### **PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The information relating to our directors, nominees for election as directors and executive officers under the headings "Election of Directors" and "Executive Officers" in our definitive proxy statement for the 2016 Annual Meeting of Stockholders, to be filed with the SEC, is incorporated herein by reference to such proxy statement.

**Item 11. Executive Compensation.**

The discussion under the heading "Executive Compensation" in our definitive proxy statement for the 2016 Annual Meeting of Stockholders, to be filed with the SEC, is incorporated herein by reference to such proxy statement.

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

The discussion under the heading "Security Ownership of Certain Beneficial Owners and Management" in our definitive proxy statement for the 2016 Annual Meeting of Stockholders, to be filed with the SEC, is incorporated herein by reference to such proxy statement.

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

The discussion under the heading "Certain Relationships and Related Transactions" in our definitive proxy statement for the 2016 Annual Meeting of Stockholders, to be filed with the SEC, is incorporated herein by reference to such proxy statement.

**Item 14. Principal Accounting Fees and Services.**

The discussion under the heading "Principal Accountant Fees and Services" in our definitive proxy statement for the 2016 Annual Meeting of Stockholders, to be filed with the SEC, is incorporated herein by reference to such proxy statement.

**PART IV**

Item 15. Exhibits and Financial Statement Schedules.

(a)(1) Financial Statements.

Reference is made to the Index to Financial Statements on Page F-1.

(a)(2) Financial Statement Schedules.

None.

(a)(3) Exhibits.

Reference is made to the Exhibit Index on  
Page 46.

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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 this 9<sup>th</sup> day of October, 2015.

SEVION THERAPEUTICS, INC.

By: /s/ David Rector  
David Rector, Chief Executive Officer  
(Principal executive officer)

By: /s/ James Schmidt  
James Schmidt, Chief Financial Officer  
(Principal financial and accounting 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.

| <b>Signature</b>                                     | <b>Title</b>                                                               | <b>Date</b>     |
|------------------------------------------------------|----------------------------------------------------------------------------|-----------------|
| /s/ Harlan W. Waksal, M.D.<br>Harlan W. Waksal, M.D. | Chairman and Director                                                      | October 9, 2015 |
| /s/ David Rector<br>David Rector                     | Chief Executive Officer and Director<br>(principal executive officer)      | October 9, 2015 |
| /s/ James Schmidt<br>James Schmidt                   | Chief Financial Officer<br>(principal financial and<br>accounting officer) | October 9, 2015 |
| /s/ Vaughn M. Smider, M.D.<br>Vaughn Smider, M.D.    | Chief Scientific Officer and Director                                      | October 9, 2015 |
| /s/ John Braca<br>John Braca                         | Director                                                                   | October 9, 2015 |
| /s/ Phillip Frost, M.D.<br>Phillip Frost, M.D.       | Director                                                                   | October 9, 2015 |
| /s/ Steven Rubin<br>Steven Rubin                     | Director                                                                   | October 9, 2015 |

**EXHIBIT INDEX**

| Exhibit No. | Description of Exhibit                                                                                                                                                                                                                                                                         |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1         | Agreement and Plan of Merger and Reorganization, dated as of May 16, 2014, by and among Senesco Technologies, Inc., Senesco Fab Acquisition Corporation and Fabrus, Inc. (Incorporated by reference to Exhibit 2.1 of our current report on Form 8-K filed on May 19, 2014.)                   |
| 3.1         | Amended and Restated Certificate of Incorporation of Senesco Technologies, Inc. filed with the State of Delaware on January 22, 2007. (Incorporated by reference to our quarterly report on Form 10-Q for the period ended December 31, 2006.)                                                 |
| 3.2         | Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Senesco Technologies, Inc. filed with the State of Delaware on January 22, 2008. (Incorporated by reference to Exhibit 3.1 of our quarterly report on Form 10-Q for the period ended December 31, 2007.)  |
| 3.3         | Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Senesco Technologies, Inc. filed with the State of Delaware on September 22, 2009. (Incorporated by reference to Exhibit 3.3 of our annual report on Form 10-K/A for the period ended June 30, 2009.)     |
| 3.4         | Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Senesco Technologies, Inc. filed with the State of Delaware on May 25, 2010. (Incorporated by reference to Exhibit 3.1 to our current report on Form 8-K filed on May 28, 2010.)                          |
| 3.5         | Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Senesco Technologies, Inc. filed with the State of Delaware on December 22, 2011. (Incorporated by reference to Exhibit 3.1 to our quarterly report on Form 10-Q for the period ended December 31, 2011.) |
| 3.6         | Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Senesco Technologies, Inc. filed with the State of Delaware on April 1, 2013. (Incorporated by reference to Exhibit 3.1 to our quarterly report on Form 10-Q for the period ended March 31, 2013.)        |
| 3.7         | Certificate of Amendment to the Company's Amended and Restated Certificate of Incorporation, as filed with the Secretary of State of the State of Delaware on October 16, 2013. (Incorporated by reference to Exhibit 3.1 of our current report on Form 8-K filed on October 21, 2013.)        |
| 3.8         | Certificate of Amendment to the Company's Amended and Restated Certificate of Incorporation, as filed with the Secretary of State of the State of Delaware on September 29, 2014. (Incorporated by reference to Exhibit 3.1 of our current report on Form 8-K filed on October 3, 2014.)       |
| 3.9         | Amended and Restated By-laws of Senesco Technologies, Inc. as adopted on October 2, 2000. (Incorporated by reference to our quarterly report on Form 10-QSB for the period ended December 31, 2000.)                                                                                           |
| 3.10        | Certificate of Designations to the Company's Certificate of Incorporation. (Series A) (Incorporated by reference to Exhibit 3.1 to our current report on Form 8-K filed on March 29, 2010.)                                                                                                    |



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| Exhibit No. | Description of Exhibit                                                                                                                                                                                                                                                                                                                                  |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.11        | Certificate of Designations to the Company's Certificate of Incorporation. (0% Series C Convertible Preferred Stock) (Incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K filed on May 6, 2015.)                                                                                                                                 |
| 4.1         | Form of Series FA Warrant issued on May 16, 2014. (Incorporated by reference to Exhibit 4.1 of our current report on Form 8-K filed on May 19, 2014.)                                                                                                                                                                                                   |
| 4.2         | Form of Series FB Warrant issued on May 16, 2014. (Incorporated by reference to Exhibit 4.2 of our current report on Form 8-K filed on May 19, 2014.)                                                                                                                                                                                                   |
| 4.3         | Form of Series FC Warrant issued on May 16, 2014. (Incorporated by reference to Exhibit 4.3 of our current report on Form 8-K filed on May 19, 2014.)                                                                                                                                                                                                   |
| 4.4         | Form of Series FD Warrant issued on May 16, 2014. (Incorporated by reference to Exhibit 4.4 of our current report on Form 8-K filed on May 19, 2014.)                                                                                                                                                                                                   |
| 4.5         | Form of Series FE Warrant issued on May 16, 2014. (Incorporated by reference to Exhibit 4.5 of our current report on Form 8-K filed on May 19, 2014.)                                                                                                                                                                                                   |
| 4.6         | Form of December 2013 Series A Warrant. (Incorporated by reference to Exhibit 4.1 of our current report on Form 8-K filed on December 12, 2013.)                                                                                                                                                                                                        |
| 4.7         | Form of December 2013 Series B Warrant (Incorporated by reference to Exhibit 4.2 of our current report on Form 8-K filed on December 12, 2013.)                                                                                                                                                                                                         |
| 4.8         | Form of Amended and Restated December 2013 Series B Warrant. (Incorporated by reference to Exhibit 4.1 of our current report on Form 8-K filed on February 27, 2014.)                                                                                                                                                                                   |
| 4.9         | Form of December 2013 Series C Warrant (Incorporated by reference to Exhibit 4.3 of our current report on Form 8-K filed on December 12, 2013.)                                                                                                                                                                                                         |
| 4.10        | Form of Series B Warrant issued to Partlet Holdings Ltd. (Incorporated by reference to Exhibit 4.2 of our current report on Form 8-K, filed on July 10, 2009.)                                                                                                                                                                                          |
| 4.11        | Form of Series A Warrant issued to each of Robert Forbes, Timothy Forbes, Harlan W. Waksal, M.D., Rudolf Stalder, Christopher Forbes, David Rector, John N. Braca, Jack Van Hulst, Warren Isabelle and the Thomas C. Quick Charitable Foundation. (Incorporated by reference to Exhibit 4.1 of our current report on Form 8-K, filed on July 30, 2009.) |
| 4.12        | Form of Series B Warrant issued to each of Robert Forbes, Timothy Forbes, Harlan W. Waksal, M.D., Rudolf Stalder, Christopher Forbes, David Rector, John N. Braca, Jack Van Hulst, Warren Isabelle and the Thomas C. Quick Charitable Foundation. (Incorporated by reference to Exhibit 4.1 of our current report on Form 8-K, filed on July 30, 2009.) |
| 4.13        | Form of Series B Warrant issued to Cato Holding Company. (Incorporated by reference to Exhibit 4.1 of our current report on Form 8-K, filed on July 30, 2009.)                                                                                                                                                                                          |



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| Exhibit No. | Description of Exhibit                                                                                                                                                                                                                         |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.14        | Form of Warrant. (Incorporated by reference to Exhibit 4.1 of our current report on Form 8-K filed on January 9, 2012.)                                                                                                                        |
| 4.15        | Form of Warrant. (Incorporated by reference to Exhibit 4.1 of our current report on Form 8-K filed on March 2, 2012.)                                                                                                                          |
| 4.16        | Form of Warrant Clarification Letter (Incorporated by reference to Exhibit 4.16 of our annual report on Form 10-K for the period ended June 30, 2012.)                                                                                         |
| 4.17        | Form of January 2013 Warrant (Incorporated by reference to Exhibit 4.1 of our current report on Form 8-K filed on January 4, 2013.)                                                                                                            |
| 4.18†       | Form of 2015 Common Stock Warrant.                                                                                                                                                                                                             |
| 10.1        | Indemnification Agreement by and between Senesco Technologies, Inc. and John Braca, dated October 8, 2003. (Incorporated by reference to Exhibit 10.38 of our annual report on Form 10-KSB for the period ended June 30, 2004.)                |
| 10.2        | Indemnification Agreement by and between Senesco Technologies, Inc. and David Rector dated as of April, 2002. (Incorporated by reference to Exhibit 10.1 of our quarterly report on Form 10-QSB for the period ended September 30, 2004.)      |
| 10.3        | Indemnification Agreement by and between Senesco Technologies, Inc. and Harlan W. Waksal, M.D. dated as of October 24, 2008. (Incorporated by reference to Exhibit 10.8 of our annual report on Form 10-K for the period ended June 30, 2009.) |
| 10.4†       | Form of Indemnification Agreement.                                                                                                                                                                                                             |
| 10.5†       | Form of Nondisclosure, Noncompetition and Invention Assignment.                                                                                                                                                                                |
| 10.6 +      | License Agreement by and between Fabrus, Inc. and The Scripps Research Institute, dated August 8, 2014. (Incorporated by reference to Exhibit 10.28 of our annual report on Form 10-K for the period ended June 30, 2014.)                     |
| 10.7        | Form of Securities Purchase Agreement, dated as of December 11, 2013. (Incorporated by reference to Exhibit 10.1 of our current report on Form 8-K filed on December 12, 2013.)                                                                |
| 10.8        | Form of Securities Purchase Agreement, dated as of September 30, 2013 (Incorporated by reference to Exhibit 10.1 of our current report on Form 8-K filed on October 1, 2013.)                                                                  |
| 10.9*       | 1998 Stock Incentive Plan, as amended on December 13, 2002. (Incorporated by reference to Exhibit 10.7 of our quarterly report on Form 10-QSB for the period ended December 31, 2002.)                                                         |
| 10.10*      | Amended and Restated Senesco Technologies, Inc. 2008 Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.3 of our quarterly report on Form 10-Q for the period ended March 31, 2014.)                                        |

Form of Stock Option Agreement under the Senesco Technologies, Inc. 2008 Stock Incentive Plan.  
10.11\* (Incorporated by reference to Exhibit 10.5 of our quarterly report on Form 10-Q for the period ended  
September 30, 2009.)

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| Exhibit No. | Description of Exhibit                                                                                                                                                                                                                                         |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.12*      | Retention Policy. (Incorporated by reference to Exhibit 10.1 of our current report on Form 8-K filed on October 15, 2012.)                                                                                                                                     |
| 10.13*      | Retention Agreement, dated as of May 16, 2014, by and between Senesco Technologies, Inc. and Leslie J. Browne, Ph.D. (Incorporated by reference to Exhibit 10.1 of our current report on Form 8-K filed on May 19, 2014.)                                      |
| 10.14       | Sublease agreement by and between Pathway Genomics Corporation, as Sublandlord, and Fabrus, Inc., as Subtenant, effective as of October 10, 2014. (Incorporated by reference to Exhibit 10.1 of our quarterly report on Form 10-Q filed on February 17, 2015.) |
| 10.15+      | Collaboration Agreement by and between Fabrus, Inc. and CNA Development, LLC, dated December 18, 2014. (Incorporated by reference to Exhibit 10.2 of our quarterly report on Form 10-Q filed on February 17, 2014.)                                            |
| 10.16*      | Retention Agreement, dated as of November 30, 2014, by and between Sevion Therapeutics, Inc. and Joel Brooks. (Incorporated by reference to Exhibit 10.1 of our current report on Form 8-K filed on December 3, 2014.)                                         |
| 10.17*      | Retention Agreement, dated as of November 30, 2014, by and between Sevion Therapeutics, Inc. and Richard Dondero. (Incorporated by reference to Exhibit 10.4 of our quarterly report on Form 10-Q filed on February 17, 2015.)                                 |
| 10.18*      | Retention Agreement, dated as of November 30, 2014, by and between Sevion Therapeutics, Inc. and Heather Branham. (Incorporated by reference to Exhibit 10.5 of our quarterly report on Form 10-Q filed on February 17, 2015.)                                 |
| 10.19*      | Consulting Agreement, dated as of January 9, 2015, by and between Sevion Therapeutics, Inc. and The David Stephen Group LLC. (Incorporated by reference to Exhibit 10.6 of our quarterly report on Form 10-Q filed on February 17, 2015.)                      |
| 10.20†      | Form of Registration Rights Agreement by and among Sevion Therapeutics, Inc. and certain investors.                                                                                                                                                            |
| 10.21†      | Form of Subscription Agreement by and among Sevion Therapeutics, Inc. and certain investors.                                                                                                                                                                   |
| 10.22†      | Amendment to Form of Subscription Agreement, dated July 27, 2015, by and among Sevion Therapeutics, Inc. and certain investors.                                                                                                                                |
| 21.1        | Subsidiaries of the Registrant. (Incorporated by reference to Exhibit 21.1 of our annual report on Form 10-K filed on September 29, 2014.)                                                                                                                     |
| 23.1 †      | Consent of McGladrey LLP.                                                                                                                                                                                                                                      |
| 31.1 †      | Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                    |



| Exhibit No. | Description of Exhibit                                                                                                                                                                                                                                                                                                                                                                                                                |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.2 †      | Certification of the principal financial and accounting officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                            |
| 32.1 †      | Certification of the principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                                           |
| 32.2 †      | Certification of the principal financial and accounting officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                                                                            |
| 101.1 †     | Financial Statements from the Annual Report on Form 10-K of Sevion Therapeutics, Inc. for the fiscal year ended June 30, 2015, filed on October 9, 2015, formatted in XBRL (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements. |

\*A management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 13(a) of Form 10-K.

+ † Filed herewith.  
The SEC granted confidential treatment for portions of this Exhibit.

**SEVION THERAPEUTICS, INC.**

**AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2015**

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**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEVION THERAPEUTICS, INC.**

**AND SUBSIDIARIES**

**Reports of Independent Registered Public Accounting Firm** F-3

**Consolidated Financial Statements:**

|                                                        |     |
|--------------------------------------------------------|-----|
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| <u>Consolidated Statements of Operations</u>           | F-5 |
| <u>Consolidated Statements of Stockholders' Equity</u> | F-6 |
| <u>Consolidated Statements of Cash Flows</u>           | F-7 |
| <u>Notes to Consolidated Financial Statements</u>      | F-9 |

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

Sevion Therapeutics, Inc.

We have audited the accompanying consolidated balance sheets of Sevion Therapeutics, Inc. and Subsidiaries as of June 30, 2015 and June 30, 2014, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2015. 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 standards of 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 the Company's 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sevion Therapeutics, Inc. and Subsidiaries as of June 30, 2015 and June 30, 2014, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2015, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations, generated minimal revenues, and continues to incur significant expenses that exceed revenue streams. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**/s/ McGladrey LLP**

New York, New York

October 8, 2015

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**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(unaudited)**

|                                                                                                                                                  | June 30,<br>2015    | 2014                |
|--------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                                                                                                                    |                     |                     |
| <b>CURRENT ASSETS:</b>                                                                                                                           |                     |                     |
| Cash and cash equivalents                                                                                                                        | \$3,334,626         | \$6,111,340         |
| Accounts receivable                                                                                                                              | -                   | 43,133              |
| Prepaid expenses and other current assets                                                                                                        | 395,100             | 1,069,925           |
| <b>Total Current Assets</b>                                                                                                                      | <b>3,729,726</b>    | <b>7,224,398</b>    |
| Equipment, furniture and fixtures, net                                                                                                           | 185,948             | 223,475             |
| Patent costs, net                                                                                                                                | -                   | 2,178,867           |
| Acquired research and development                                                                                                                | 9,800,000           | 9,800,000           |
| Goodwill                                                                                                                                         | 5,780,951           | 13,902,917          |
| Security deposits                                                                                                                                | 50,770              | 5,171               |
| <b>TOTAL ASSETS</b>                                                                                                                              | <b>\$19,547,395</b> | <b>\$33,334,828</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                      |                     |                     |
| <b>CURRENT LIABILITIES:</b>                                                                                                                      |                     |                     |
| Accounts payable                                                                                                                                 | \$232,033           | \$901,180           |
| Accrued expenses                                                                                                                                 | 408,705             | 923,991             |
| Other current liabilities                                                                                                                        | 137,778             | -                   |
| <b>Total Current Liabilities</b>                                                                                                                 | <b>778,516</b>      | <b>1,825,171</b>    |
| Warrant and Stock Right liabilities                                                                                                              | 2,502,047           | -                   |
| Deferred tax liability                                                                                                                           | 3,920,000           | 3,920,000           |
| Other liabilities                                                                                                                                | 122,038             | 99,728              |
| <b>TOTAL LIABILITIES</b>                                                                                                                         | <b>7,322,601</b>    | <b>5,844,899</b>    |
| <b>STOCKHOLDERS' EQUITY:</b>                                                                                                                     |                     |                     |
| Convertible preferred stock, \$0.01 par value, authorized 5,000,000 shares<br>Series C shares 235,837 and 0 issued and outstanding, respectively | 2,358               | -                   |



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|                                                                                                                                                                                     |               |               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| (liquidation preference of \$2,358 and \$0 at June 30, 2015 and June 30, 2014, respectively)                                                                                        |               |               |
| Series A 10,297 shares issued and 380 and 580 shares outstanding, respectively (liquidation preference of \$399,000 and \$594,500 at June 30, 2015 and June 30, 2014, respectively) | 4             | 6             |
| Common stock, \$0.01 par value, authorized 500,000,000 shares, issued and outstanding 18,752,813 and 13,846,361 at June 30, 2015 and June 30, 2014, respectively                    | 187,528       | 138,463       |
| Capital in excess of par                                                                                                                                                            | 119,217,880   | 115,631,726   |
| Accumulated deficit                                                                                                                                                                 | (107,182,976) | (88,280,266 ) |
| Total Stockholders' Equity                                                                                                                                                          | 12,224,794    | 27,489,929    |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY                                                                                                                                          | \$19,547,395  | \$33,334,828  |

See Notes to Condensed Consolidated Financial Statements

**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

|                                                                        | Twelve Months Ended June 30 |                |               |
|------------------------------------------------------------------------|-----------------------------|----------------|---------------|
|                                                                        | 2015                        | 2014           | 2013          |
| Licensing Revenue                                                      | \$ 75,000                   | \$ 100,000     | \$ -          |
| Operating expenses:                                                    |                             |                |               |
| General and administrative                                             | 3,170,499                   | 3,683,350      | 2,499,624     |
| Research and development                                               | 4,568,435                   | 3,338,687      | 2,086,666     |
| Acquisition Costs                                                      | -                           | 544,978        | -             |
| Impairment of goodwill                                                 | 8,121,966                   | -              | -             |
| Impairment and write-off of patents                                    | 2,290,836                   | 1,680,781      | 64,210        |
| Total operating expenses                                               | 18,151,736                  | 9,247,796      | 4,650,500     |
| Loss from operations                                                   | (18,076,736)                | (9,147,796 )   | (4,650,500)   |
| Other non-operating income (expense)                                   |                             |                |               |
| Change in fair value of stock right                                    | 12,405                      | -              | -             |
| Change in fair value of warrant liability                              | 3,313                       | -              | 371,591       |
| Loss on settlement of warrant liabilities                              | -                           | -              | (1,724,546)   |
| Interest expense                                                       | (2,767 )                    | (77,438 )      | (119,087 )    |
| Net loss                                                               | (18,063,785)                | (9,225,234 )   | (6,122,542)   |
| Preferred dividends                                                    | (838,925 )                  | (4,629,197 )   | (862,998 )    |
| Loss applicable to common shares                                       | (18,902,710)                | (13,854,431)   | (6,985,540)   |
| Other comprehensive loss                                               | -                           | -              | -             |
| Comprehensive loss                                                     | \$(18,902,710)              | \$(13,854,431) | \$(6,985,540) |
| Basic and diluted net loss per common share                            | \$(1.31 )                   | \$(2.53 )      | \$(5.11 )     |
| Basic and diluted weighted-average number of common shares outstanding | 14,417,029                  | 5,476,717      | 1,366,384     |

See Notes to Consolidated Financial Statements



**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY****AS OF June 30, 2015**

|                                                         | Preferred<br>Shares | Stock<br>Amount | Common<br>Shares | Stock<br>Amount | Capital in<br>Excess<br>of Par Value | Accumulated<br>Deficit | Stockholders'<br>Equity |
|---------------------------------------------------------|---------------------|-----------------|------------------|-----------------|--------------------------------------|------------------------|-------------------------|
| Balance at June 30,<br>2012                             | 4,579               | 46              | 941,125          | 9,411           | 70,883,866                           | (67,440,295 )          | 3,453,028               |
| Issuance of common<br>stock for cash, net               | -                   | -               | 721,872          | 7,219           | 4,037,444                            | -                      | 4,044,663               |
| Fair value of<br>warrants issued                        | -                   | -               | -                | -               | (459,000 )                           | -                      | (459,000 )              |
| Preferred stock<br>converted into<br>common stock       | (3,779 )            | (38 )           | 202,846          | 2,029           | (1,991 )                             | -                      | -                       |
| Issuance of common<br>stock as dividends                | -                   | -               | 37,197           | 372             | 590,949                              | (476,847 )             | 114,474                 |
| Issuance of common<br>stock in exchange<br>for warrants | -                   | -               | 369,022          | 3,690           | 1,720,856                            | -                      | 1,724,546               |
| Deemed dividend -<br>preferred stock                    | -                   | -               | -                | -               | 366,151                              | (366,151 )             | -                       |
| Reclassification of<br>warrant liability                | -                   | -               | -                | -               | 326,205                              | -                      | 326,205                 |
| Stock-based<br>compensation                             | -                   | -               | -                | -               | 724,693                              | -                      | 724,693                 |
| Accrued dividends                                       | -                   | -               | -                | -               | -                                    | (20,000 )              | (20,000 )               |
| Net loss                                                | -                   | -               | -                | -               | -                                    | (6,122,542 )           | (6,122,542 )            |

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|                                                        |         |       |            |          |               |                 |              |
|--------------------------------------------------------|---------|-------|------------|----------|---------------|-----------------|--------------|
| Balance at June 30, 2013                               | 800     | \$ 8  | 2,272,062  | \$22,721 | \$ 78,189,173 | \$(74,425,835 ) | \$3,786,067  |
| Issuance of common stock and warrants for cash, net    | -       | -     | 2,490,000  | 24,900   | 6,814,106     | -               | 6,839,006    |
| Exercise of warrants for cash                          | -       | -     | 1,941,956  | 19,419   | 4,059,202     | -               | 4,078,621    |
| Cash paid for fractional shares due to reverse split   | -       | -     | (100 )     | (1 )     | (302 )        | -               | (303 )       |
| Stock-based compensation                               | -       | -     | 10,000     | 100      | 861,136       | -               | 861,236      |
| Issuance of common stock for services                  | -       | -     | 123,750    | 1,238    | 434,750       | -               | 435,988      |
| Issuance of equity in the acquisition of Fabrus, Inc.  | -       | -     | 6,905,201  | 69,052   | 20,639,995    | -               | 20,709,047   |
| Preferred stock converted into common stock            | (220 )  | (2 )  | 73,333     | 733      | (731 )        | -               | -            |
| Issuance of common stock as dividends                  | -       | -     | 30,159     | 301      | 118,316       | (98,616 )       | 20,001       |
| Deemed dividend in conjunction with warrant amendments | -       | -     | -          | -        | 4,516,081     | (4,516,081 )    | -            |
| Accrued dividends                                      | -       | -     | -          | -        | -             | (14,500 )       | (14,500 )    |
| Net loss                                               | -       | -     | -          | -        | -             | (9,225,234 )    | (9,225,234 ) |
| Balance at June 30, 2014                               | 580     | 6     | 13,846,361 | 138,463  | 115,631,726   | (88,280,266 )   | 27,489,929   |
| Stock issued for Cash                                  | 235,837 | 2,358 | 4,746,952  | 47,470   | 4,777,741     | -               | 4,827,569    |
| Warrant Liability                                      | -       | -     | -          | -        | (1,742,703 )  | -               | (1,742,703 ) |
| Derivative Stock Right                                 | -       | -     | -          | -        | (775,062 )    | -               | (775,062 )   |

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|                                               |         |          |            |            |                |                 |               |
|-----------------------------------------------|---------|----------|------------|------------|----------------|-----------------|---------------|
| Stock-based compensation                      | -       | -        | -          | -          | 480,681        | -               | 480,681       |
| Preferred stock converted into common stock   | (200 )  | (2 )     | 100,000    | 1,000      | (998 )         | -               | -             |
| Deemed dividend - preferred stock             | -       | -        | -          | -          | 790,507        | (790,507 )      | -             |
| Dividends paid                                | -       | -        | 59,500     | 595        | 55,988         | (42,083 )       | 14,500        |
| Dividends accrued and unpaid at June 30, 2015 | -       | -        | -          | -          | -              | (6,335 )        | (6,335 )      |
| Net loss                                      | -       | -        | -          | -          | -              | (18,063,785 )   | (18,063,785)  |
| Balance at June 30, 2015                      | 236,217 | \$ 2,362 | 18,752,813 | \$ 187,528 | \$ 119,217,880 | \$(107,182,976) | \$ 12,224,794 |

See Notes to Consolidated Financial Statements

**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

|                                                                                               | Twelve Months Ended June 30, |                    |                    |
|-----------------------------------------------------------------------------------------------|------------------------------|--------------------|--------------------|
|                                                                                               | 2015                         | 2014               | 2013               |
| Cash flows from operating activities:                                                         |                              |                    |                    |
| Net loss                                                                                      | \$(18,063,785)               | \$(9,225,234)      | \$(6,122,542)      |
| Adjustments to reconcile net loss to net cash used in operating activities:                   |                              |                    |                    |
| Noncash income related to change in fair value of:                                            |                              |                    |                    |
| - stock right                                                                                 | (12,405)                     | -                  | -                  |
| - warrant liability                                                                           | (3,313)                      | -                  | (371,591)          |
| Stock-based compensation expense                                                              | 480,681                      | 1,297,224          | 724,693            |
| Depreciation and amortization                                                                 | 177,074                      | 349,656            | 293,629            |
| Loss on Disposal of Assets                                                                    | 8,071                        | -                  | -                  |
| Impairment of goodwill                                                                        | 8,121,966                    | -                  | -                  |
| Write-off of intangibles                                                                      | 2,290,836                    | 1,680,781          | 64,210             |
| Write-off of prepaid research supplies                                                        | 669,750                      | -                  | -                  |
| Deferred rent                                                                                 | 85,088                       | -                  | -                  |
| Loss on settlement of warrant liabilities                                                     | -                            | -                  | 1,724,546          |
| (Increase) decrease in operating assets:                                                      |                              |                    |                    |
| Prepaid expenses and other current assets                                                     | 48,208                       | 868,837            | (370,696)          |
| Security deposit                                                                              | (45,599)                     | -                  | -                  |
| Increase (decrease) in operating liabilities:                                                 |                              |                    |                    |
| Accounts payable                                                                              | (669,147)                    | (145,257)          | 42,806             |
| Accrued expenses                                                                              | (507,121)                    | 305,860            | 112,319            |
| Deferred revenue                                                                              | 75,000                       | -                  | -                  |
| <b>Net cash used in operating activities</b>                                                  | <b>(7,344,696)</b>           | <b>(4,868,133)</b> | <b>(3,902,626)</b> |
| Cash flows from investing activities:                                                         |                              |                    |                    |
| Cash received on acquisition of Fabrus, Inc.                                                  | -                            | 1,274,662          | -                  |
| Capitalized Patent costs                                                                      | (136,946)                    | (624,532)          | (527,761)          |
| Purchase of equipment, furniture and fixtures                                                 | (122,641)                    | (3,194)            | (1,281)            |
| <b>Net cash used in investing activities</b>                                                  | <b>(259,587)</b>             | <b>646,936</b>     | <b>(529,042)</b>   |
| Cash flows from financing activities:                                                         |                              |                    |                    |
| Proceeds (repayments) from line of credit                                                     | -                            | (2,187,082)        | (12,026)           |
| Proceeds from issuance of common stock and warrants, net and exercise of warrants and options | 4,827,569                    | 10,917,325         | 4,044,663          |
| <b>Net cash provided by financing activities</b>                                              | <b>4,827,569</b>             | <b>8,730,243</b>   | <b>4,032,637</b>   |
| Net (decrease) increase in cash and cash equivalents                                          | (2,776,714)                  | 4,509,046          | (399,031)          |
| Cash and cash equivalents at beginning of period                                              | 6,111,340                    | 1,602,294          | 2,001,325          |
| Cash and cash equivalents at end of period                                                    | \$3,334,626                  | \$6,111,340        | \$1,602,294        |

See Notes to Consolidated Financial Statements

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**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED**

|                                                                         | 2015        | 2014         | 2013    |
|-------------------------------------------------------------------------|-------------|--------------|---------|
| <b>Supplemental disclosure of non-cash transactions:</b>                |             |              |         |
| Conversion of preferred stock into common stock                         | \$998       | 731          | 202,808 |
| Allocation of equity proceeds to warrants                               | \$1,742,703 | -            | 459,000 |
| Allocation of equity proceeds to stock rights                           | \$775,062   | -            | -       |
| Allocation of preferred stock proceeds to beneficial conversion feature | \$790,507   | -            | -       |
| Issuance of common stock for dividend payments on preferred stock       | \$56,583    | 118,617      | 591,321 |
| Dividends accrued on preferred stock                                    | \$6,335     | 14,500       | 20,000  |
| <b>Supplemental disclosure of cash flow information:</b>                |             |              |         |
| Cash paid for interest                                                  | \$137       | 85,893       | 122,454 |
| Fair value of equity interests issued:                                  |             | \$20,709,047 |         |
| Noncash Assets acquired:                                                |             |              |         |
| Accounts Receivable                                                     |             | 43,133       |         |
| Prepaid Expenses                                                        |             | 19,542       |         |
| Equipment                                                               |             | 234,000      |         |
| Acquired Research and Development                                       |             | 9,800,000    |         |
| Goodwill                                                                |             | 13,902,917   |         |
|                                                                         |             | 23,999,592   |         |
| Liabilities assumed:                                                    |             |              |         |
| Accounts Payable                                                        |             | 409,117      |         |
| Accrued Payroll                                                         |             | 74,525       |         |
| Accrued Expenses                                                        |             | 161,565      |         |
| Deferred Tax Liability                                                  |             | 3,920,000    |         |
|                                                                         |             | 4,565,207    |         |
| Cash acquired in acquisition of Fabrus, Inc.                            |             | \$1,274,662  |         |

See Notes to Consolidated Financial Statements

**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Principal Business Activity:**

*The Company*

Sevion Therapeutics, Inc. (the “Company”), which includes the accounts of Senesco Inc., a New Jersey corporation (“SI”) and Fabrus, Inc., a Delaware corporation (“Fabrus”), is a development-stage biotech company developing a portfolio of innovative therapeutics, from both internal discovery and acquisition, for the treatment of cancer and immunological diseases. The antibody approach is a novel discovery paradigm with the proven capability to identify functional therapeutic monoclonal antibodies against challenging cell surface targets that previously have been highly resistant to therapeutic antibody discovery. The Company has several antibodies in the Company’s preclinical pipeline. The first to move forward is a potentially first/best in class candidate antibody that targets an ion channel important in autoimmunity and inflammation.

*Basis of Presentation*

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Any reference in these notes to applicable guidance is meant to refer to the authoritative United States generally accepted accounting principles as found in the Accounting Standards Codification (ASC) and Accounting Standards Update (ASU) of the Financial Accounting Standards Board (FASB).

On May 16, 2014, the Company acquired all of the equity interest in Fabrus. Pursuant to the terms of the Merger Agreement, at the effective time of the merger (the “Merger”), a subsidiary of the Company merged with and into Fabrus, with Fabrus surviving the merger as a wholly-owned subsidiary of the Company. See note 3 for additional information.

*Liquidity*

The financial statements of the Company have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, the financial statements do not include any adjustments that might be necessary should the Company be unable to continue in existence. The Company has not generated substantial revenues and has not yet achieved profitable operations. There is no assurance that profitable operations, if ever achieved, could be sustained on a continuing basis. In addition, development activities, clinical and preclinical testing, and commercialization of the Company's products will require significant additional financing. The Company's accumulated deficit at June 30, 2015 totaled \$107,182,976, and management expects to incur substantial and increasing losses in future periods. The success of the Company is subject to certain risks and uncertainties, including among others, uncertainty of product development; competition in the Company's field of use; uncertainty of capital availability; uncertainty in the Company's ability to enter into agreements with collaborative partners; dependence on third parties; and dependence on key personnel. The Company has not generated positive cash flows from operations, and there are no assurances that the Company will be successful in obtaining an adequate level of financing for the development and commercialization of its planned products. The Company does not have adequate cash on hand to cover its anticipated expenses past the next 12 months. If the Company fails to raise a significant amount of capital or enter into a strategic transaction, it may need to significantly curtail operations, cease operations or seek federal bankruptcy protection in the near future. These conditions raise substantial doubt about its ability to continue as a going concern. Consequently, the audit report prepared by the Company's independent public accounting firm relating to its financial statements for the year ended June 30, 2015 includes a going concern explanatory paragraph.

On October 22, 2014, the Company's board of directors decided to suspend all development of the Company's Factor 5A technology based on the Company's limited capital resources and the totality of the safety and efficacy data resulting from the Phase 1b/2a clinical trial. The board of directors also decided to close the Company's Bridgewater, New Jersey office in order to consolidate all of the Company's operations in its San Diego, California location and terminated its research agreement with the University of Waterloo. In connection with these changes, the Company paid \$47,000 of termination benefits and associated employee costs. These costs are reported as research and development expenses at June 30, 2015. During the quarter ended March 31, 2015, the Company determined that it would discontinue the development of the Company's Factor 5A technology.

**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In addition, given the Company's limited capital resources, in December 2014, the Company decided to temporarily reduce its research and development spending on the Company's antibody program. In the meantime, the Company continues to evaluate all strategic alternatives, including strategic partnering arrangements, acquiring additional assets, divesting certain existing assets, and/or equity or debt financings. We cannot assure you that the Company will be able to consummate a strategic transaction or a financing transaction.

As of June 30, 2015, the Company had cash and cash equivalents in the amount of \$3,334,626, which consisted of checking accounts and money market funds. The Company estimates that the Company's cash and cash equivalents and the aggregate net proceeds from the issuance of preferred stock, common stock and warrants on July 27, 2015, will cover the Company's expenses at least through June 30, 2016. In order to provide the Company with the cash resources necessary to fund operations through at least September 30, 2016, the Company will continue efforts to raise additional capital through a private or public equity placement or strategic transaction in the near future.

If the Company is unable to raise additional funds, it will need to do one or more of the following:

- delay, scale-back or eliminate some or all of the Company's research and product development programs; license third parties to develop and commercialize products or technologies that it would otherwise seek to develop and commercialize itself;
- seek strategic alliances or business combinations;
- attempt to sell the Company;
- cease operations; or
- declare bankruptcy.

*Risks and Uncertainties*

The Company operates in an industry that is subject to intense competition, government regulation and rapid technological change. The Company's operations are subject to significant risk and uncertainties including financial, operational, technological, regulatory and other risks, including the potential risk of business failure.

The Company's limited capital resources and operations to date have been funded primarily with the proceeds from public and private equity and debt financings and milestone payments on license agreements.

**2. Summary of Significant Accounting Policies:**

*Principles of consolidation*

The accompanying consolidated financial statements include the accounts of Sevion Therapeutics, Inc. and the Company's wholly owned subsidiaries, Senesco Inc. and Fabrus, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

*Management Estimates and Judgments*

Management considers many factors in selecting appropriate financial accounting policies and controls, and in developing the estimates and assumptions that are used in the preparation of these financial statements. Management must apply significant judgment in this process. In addition, other factors may affect estimates, including expected business and operational changes, sensitivity and volatility associated with the assumptions used in developing estimates, and whether historical trends are expected to be representative of future trends. The estimation process often may yield a range of potentially reasonable estimates of the ultimate future outcomes and management must select an amount that falls within that range of reasonable estimates. This process may result in actual results differing materially from those estimated amounts used in the preparation of the financial statements if these results differ from historical experience, or other assumptions do not turn out to be substantially accurate, even if such assumptions are reasonable when made. In preparing these financial statements, management used significant estimates in the following areas, among others: stock-based compensation expense, the determination of the fair value of equity transactions and stock-based awards, the accounting for research and development costs, the accounting for goodwill and impairment and accrued expenses.

**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Business Combinations*

The Company accounts for business combinations using the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. Identifiable assets acquired and liabilities assumed are recorded at their acquisition date fair values. Goodwill represents the excess of the purchase price over the fair value of identifiable assets and liabilities acquired as a result of the business combination. Acquisition-related costs, which amounted to \$544,978 including advisory, legal, accounting, valuation and other costs, are expensed in the periods in which the costs are incurred.

*Cash and Cash Equivalents and Short-Term Investments*

The Company considers all highly liquid instruments with an original maturity of 90 days or less at the time of purchase to be cash equivalents. Cash and cash equivalents consist of deposits that are readily convertible into cash.

*Fair Value Measurements*

ASC Topic 820, Fair Value Measurements, defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The guidance applies under other accounting pronouncements that require or permit fair value measurements. The statement indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. ASC 820 defines fair value based upon an exit price model.

The Company categorizes the Company's financial instruments into a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument. Financial assets recorded at fair value on the Company's consolidated balance sheets are categorized as

follows:

- Level 1: Observable inputs such as quoted prices in active markets;
- Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The Level 3 financial instruments consist of common stock warrants with an exercise reset feature and common stock with embedded anti-dilutive features (“Rights”). The fair value of these warrants and Rights are estimated using a Monte Carlo valuation model. The unobservable input used by the Company was the estimation of the likelihood of a reset occurring on the warrants and the anti-dilutive Rights. These estimates of the likelihood of completing an equity raise that would meet the criteria to trigger the reset provisions and anti-dilutive Rights are based on numerous factors, including the remaining term of the financial instruments and the Company’s overall financial condition. (See note 9).

The carrying value of prepaid research supplies and expenses, accounts payable and accrued expenses reported in the consolidated balance sheets equal or approximate fair value due to their short maturities.

#### *Concentrations of Credit Risk*

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash. The Company maintains cash balances at financial institutions, which at times, exceed federally insured limits. At June 30, 2015 and 2014, the Company’s cash was held by two financial institutions and the amount on deposit was in excess of FDIC insurance limits. The Company has not recognized any losses from credit risks on such accounts since inception. The Company believes it is not exposed to significant credit risk on cash.

**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Prepaid Research Services and Supplies*

Prepaid research services and supplies are carried at cost and are included in prepaid expenses and other current assets on the accompanying consolidated balance sheet. When such services are performed and supplies are used, the carrying value of the supplies are expensed in the period that they are performed or used for the development of proprietary applications and processes.

*Equipment, Furniture and Fixtures, Net*

Equipment, furniture and fixtures are recorded at cost, except for the equipment acquired in the acquisition of Fabrus, which is recorded at fair value (see note 3). Depreciation is calculated on a straight-line basis over three to four years for office equipment, five years for lab equipment and five to seven years for furniture and fixtures. Expenditures for major renewals and improvements are capitalized, and expenditures for maintenance and repairs are charged to operations as incurred. (See note 5).

*Patent Costs, Net*

The Company conducts research and development activities, the cost of which is expensed as incurred, in order to generate patents that can be licensed to third parties in exchange for license fees and royalties. Because the patents are the basis of the Company's future revenue, the patent costs had been capitalized. The capitalized patent costs represented the outside legal fees incurred by the Company to submit and undertake all necessary efforts to have such patent applications issued as patents.

The length of time that it takes for an initial patent application to be approved is generally between four to six years. However, due to the unique nature of each patent application, the actual length of time may vary. If a patent application is denied or the Company no longer is pursuing the issuance of a patent, the associated cost of that application would be written off. Additionally, should a patent application become impaired during the application process, the Company would write down or write off the associated cost of that patent application.



Upon the suspension of the development of the Factor 5A technology discussed above, the Company determined that the carrying value of its patents and patent applications related to Factor 5A were impaired. (See note 6). In addition, the Fabrus operations essentially became the focus of Sevion from that point on. The research and development associated with Fabrus is several years away from determining if any potential patents would have future beneficial value. Accordingly, the Company has decided to change its policy of capitalizing certain patent costs and instead will now be expensing these costs as incurred. During the fourth quarter of 2015, the Company has expensed \$508,205 of capitalized patent costs since there is no assurance that these costs will result in any issued patents based on the recent history of the Company.

### *Goodwill and Intangible Assets*

Goodwill represents the excess of purchase price over the fair value of net assets acquired by the Company. Goodwill is not amortized, but assessed for impairment on an annual basis or more frequently if impairment indicators exist. The impairment model prescribes a two-step method for determining impairment.

The first step compares a reporting unit's fair value to its carrying amount to identify potential goodwill impairment. If the carrying amount of a reporting unit exceeds the reporting unit's fair value, the second step of the impairment test must be completed to measure the amount of the reporting unit's goodwill impairment loss, if any. Step two requires an assignment of the reporting unit's fair value to the reporting unit's assets and liabilities to determine the implied fair value of the reporting unit's goodwill. The implied fair value of the reporting unit's goodwill is then compared with the carrying amount of the reporting unit's goodwill to determine the goodwill impairment loss to be recognized, if any. (See Note 6)

Intangible assets include in-process research and development (IPR&D) of pharmaceutical product candidates. IPR&D are considered indefinite-lived intangible assets and are assessed for impairment annually or more frequently if impairment indicators exist. If the associated research and development effort is abandoned, the related assets will be written-off and the Company will record a non-cash impairment loss on the Company's consolidated statement of operations. For those compounds that reach commercialization, the IPR&D assets will be amortized over their estimated useful lives. For the year ended June 30, 2015, the Company determined that there was no impairment to IPR&D.

## SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### *Impairment of Long-lived Assets*

The Company assesses the impairment in value of intangible assets whenever events or circumstances indicate that their carrying value may not be recoverable. Factors the Company considers important which could trigger an impairment review include the following:

- significant negative industry trends;
- significant underutilization of the assets;
- significant changes in how the Company uses the assets or its plans for their use; and
- changes in technology and the appearance of competing technology.

If a triggering event occurs and if the Company's review determines that the future undiscounted cash flows related to the groups, including these assets, will not be sufficient to recover their carrying value, the Company will reduce the carrying values of these assets down to the Company's estimate of fair value.

#### *Net Loss per Common Share*

Basic loss per share is computed by dividing net loss available to common stockholders by the weighted average number of shares of the Company's common stock assumed to be outstanding during the period of computation. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include the number of additional shares of Common Stock that would have been outstanding if the potential shares of Common Stock had been issued and if the additional shares of Common Stock were dilutive.

For all periods presented, basic and diluted loss per share are the same, as any additional Common Stock equivalents would be anti-dilutive. Potentially dilutive shares of Common Stock have been excluded from the calculation of the weighted average number of dilutive shares of Common Stock as follows:

|                                                                                     | <b>June 30,<br/>2015</b> | <b>2014</b>   |
|-------------------------------------------------------------------------------------|--------------------------|---------------|
| Common Stock to be issued upon conversion of convertible preferred stock - Series A | 506,666                  | 290,000       |
| Common Stock to be issued upon conversion of convertible preferred stock - Series C | 2,358,370                |               |
| Outstanding warrants                                                                | 7,332,776                | 7,237,774     |
| Outstanding options                                                                 | 1,626,919                | 979,304       |
| <br>Total potentially dilutive shares of Common Stock                               | <br>11,824,731           | <br>8,507,078 |

*Income Taxes*

Income taxes are recorded in accordance with ASC Topic 740, Income Taxes, which provides for deferred taxes using an asset and liability approach. The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Valuation allowances are provided, if based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

## SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company accounts for uncertain tax positions in accordance with the provisions of ASC 740. When uncertain tax positions exist, the Company recognizes the tax benefit of tax positions to the extent that the benefit will more likely than not be realized. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position as well as consideration of the available facts and circumstances. As of June 30, 2015, the Company's tax years prior to June 30, 2010 are no longer subject to examination by the tax authorities. The Company is not currently under examination by any U.S. federal or state jurisdictions. As of June 30, 2015 and 2014, the Company does not have any significant uncertain tax positions.

#### *Revenue Recognition*

The Company has received certain nonrefundable upfront fees in exchange for the transfer of the Company's technology to licensees. Upon delivery of the technology, the Company had no further obligations to the licensee with respect to the basic technology transferred and, accordingly, recognized revenue at that time. The Company has received certain nonrefundable upfront license fees in connection with agreements that include time-based payments and are deferred and amortized ratably over the estimated research period of the license. The Company has and may continue to receive additional payments from the Company's licensees in the event such licensees achieve certain development or commercialization milestones in their particular field of use. Milestone payments, which are contingent upon the achievement of certain research goals, are recognized as revenue when the milestones, as defined in the particular agreement, are achieved.

#### *Stock-based Payments*

The Company accounts for stock-based compensation under the provisions of FASB ASC Topic 718, Compensation—Stock Compensation, which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors based on estimated fair values on the grant date. For stock options issued to employees, the Company estimates the grant-date fair value of each option using the Black-Scholes option-pricing model. The use of the Black-Scholes option pricing model requires management to make assumptions with respect to the expected term of the option, the expected volatility of the common stock consistent with the expected life of the option, risk-free interest rates, the value of the common stock and expected dividend yields of the common stock. For awards subject to service-based vesting conditions, the Company recognizes stock-based compensation expense, net of estimated forfeitures, equal to the grant date fair value of stock options on a straight-line basis over the requisite service period, which is generally the vesting term. For awards subject to both performance and service-based vesting conditions, the Company recognizes stock-based compensation expense using the

straight-line recognition method when it is probable that the performance condition will be achieved. Forfeitures are required to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Share-based payments issued to non-employees are recorded at their fair values, and are periodically revalued as the equity instruments vest and are recognized as expense over the related service period in accordance with the provisions of ASC 718 and ASC Topic 505, Equity.

The following table sets forth the total stock-based compensation expense and issuance of Common Stock for services included in the consolidated statements of operations for the fiscal years ended June 30, 2015, 2014 and 2013.

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**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

|                            | <b>Fiscal Year Ended June 30,</b> |             |             |
|----------------------------|-----------------------------------|-------------|-------------|
|                            | <b>2015</b>                       | <b>2014</b> | <b>2013</b> |
| General and administrative | \$401,411                         | \$1,185,118 | \$639,828   |
| Research and development   | 79,270                            | 112,106     | 84,865      |
| Total                      | \$480,681                         | \$1,297,224 | \$724,693   |

The Company estimated the fair value of each option grant throughout the year using the Black-Scholes option-pricing model using the following assumptions:

|                             | <b>Fiscal Year Ended June 30,</b> |             |             |
|-----------------------------|-----------------------------------|-------------|-------------|
|                             | <b>2015</b>                       | <b>2014</b> | <b>2013</b> |
| Risk-free interest rate (1) | 0.02%-2.32%                       | 1.6 - 2.7%  | 0.3-0.8%    |
| Expected volatility         | 95%-153%                          | 85%-99%     | 67-102%     |
| Dividend yield              | None                              | None        | None        |
| Expected life (2)           | 0.63 - 10.0                       | 5.0 - 10.0  | 2.5 - 10.0  |

(1) Represents the interest rate on a U.S. Treasury security with a maturity date corresponding to that of the option term.

(2) Expected life for employee based stock options was estimated using the “simplified” method, as allowed under the provisions of the Securities and Exchange Commission Staff Accounting Bulletin No. 110.

The economic values of the options will depend on the future price of the Company's Common Stock which cannot be forecast with reasonable accuracy.

*Research and Development*

Research and development costs are charged to expense as incurred. These costs include, but are not limited to, employee-related expenses, including salaries, benefits and travel and stock-based compensation of the Company's research and development personnel; expenses incurred under agreements with contract research organizations and investigative sites that conduct preclinical studies; other supplies; allocated facilities, depreciation and other expenses, which include rent and utilities; insurance; and costs associated with preclinical activities and regulatory operations.

Costs for certain development activities, such as clinical trials, are recognized based on an evaluation of the progress to completion of specific tasks using data such as subject enrollment, clinical site activations or information provided to the Company by vendors with respect to their actual costs incurred. Payments for these activities are based on the terms of the individual arrangements, which may differ from the pattern of costs incurred, and are reflected in the financial statements as prepaid or accrued research and development expense, as the case may be.

#### *Comprehensive Loss*

Comprehensive loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources.

**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Recent Accounting Pronouncements Applicable to the Company*

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). ASU 2014-09 requires that a company recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which the company expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company does not anticipate that the adoption of this standard will have a material impact on the Company’s financial statements.

In June 2014, the FASB issued ASU No. 2014-12, “Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period,” (“ASU 2014-12”). ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The Company does not anticipate that the adoption of this standard will have a material impact on the Company’s financial statements.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties About an Entity’s Ability to Continue as a Going Concern,” (“ASU 2014-15”). ASU 2014-15 amended existing guidance related to the disclosures about an entity’s ability to continue as a going concern. These amendments are intended to define management’s responsibility to evaluate whether there is substantial doubt about an organization’s ability to continue as a going concern and to provide related footnote disclosures. These amendments provide guidance to an organization’s management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations in the financial statement footnotes. The amendments are effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. The Company does not anticipate that the adoption of this standard will have a material impact on the Company’s financial statements.



In November 2014, the FASB issued ASU No. 2014-16, “Derivatives and Hedging (Topic 815), Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity,” (“ASU 2014-16”). All entities are required to use what is called the “whole instrument approach” to determine the nature of a host contract in a hybrid financial instrument issued in the form of a share. The guidance requires issuers and investors to consider all of a hybrid instrument’s stated and implied substantive terms and features, including any embedded derivative features being evaluated for bifurcation. The guidance eliminates the “chameleon approach,” under which all embedded features except the feature being analyzed are considered. The guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. The Company does not anticipate that the adoption of this standard will have a material impact on the Company’s financial statements.

The Company has assessed other recently issued accounting pronouncements and has determined that they do not apply.

### **3. Acquisition of Fabrus, Inc.**

On May 16, 2014, the Company completed a merger pursuant to a Plan of Merger and Reorganization (the “Merger Agreement”), whereby the Company acquired all of the outstanding ownership interests of Fabrus, Inc., a privately-owned biotechnology company which has developed an advanced platform for therapeutic antibody discovery and development. Pursuant to the terms of the Merger Agreement, the Company issued 6,905,201 shares of its common stock with a fair value of \$18,298,782, 3,578,481 warrants to purchase common stock with exercise prices ranging from \$2.00 to \$4.00 with a fair value of \$2,349,853 and options to purchase common stock with an exercise price of \$2.65 with a fair value of \$285,224 totaling \$20,933,859. The primary purpose for the acquisition was to acquire additional cutting edge technologies in development in order to increase the Company’s portfolio.

**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In accordance with the acquisition method of accounting, the issuance of replacement stock options to the employees of Fabrus at the date of the merger must be accounted for as a modification of the original award by Fabrus. As a result, \$60,412 represented the fair value of pre-acquisition services to the Company and was accounted for as additional purchase price in the merger. In addition, \$224,812, will be amortized as post combination services from the merger date through the end of the vesting period.

The Company's consolidated financial statements reflect the operating results of Fabrus since May 16, 2014. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date:

|                                              |              |
|----------------------------------------------|--------------|
| Purchase price per valuation                 | 20,933,859   |
| Less: Options to be recognized in the future | (224,812 )   |
| Purchase price for goodwill calculation      | 20,709,047   |
| Assets acquired:                             |              |
| Cash                                         | 1,274,662    |
| Accounts receivable                          | 43,133       |
| Prepaid expenses                             | 19,542       |
| Equipment                                    | 234,000      |
| Acquired research and development            | 9,800,000    |
| Goodwill                                     | 13,902,917   |
|                                              | 25,274,254   |
| Liabilities assumed:                         |              |
| Accounts payable                             | (409,117 )   |
| Accrued payroll                              | (74,525 )    |
| Accrued expenses                             | (161,565 )   |
| Deferred tax liability                       | (3,920,000 ) |
|                                              | (4,565,207 ) |
| Net assets of Fabrus, Inc. acquired          | 20,709,047   |

Goodwill, which is comprised of synergies from combining operations, and acquired research and development is accounted for as an indefinite lived intangible asset and is subject to annual impairment testing. Goodwill is not expected to be deducted for income tax purposes.

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The following represents the Company's pro-forma Consolidated Statements of Income as if Fabrus had been included in the Company's consolidated results since July 1, 2013:

|                                             | <b>Fiscal Year Ended June 30,</b> |                    |
|---------------------------------------------|-----------------------------------|--------------------|
|                                             | <b>2014</b>                       | <b>2013</b>        |
|                                             | <b>(unaudited)</b>                | <b>(unaudited)</b> |
| Total revenue                               | \$ 182,229                        | \$ 7,819           |
| Net loss                                    | \$(11,017,792 )                   | \$(6,308,007 )     |
| Loss applicable to common shares            | \$(5,646,989 )                    | \$(7,171,005 )     |
| Basis and diluted net loss per common share | \$(1.36 )                         | \$(1.16 )          |

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**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For 2013, pro-forma adjustments of \$11,458 and \$47,545, respectively, were made to eliminate transaction cost and interest expense related to the convertible debt that were converted into common shares at the time of the acquisition.

**4. Fair Value Measurements:**

The following tables provide the assets and liabilities carried at fair value measured on a recurring basis as of June 30, 2015 and 2014:

|                                     | Carrying<br>Value | Fair Value Measurement at June 30, 2015 |         |              |
|-------------------------------------|-------------------|-----------------------------------------|---------|--------------|
|                                     |                   | Level 1                                 | Level 2 | Level 3      |
| Cash and cash equivalents           | \$3,334,626       | \$ 3,334,626                            | \$ -    | \$ -         |
| Warrant and Stock Right Liabilities | \$2,502,047       | \$ -                                    | \$ -    | \$ 2,502,047 |

|                           | Carrying<br>Value | Fair Value Measurement at June 30, 2014 |         |         |
|---------------------------|-------------------|-----------------------------------------|---------|---------|
|                           |                   | Level 1                                 | Level 2 | Level 3 |
| Cash and cash equivalents | \$6,111,340       | \$ 6,111,340                            | \$ -    | \$ -    |

The following table summarizes the changes in fair value of the Company's Level 3 financial instruments:

| Fiscal Year ended June 30,                       | 2015        |
|--------------------------------------------------|-------------|
| Beginning Balance                                | \$-         |
| Issuance of common stock warrants                | 1,742,703   |
| Recognition of stock right                       | 775,062     |
| Change in fair value of warrant liabilities, net | (3,313 )    |
| Change in fair value of stock right, net         | (12,405 )   |
| Ending Balance                                   | \$2,502,047 |

See Note 9 for additional information.

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**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****5. Equipment, Furniture and Fixtures:**

Equipment, Furniture and Fixtures consist of the following:

|                                         | <b>June 30,</b> |             |
|-----------------------------------------|-----------------|-------------|
|                                         | <b>2015</b>     | <b>2014</b> |
| Laboratory Equipment                    | \$ 310,523      | \$ 225,854  |
| Office Equipment                        | 21,681          | 37,950      |
| Leasehold Improvements                  | 10,236          | -           |
| Furniture and fixtures                  | 6,920           | 73,398      |
|                                         | \$ 349,360      | \$ 337,202  |
| Less—Accumulated depreciation (163,412) | (163,412)       | (113,727)   |
|                                         | \$ 185,948      | \$ 223,475  |

Depreciation expense aggregated \$152,097, \$18,275 and \$2,583 for the fiscal years ended June 30, 2015, 2014 and 2013, respectively.

**6. Intangible assets:**

In December 2014, as a result of the decrease in the market value of the Company, the Company determined that there was a triggering event that required the Company to review if there had been an impairment to the Acquired Research and Development in the amount of \$9,800,000, capitalized patent costs in the amount of \$283,393 and the Goodwill in the amount of \$13,902,917 as of that date. The Company first evaluated the Company's Acquired Research and Development and Capitalized Patent Costs for impairment. Based on that review, the Company determined that no impairment exists. The Company then evaluated its Goodwill. The Company's evaluation used its market capitalization plus a control premium (which is considered a level 2 input in the fair value hierarchy) in determining the amount of the impairment. The Company concluded that there was an impairment based on the significant change in the Company's market value during the period. As a result of this evaluation, the Company determined that the Goodwill was impaired and recorded an impairment charge in the amount of \$8,121,966 at December 31, 2014.

As of June 30, 2015 the Company performed a review to determine if there was impairment to the Acquired Research and Development and Goodwill as of that date. The Company first evaluated the Acquired Research and Development for impairment by reviewing the assumptions utilized in establishing the value allocated to the Acquired Research and Development. Based on the evaluation, the Company determined that no impairment exists. The Company then evaluated its Goodwill using its market capitalization in determining the amount of the impairment. The Company concluded that there was no additional impairment beyond what had been recorded at December 31, 2014.

In October 2014, the Company decided to continue to develop its intellectual property only with respect to the human health therapeutic targets and would be reviewing such patents on a patent by patent basis to determine which specific ones to continue to develop. Also, in October 2014, the Company decided to suspend all development of the Factor 5A technology based on the Company's limited capital resources and the totality of the safety and efficacy data resulting from our Phase 1b/2a clinical trial. As the Company was unable to determine if or when the development would be resumed, the Company was unable to determine what the future undiscounted cash flows from these patents could be. Therefore, the Company determined that the carrying value of its patents and patent applications related to Factor 5A were impaired. Accordingly, the Company recorded an impairment of the full carrying value of its patents related to Factor 5A in the amount of \$2,290,836. During the quarter ended March 31, 2015, the Company determined that it would discontinue the development of the Company's Factor 5A technology and would no longer maintain those patents.

Additionally, during the quarter ended September 30, 2014, the Company concluded its Phase 1b/2a clinical trial but did not use all of the material purchased for the clinical trial. As the Company has put the clinical program for this product candidate on hold, the Company wrote-off the cost of the remaining material in the amount of \$669,750 to research and development costs at September 30, 2014.

**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

During the fiscal years ended June 30, 2014 and 2013, in order to reduce the Company's cost of patent prosecution and maintenance, the Company reviewed the Company's patent portfolio and identified several patents and patent applications that the Company believed it no longer needed to maintain without having a material impact on its patent portfolio. Accordingly, during the fiscal years ended June 30, 2014 and 2013 the Company wrote off patent costs in the net amount of \$330,190 and \$64,210, respectively.

As of June 30, 2014, the Company determined that carrying value of its agricultural patents and patent applications was impaired. Accordingly, the Company recorded an impairment of the full carrying value of its agricultural patents in the amount of \$1,350,591.

Amortization expense amounted to \$24,977, \$331,381 and \$291,046 for the fiscal years ended June 30, 2015, 2014 and 2013, respectively.

Patent costs consist of the following:

|                          | <b>June 30, 2014</b> |
|--------------------------|----------------------|
| Patents approved         | \$ 1,082,759         |
| Patents pending          | 1,264,462            |
|                          | 2,347,221            |
| Accumulated amortization | (168,354 )           |
|                          | <b>\$ 2,178,867</b>  |

During the fiscal years ended June 30, 2015 and 2014, the Company incurred \$219,270 and \$624,531, respectively, of legal fees related to the prosecution of patent costs.

**7. Accrued Expenses:**

Accrued expenses were comprised of the following:



|                           | <b>June 30,</b>  |                  |
|---------------------------|------------------|------------------|
|                           | <b>2015</b>      | <b>2014</b>      |
| Accrued research          | \$48,909         | \$588,613        |
| Accrued payroll           | 135,497          | 114,872          |
| Accrued dividends payable | 6,335            | 14,500           |
| Accrued other             | 217,964          | 206,006          |
|                           | <b>\$408,705</b> | <b>\$923,991</b> |

**8. Line of Credit:**

On February 17, 2010, the Company entered into a credit agreement with JMP Securities LLC. The agreement provided the Company with, subject to certain restrictions, including the existence of suitable collateral, up to a \$3.0 million line of credit upon which the Company could draw at any time (the "Line of Credit"). Any draws upon the Line of Credit accrued interest at an annual rate of (i) the broker rate in effect at the interest date (which was 3.75% throughout Fiscal 2014), plus (ii) 2.0%. There were no other conditions or fees associated with the Line of Credit. The Line of Credit was not secured by any assets of the Company, but it was secured by certain assets of one of a member of the Company's Board of Directors, Harlan W. Waksal, M.D., which was held by JMP Securities.

On February 26, 2014, the Company repaid the then outstanding balance of \$2,187,082 and cancelled the Line of Credit. In connection with the termination of the Line of Credit, the security interest on Dr. Waksal's assets mentioned above was terminated. Accordingly, the balance outstanding as of June 30, 2014 and 2013 was \$0 and \$2,187,082, respectively.

## SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Total interest expense recorded under the Line of Credit for the fiscal years ended June 30, 2014 and 2013 amounted to \$85,629 and \$122,453 respectively.

#### **9. Stockholders' Equity:**

##### *Series A Preferred Stock*

Each share of Series A Convertible Preferred Stock has a stated value of \$1,000 (the "Stated Value"). Each holder of shares of Series A Convertible Preferred Stock is entitled to receive semi-annual dividends at the rate of 10% per annum of the Stated Value for each share of Series A Convertible Preferred Stock held by such holder. Except in limited circumstances, the Company can elect to pay the dividends in cash or shares of Common Stock. If the dividends are paid in shares of Common Stock, such shares will be priced at the lower of 90% of the average volume weighted-average price for the 20 trading days immediately preceding the payment date or \$22.40.

Upon any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, the Holders shall be entitled to receive an amount equal to the Stated Value plus any accrued and unpaid dividends and any other fees or liquidated damages then due and owing thereon for each share of Series A Preferred Stock before any distribution or payment shall be made to the holders of any Junior Securities. If the assets of the Corporation shall be insufficient to pay in full such amounts, then the entire assets to be distributed to the Holders shall be ratably distributed among the Holders in accordance with the respective amounts that would be payable on such shares if all amounts payable thereon were paid in full.

During the fiscal years ended June, 30, 2015, 2014 and 2013, a total of 59,500, 17,524 and 37,197 shares of common stock with a fair value of \$56,583, \$67,541 and \$591,321 were issued in connection with the payment of dividends on the Series A Convertible Preferred Stock. The adjustments were recorded as an increase to both additional paid-in capital and accumulated deficit.

The shares of Series A Convertible Preferred Stock were convertible into shares of Common Stock at an initial conversion price of \$32.00 per share and are convertible at any time. The conversion price is subject to adjustment if the Company sells or grants any Common Stock or Common Stock equivalents, subject to certain exclusions, at an

effective price per share that is lower than the conversion price of the Series A Convertible Preferred Stock. After 18 months from the date of issuance of the Series A Convertible Preferred Stock, if the Company's Common Stock trades above \$80.00 for 20 out of 30 consecutive trading days, the Series A Convertible Preferred Stock will no longer be subject to adjustment. As a result of multiple issuances of shares of common stock, as of June 30, 2015, the initial conversion prices have been adjusted from \$32.00 per share to \$0.75 per share.

During the fiscal years ended June 30, 2015, 2014 and 2013, in connection with the adjustments to the conversion price, due to a beneficial conversion feature, dividends in the amount of \$0, \$0 and \$1,076,355 were recorded as an increase to both additional-paid-in capital and accumulated deficit.

### Warrants

Pursuant to the purchase agreements, the Company delivered a Warrant to purchase shares of Common Stock to the Series A Non-Affiliate Investors and a Warrant to purchase shares of Common Stock to the Series B Affiliate Investors (the "Warrants"). Each Warrant has an initial exercise price of \$35.00 per share of Common Stock. The Warrants were immediately exercisable and have a five year term. The Warrants issued to the Series A Non-Affiliate Investors also contain a provision which limits the holder's beneficial ownership to a maximum of 4.99% (which percentage may be increased to 9.99% upon 60 days' notice to the Company).

**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*Series C Preferred Stock*

Each share of 0% Series C Convertible Preferred Stock has a par value of \$.01 per share. The Series C Preferred Stock is convertible at the option of the holder at any time into shares of Common Stock at a conversion rate determined by dividing the Stated Value (\$7.50 per share) plus the Unpaid Dividend Amount of the Series C Preferred Stock, by the conversion price (\$0.75 per share) subject to adjustment. The conversion price is subject to adjustment if the Company issues equity securities, as defined in the certificate of designation, at a price per share less than the conversion price. The holder of shares of Series C Preferred Stock will not have the right to convert any portion of its Series C Preferred Stock if the holder, together with its affiliates, would beneficially own in excess of 4.99% of the number of shares of the Company's Common Stock outstanding immediately after giving effect to its conversion.

The Series C Preferred Stock is entitled to receive dividends (on an as-converted to Common Stock basis) to and in the same form as dividends actually paid on shares of Common Stock and are entitled to the number of votes equal to the number of shares of Common Stock issuable upon conversion of the Series C Preferred Stock, subject to beneficial ownership limitations on conversion. Holders of Series C Preferred Stock shall vote together with the holders of Common Stock and not vote as a separate class. In connection with a liquidation event, any payment due on the Series C Preferred Stock shall be made payable prior to, and in preference of, any Common Stock.

In addition, if the Company grants options, purchase rights or other securities to all existing holders of Common Stock, other than certain exempt issuances, the holders of the Series C Preferred Stock have the right to purchase such number of shares of Common Stock that would have been provided to such holder if such holder held the number of shares of Common Stock underlying the Series C Preferred Stock.

Upon the liquidation, dissolution or winding up of the business of the Company, whether voluntary or involuntary, each holder of Series C Preferred Shares shall be entitled to receive a preferential amount in cash equal to the Par Value. All preferential amounts to be paid to the holders of Series C Preferred Shares shall be paid before the payment or setting apart for payment of any amount for, or the distribution of any assets of the Company to the holders of (i) any other class or series of capital stock whose terms expressly provide that the holders of Series C Preferred Shares should receive preferential payment with respect to such distribution (to the extent of such preference) and (ii) the Common Stock but not before any payment to holders of outstanding shares of the Company's Series A Preferred Stock. If upon any such distribution the assets of the Company shall be insufficient to pay the holders of the Series C Preferred Shares the full amounts to which they shall be entitled, such holders shall share ratably in any distribution of assets in accordance with the sums which would be payable on such distribution if all sums payable thereon were paid

in full.

*Public Placements of Series C Preferred Stock, Common Stock and Warrants*

*May and June 2015*

In May and June, 2015, the Company sold units of its securities (the “Units”) with each Unit consisting of one share of the Company’s common stock or, at the election of the Investor, shares of the Company’s newly designated 0% Series C Convertible Preferred Stock (the “Series C Preferred Stock”) and a warrant to purchase one half of one share of Common Stock at an exercise price of \$1.50 per share (the “Warrants”). Each Unit was sold for \$0.75 per Unit. The Common Stock issued an aggregate of 4,746,952 Units consisting of Common Stock and 2,358,370 Units consisting of 235,837 shares of Series C Preferred Stock, which are convertible into 2,358,370 shares of Common Stock and 3,552,640 warrants for gross proceeds of \$5,328,966. Offering costs totaled \$501,397.

The warrants are entitled to be exercised at any time on or after the issuance date and on or prior to the close of business on the thirty month anniversary of their issuance. The initial exercise price per share of the Common Stock under this warrant shall be \$1.50, subject to adjustment. In accordance with the terms of the warrant agreement, for a period beginning on the closing date (July 27, 2015) and ending on the date that is the earlier of 18 months from the final closing date and (ii) the date the Company’s Common Stock is listed for trading on a national securities exchange, subject to certain restrictions as outlined in the agreement, if the Company issues any Common Stock or common stock equivalents, for a consideration less than the exercise price, the exercise price shall be reduced to such other lower price for then outstanding warrants.

**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The Company first allocated the proceeds from the offering to the warrants based upon the fair value of the warrant which amounted to \$1,742,703. This type of down round protection requires the warrants to be accounted for as a liability at fair value as of the date of issuance with the changes in the fair value of the warrant liability be recorded in operations at the end of each reporting period. For the year ended June 30, 2015, the Company recorded a credit to operations amounting to \$3,313 as a result of the mark to market adjustment related to the change in fair value of the warrant liability.

The warrant liabilities represent the fair value of Common Stock purchase warrants which have exercise price reset features estimated using a Monte Carlo valuation model. The Company computes a valuation using the Monte Carlo model for such warrants to account for the various possibilities that could occur due to changes in the inputs to the model as a result of contractually-obligated changes. These estimates of the likelihood of completing an equity raise that would meet the criteria to trigger the reset provisions are based on numerous factors, including the remaining term of the financial instruments and the Company's overall financial condition.

Changes in the unobservable input values would have likely cause material changes in the fair value of the Company's Level 3 financial instruments. The significant unobservable input used in the fair value measurement was the estimation of the likelihood of the occurrence of a change to the strike price of the warrants. A significant increase (decrease) in this likelihood would have resulted in a higher (lower) fair value measurement.

The assumptions used to value the warrants at the date of issuance and at June 30, 2015 are as follows:

|                             | <b>Date of Issuance</b> | <b>June 30, 2015</b> |
|-----------------------------|-------------------------|----------------------|
| Estimated life in years     | 2.5                     | 2.4                  |
| Risk-free interest rate (1) | 0.73%                   | 0.73%                |
| Volatility                  | 115.20%                 | 115.20%              |
| Dividend paid               | None                    | None                 |

(1) Represents the interest rate on a U.S. Treasury security with a maturity date corresponding to that of the warrant term.

In connection with the purchase of units, for a period beginning on the closing date (July 27, 2015) and ending on the date that is the earlier of 18 months from the closing date and the date the Company's Common Stock is listed for trading on a national securities exchange, subject to certain restrictions as outlined in the agreement, if at any time the Company shall issue any Common Stock or securities convertible into or exercisable for shares of Common Stock (or modify any of the foregoing which may be outstanding) at a price per share or conversion or exercise price per share which shall be less than \$0.75 per share without consent of the lead investors then the Company shall issue the subscriber such number of additional units to reflect such lower price for the units such that the subscriber shall hold such number of units, in total, had subscriber paid a per unit price equal to the lower price issuance. Common Stock issued or issuable by the Company for no consideration or for consideration that cannot be determined at the time of issue will be deemed issuable or to have been issued for \$0.01 per share of Common Stock ("Favored Nations Right" or "Rights"). Notwithstanding the foregoing, any subscriber who elected to receive units consisting of Preferred Shares and warrants shall have the right to receive such additional warrants as proscribed herein but not additional Preferred Shares and all the rights of the Preferred Shares shall be governed by the Series C Certificate of Designation as discussed above. Notwithstanding anything herein or in any other agreement to the contrary, the Company shall only be required to make a single adjustment with respect to any individual lower price issuance, regardless of the existence of multiple basis therefore. The Company concluded that in accordance with ASC 815-40, *Derivatives and Hedging-Contracts in Entity's Own Equity*, that the down round protection described above meets the definition of a free standing financial instrument and must be recorded as a liability at fair value with the changes in the fair value of the right liability recorded in operations at the end of each reporting period. The Company allocated the proceeds from the offering to the rights based upon the fair value of the rights which amounted to \$775,062. For the year ended June 30, 2015, the Company recorded a credit to operations amounting to \$12,405 as a result of the mark to market adjustment related to the change in fair value of the rights liability.

## SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The fair value of the right is estimated using a Monte Carlo model. The unobservable input used by the Company was the estimation of the likelihood of a reset occurring on the warrants and the anti-dilutive Rights. These estimates of the likelihood of completing an equity raise that would meet the criteria to trigger the reset provisions and anti-dilutive Rights are based on numerous factors, including the remaining term of the financial instruments and the Company's overall financial condition

In connection with allocation of the gross proceeds to the issuance of the Series C Preferred Stock, the Company determined that the Preferred Stock's conversion feature was considered to be beneficial. A beneficial conversion feature requires the Company to record a deemed dividend for a non-detachable conversion feature that is in the money at the issuance date. As a result, the Company recorded a deemed dividend amounting to \$790,507 as of the issuance date of the preferred stock.

In accordance with the Registration Rights agreement, the Company has 45 days from the final closing date to prepare and file a registration statement covering the registrable securities for an offering to be made on a continuous basis pursuant to Rule 415. The Company shall cause the registration statement to become effective and remain effective in accordance with the terms of the agreement. The Company shall use its reasonable best efforts to cause the registration statement to be declared effective under the Securities Act as soon as possible and, in any event, by the effectiveness date which is defined as 120 days from the final closing date. The Company shall use its reasonable best efforts to keep the registration statement continuously effective under the Securities Act until all registrable securities covered by such registration statement have been sold. The agreement includes a penalty of 1% per month of the investor's investment, payable in cash, for every 30 day period up to a maximum of 6% for failure to comply with the terms of the agreement.

In addition, the Company will also take all commercially reasonable action necessary to continue the listing or quotation and trading of its Common Stock on a principal market for as long as any subscriber holds securities, and will comply in all material respects with the Company's reporting, filing and other obligations under the bylaws or rules of the principal market at least until five years after the closing date. In the event the listing is not continuously maintained for five years after the closing date, on each monthly anniversary of each such listing default date until the applicable listing default is cured, the Company shall pay to each subscriber an amount in cash, as partial liquidated damages equal to 1% of the subscriber's amounts invested held as of each such date.

The Company believes that it is probable that the registration statement will be filed within the 30 day grace period and no penalty will be incurred. In addition, the Company feels that it is probable that once registered, the registration



statement will continue to remain valid, incurring no future penalty.

In addition, on July 27, 2015, the Company sold an additional 959,996 Units consisting of Common Stock and 666,667 Units consisting of 66,667 shares of Preferred Stock, which are convertible into 666,667 shares of Common Stock, for gross proceeds to the Company of approximately \$1,219,997.

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**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 16, 2013

On December 16, 2013, the Company completed a Common Stock and Warrant offering for \$5,400,000 in gross proceeds, before deducting offering expenses, in a registered direct offering of 180,000 units consisting of ten shares of the Company's Common Stock, six month warrants to purchase ten shares of Common Stock at an exercise price of \$3 per share (the "Series A Warrants"), six month warrants to purchase ten shares of Common Stock at an exercise price of \$4 per share (the "Series B Warrants"), and three year warrants to purchase ten shares of Common Stock at an exercise price of \$4 per share (the "Series C Warrants").

The net offering proceeds to the Company from the sale of the units, after deducting the offering expenses of \$121,764, was \$5,278,236. The net proceeds of the offering is being used for working capital, research and development and general corporate purposes.

On February 21, 2014, the Company amended and restated 1,746,666 of the Series B Warrants pursuant to a Warrant Amendment Agreement (the "Series B Warrant Amendment Agreement") by and among the Company and certain holders of the Series B Warrants (the "Warrant Holders"). Pursuant to the terms of the Series B Warrant Amendment Agreement, the Company and each Warrant Holder agreed to amend and restate the Warrant held by such Warrant Holder for a new amended and restated warrant, with an exercise price of \$2.00 per share and an expiration date of February 21, 2014 (the "Amended Warrants"). In connection with the amendment of such warrants, a dividend was recorded in the amount of \$2,820,866, which represents the difference in pre-amendment and post-amendment Black-Scholes value of the Series B Warrants.

Following the amendment of the series B Warrants, the Warrant Holders of Amended Warrants to purchase 1,746,666 shares of Common Stock exercised their Amended Warrants, resulting in gross proceeds to the Company of \$3,493,332.

On June 13, 2014, the Company amended and restated 1,630,000 of the Series A Warrants pursuant to a Series A Warrant Amendment Agreement by and among the Company and all remaining holders of the Series A Warrants whereby such warrants were extended for a six month period through December 16, 2014. In connection with the amendment of such warrants, a dividend was recorded in the amount of \$847,600, which represents the difference in pre-amendment and post-amendment Black-Scholes value of the Series A Warrants.

October 2, 2013

On October 2, 2013, the Company completed a Common Stock offering for \$1,725,000 in gross proceeds, before deducting estimated offering expenses, in a registered direct offering of 690,000 shares of the Company's Common Stock. Each share was sold at a price of \$2.50 per share. The shares were sold pursuant to the Registration Statement in the form of a unit, at \$5.00 per unit, with each unit consisting of 2 shares of Common Stock.

The net offering proceeds to the Company from the sale of the Common Stock, after deducting the offering expenses of \$164,230, were \$1,560,770. The net proceeds of the offering will be used for working capital, research and development and general corporate purposes.

May 9, 2013

On May 9, 2013, the Company entered into definitive agreements to issue 418,333 shares of Common Stock at an offering price of \$3.00 per share for gross proceeds of \$1,255,000, before deducting offering expenses, in a registered direct offering. Additionally, the shares contained exercise price reset features for a period of one year from the date of issuance.

The net offering proceeds to the Company from the sale of the Common Stock, after deducting the offering expenses of \$153,318, were \$1,101,682. The net proceeds of the offering are being used for working capital, research and development and general corporate purposes.

The Offering closed on May 10, 2013.

**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

In connection with the offering of common stock on October 2, 2013, the Company issued an additional 3,867 shares of common stock under the exercise price reset feature. A dividend in the amount of \$15,468 was recorded by the Company.

In connection with the amendment to the Series B warrants on February 21, 2014, the Company issued an additional 8,770 shares of common stock under the exercise price reset feature. A dividend in the amount of \$35,606 was recorded by the Company.

*January 4, 2013 Placement*

On January 4, 2013, the Company entered into definitive agreements to issue 300,000 shares of Common Stock and five year warrants to purchase 300,000 shares of Common Stock with an exercise price of \$12.00 per share for gross proceeds of \$3,000,000, before deducting offering expenses, in a registered direct offering. The warrants were exercisable from the date that was one year and one day following the issuance date until the fifth anniversary of the issuance date and contained standard anti-dilution provisions and adjustment provisions in the event of stock splits, combinations, dividends, distributions or reorganizations. Additionally, the warrants contained exercise price reset features for a period of eighteen months from the date of issuance and cash settlement features in the event of a fundamental transaction. Due to the cash settlement features in the Warrants, \$459,000 of the net proceeds was recorded as a warrant liability. Each Share, together with the Warrant, was sold at a price of \$10.00 per unit. In April and June 2013, all of the warrants were exchanged for Common Stock.

The net offering proceeds to the Company from the sale of the Common Stock and Warrants, after deducting the offering expenses of \$151,202, were \$2,848,798. Six hundred thousand dollars of the net proceeds of the offering was used for investor relations purposes and the remainder was used for working capital, research and development and general corporate purposes.

The Offering closed on January 8, 2013.

*Warrants*

Warrant activity is summarized as follows:

|                                              | <b>Aggregate<br/>Number</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Exercise Price<br/>Range</b> |
|----------------------------------------------|-----------------------------|------------------------------------------------|---------------------------------|
| Outstanding, June 30, 2012                   | 574,763                     | \$ 41.38                                       | \$ 1.00 - \$ 345.00             |
| Granted                                      | 300,000                     | 3.00                                           | 3.00                            |
| Exercised                                    | (472,625 )                  | 14.69                                          | 3.00 - 35.00                    |
| Cancelled                                    | -                           | -                                              | -                               |
| Expired                                      | (118,982 )                  | 63.33                                          | 101.00 - 235.00                 |
| Outstanding, June 30, 2013                   | 283,156                     | 36.06                                          | \$ 1.00 - \$ 345.00             |
| Granted                                      | 8,978,481                   | 141.84                                         | 2.00 - 4.00                     |
| Exercised                                    | (2,023,658)                 | 3.84                                           | 52.00 - 315.00                  |
| Cancelled                                    | -                           | -                                              | -                               |
| Expired                                      | (205 )                      | 308.78                                         | 60.00 - 315.00                  |
| Outstanding, June 30, 2014                   | 7,237,774                   | \$ 4.77                                        | \$ 1.00 - \$ 345.00             |
| Granted                                      | 3,552,639                   | 1.50                                           | 1.50                            |
| Exercised                                    | -                           | -                                              | -                               |
| Cancelled                                    | -                           | -                                              | -                               |
| Expired                                      | (3,457,637)                 | 4.84                                           | \$ 3.00 - \$ 345.00             |
| Outstanding, June 30, 2015                   | 7,332,776                   | \$ 3.15                                        | \$ 1.00 - \$ 140.00             |
| Warrants as liabilities at June 30, 2013     | -                           | -                                              |                                 |
| Warrants as liabilities at June 30, 2014     | -                           | -                                              |                                 |
| Warrants as liabilities at June 30, 2015 (1) | 3,552,639                   | \$ 1.50                                        |                                 |

(1) Exercise price subject to reset as discussed in *May and June 2015* section.

As of June 30, 2015, all of the above warrants are exercisable expiring at various dates through 2020. At June 30, 2015, the weighted-average exercise price on the above warrants was \$3.15.

On April 8, 2013 and June 24, 2013, pursuant to warrant exchange agreements, an aggregate of 300,000 of the warrants with an initial exercise price of \$12.00, which was subsequently reset to \$3.00, were exchanged for an aggregate of 300,000 shares of Common Stock. In connection with this warrant exchange, a loss on the settlement of warrant liabilities was recorded in the amount of \$939,375.

On February 21, 2014, pursuant to warrant amendment agreements, an aggregate of 1,746,666 of the Series B warrants with an initial exercise price of \$4.00 and expiration date of June 16, 2014, were amended and restated to have an exercise price of \$2.00 per share and an expiration date of February 21, 2014. Following the amendment, the warrant holders of amended warrants to purchase 1,746,666 shares of Common Stock exercised their amended

warrants, resulting in gross proceeds to the Company of \$3,493,332. In connection with the amendment of such warrants, a dividend was recorded in the amount of \$2,820,866, which represents the difference in pre-amendment and post-amendment Black-Scholes value of the Series B Warrants.

On June 13, 2014, pursuant to warrant amendment agreements, an aggregate of 3,260,030 of the Series A and FA warrants with an exercise price and an expiration date of June 16, 2014 were amended and restated whereby such warrants were extended for a six month period through December 16, 2014. In connection with the amendment of such warrants, a dividend was recorded in the amount of \$1,695,216, which represents the difference in pre-amendment and post-amendment Black-Scholes value of the Series A Warrants.

## SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 10. Stock-Based Compensation

In December 2008, the Company adopted the 2008 Incentive Compensation Plan (the "2008 Plan"), which provides for the grant of stock options, stock grants and stock purchase rights to certain designated employees and certain other persons performing services for the Company, as designated by the board of directors. Pursuant to the 2008 Plan and subsequent amendments, an aggregate of 4,917,670 shares of Common Stock has been reserved for issuance. Additionally, on January 1 of each calendar year beginning with the calendar year 2015, the share reserve will automatically increase by 5% of the fully-diluted equity outstanding on the immediately preceding December 31, up to an annual maximum of 1,500,000 shares of common stock; provided, that the aggregate number of shares subject to outstanding awards will not exceed 25% of the fully-diluted equity outstanding. The 2008 Plan is intended to serve as a successor to the Amended and Restated 1998 Stock Incentive Plan (the "1998 Plan"), which terminated in December 2008.

Between February 19, 2009 and February 2, 2015, the Company filed a registration statement and amendments with the SEC to register all of the 4,917,670 shares of Common Stock underlying the 2008 Plan. The registration statement and amendments were deemed effective upon filing.

The terms and vesting schedules for share-based awards vary by type of grant and the employment status of the grantee. Generally, the awards vest based upon time-based conditions or achievement of specified goals and milestones.

On November 16, 2012, the Company issued 37,050 options that were subject to vesting first based upon specified goals and milestones and then based upon time-based conditions. On the issuance date, such options had an aggregate Black-Scholes value of \$489,060. As of June 30, 2013, the Company reviewed the specified goals and milestones on an employee by employee basis. Based upon the review, the Company has estimated that it was probable that, on average, the employees would achieve 55% of the target goals. As a result, the Company was recognizing 55% of the aggregate fair value of the options ratably over the time-based vesting period. Subsequent to June 30, 2013, the compensation committee determined that the employees actually achieved 25% of the target goals. As a result, the Company is now recognizing 25% of the aggregate fair value of the options ratably over the time-based vesting period.

On September 13, 2013, the Company issued 46,780 options that are subject to vesting first based upon specified goals and milestones and then based upon time-based conditions. On the issuance date, such options had an aggregate Black-Scholes value of \$201,154. As of June 30, 2014, the Company reviewed the specified goals and milestones on an employee by employee basis. Based upon the review, the Company has estimated that it was probable that, on average, the employees would achieve 81% of the target goals. As a result, the Company is recognizing 81% of the aggregate fair value of the options ratably over the time-based vesting period.

On November 18, 2014, the Company issued 392,860 options that are subject to vesting first based upon specified goals and milestones and then based upon time-based conditions. On the issuance date, such options had an aggregate Black-Scholes value of \$237,291. Certain employees were terminated with the closure of the Company's New Jersey office and restructuring resulting in 85,504 options being forfeited with a Black-Scholes value of \$51,645. An additional 70,350 options with a Black-Scholes value of \$47,345 were fully vested at the time of termination per the separation agreement. As of June 30, 2015, the Company reviewed the specified goals and milestones on an employee by employee basis. Based upon the review, the Company has estimated that it was probable that, on average, the employees would achieve 81% of the target goals. As a result, the Company is recognizing 81% of the aggregate fair value of the remaining options ratably over the time-based vesting period.

Stock option activity under the 2008 Plan and 1998 Plan is summarized as follows:



## SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

|                                                                                    | <b>Aggregate<br/>Number</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Exercise Price<br/>Range</b> |
|------------------------------------------------------------------------------------|-----------------------------|------------------------------------------------|---------------------------------|
| Outstanding, June 30, 2012                                                         | 156,477                     | \$ 50.00                                       | 20.00 - 345.00                  |
| Granted                                                                            | 89,670                      | 14.00                                          | 4.00 - 18.00                    |
| Exercised                                                                          | -                           | -                                              | -                               |
| Cancelled                                                                          | 11,524                      | 23.00                                          | 23.00                           |
| Expired                                                                            | (2,875 )                    | 202.00                                         | 109.00 - 235.00                 |
| Outstanding, June 30, 2013                                                         | 231,748                     | 50.00                                          | 4.00 - 345.00                   |
| Granted                                                                            | 778,480                     | 2.94                                           | 2.65 - 5.40                     |
| Exercised                                                                          | -                           | -                                              | -                               |
| Cancelled                                                                          | (27,788 )                   | 16.50                                          | 16.50                           |
| Expired                                                                            | (3,136 )                    | 229.65                                         | 52.00 - 315.00                  |
| Outstanding, June 30, 2014                                                         | 979,304                     | \$ 9.49                                        | \$ 2.65 - \$ 345.00             |
| Granted                                                                            | 1,203,676                   | 0.73                                           | \$ 0.54 - \$ 0.83               |
| Exercised                                                                          | -                           | -                                              | -                               |
| Cancelled                                                                          | (552,471 )                  | 3.41                                           | \$0.83 - \$ 140.00              |
| Expired                                                                            | (3,590 )                    | 289.09                                         | \$ 43.00 - \$ 345.00            |
| Outstanding, June 30, 2015                                                         | 1,626,919                   | \$ 4.45                                        | \$ 0.54 - \$ 140.00             |
| Options exercisable at June 30, 2013                                               | 166,122                     | \$ 41.00                                       |                                 |
| Options exercisable at June 30, 2014                                               | 428,286                     | \$ 17.48                                       |                                 |
| Options exercisable at June 30, 2015                                               | 1,228,739                   | \$ 5.53                                        |                                 |
| Weighted average fair value of options granted during the year ended June 30, 2013 |                             | \$11.00                                        |                                 |
| Weighted average fair value of options granted during the year ended June 30, 2014 |                             | \$2.11                                         |                                 |
| Weighted average fair value of options granted during the year ended June 30, 2015 |                             | \$0.49                                         |                                 |

Non-vested stock option activity under the Plan is summarized as follows:

| Number<br>of | Weighted-average<br>Grant-Date |
|--------------|--------------------------------|
|--------------|--------------------------------|

|                                           | <b>Options</b> | <b>Fair Value</b> |
|-------------------------------------------|----------------|-------------------|
| Non-vested stock options at July 1, 2014  | 551,018        | \$ 2.29           |
| Granted                                   | 1,203,676      | 0.49              |
| Vested                                    | (821,412 )     | 0.79              |
| Forfeited                                 | (535,102 )     | 1.79              |
| Non-vested stock options at June 30, 2015 | 398,180        | \$ 0.81           |

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**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

As of June 30, 2015, the aggregate intrinsic value of stock options outstanding was \$263,019, with a weighted-average remaining term of 6.71 years. The aggregate intrinsic value of stock options exercisable at that same date was \$217,903, with a weighted-average remaining term of 5.89 years. As of June 30, 2015, the Company has 3,290,751 shares available for future stock option grants.

As of June 30, 2015 total estimated compensation expense not yet recognized related to stock option grants amounted to \$182,534, which will be recognized over the next 48 months.

**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**11. Income Taxes:**

Since the Company has recurring losses and a valuation allowance against deferred tax assets, there is no tax expense (benefit) for all periods presented.

The Company files a consolidated federal income tax return. The subsidiary files separate state and local income tax returns.

As of June 30, 2015, the Company had federal net operating loss (“NOL”) carry forwards of \$69,169,000 and state NOL carry forwards of approximately \$61,784,000, which are available to reduce future taxable income. The federal NOL carry forwards will begin to expire in 2029. The state NOL carry forwards will begin to expire at various dates starting in 2024. The NOL carry forwards are subject to review and possible adjustment by the Internal Revenue Service and state tax authorities. NOL carry forwards may become subject to an annual limitation in the event of certain cumulative changes in the ownership interest of significant shareholders over a three-year period in excess of 50%, as defined under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, as well as similar state tax provisions. This could limit the amount of NOLs that the Company can utilize annually to offset future taxable income or tax liabilities. The amount of the annual limitation, if any, will be determined based on the value of the Company immediately prior to the ownership change. As of June 30, 2015, The Company has not performed such an analysis. Subsequent ownership changes may further affect the limitation in future years.

The Company's reserves related to taxes are based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings or positions is more likely than not to be realized. The Company recognized no material adjustment for unrecognized income tax benefits. Through June 30, 2015, the Company had no unrecognized tax benefits or related interest and penalties accrued.

ASC 740 requires a valuation allowance to reduce the deferred tax assets reported if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. After consideration of all the evidence, both positive and negative, the Company has recorded a full valuation allowance against its deferred tax assets at June 30, 2015 and 2014, respectively, because the Company's management has determined that it is more likely than not that these assets will not be fully realized. The valuation allowance increased by \$4,261,000 and \$5,271,000 during the years ended June 30, 2015 and 2014, respectively, due primarily to the generation of net operating losses during the periods.

The reconciliation of the effective income tax rate to the federal statutory rate is as follows:

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**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

|                                                          | <b>June 30,</b> |             |             |
|----------------------------------------------------------|-----------------|-------------|-------------|
|                                                          | <b>2015</b>     | <b>2014</b> | <b>2013</b> |
| Federal income tax provision at statutory rate           | (34.0)%         | (34.0)%     | (34.0)%     |
| State income taxes, net of federal benefit               | (3.2 )%         | (5.4 )%     | - %         |
| Fair value - warranty liability                          | - %             | - %         | (2.0 )%     |
| Loss on settlement of warrant liabilities                | - %             | - %         | 1.0 %       |
| Goodwill Impairment                                      | 15.3 %          | - %         | - %         |
| Permanent items                                          | 0.4 %           | 3.1 %       | - %         |
| Other                                                    | - %             | - %         | (4.0 )%     |
| Research and development credits                         | (3.0 )%         | - %         | - %         |
| Change in valuation allowance                            | 24.5 %          | 36.3 %      | 39.0 %      |
| Actual income tax provision (benefit) effective tax rate | - %             | - %         | - %         |

The principal components of deferred income tax assets consist of the following:

|                                      | <b>June 30,</b> |                |
|--------------------------------------|-----------------|----------------|
|                                      | <b>2015</b>     | <b>2014</b>    |
| Deferred Tax Assets:                 |                 |                |
| Net operating loss carryforwards     | \$27,224,000    | \$23,719,000   |
| Stock-based compensation             | 2,843,000       | 2,721,000      |
| Other                                | 1,285,000       | 651,000        |
| Deferred tax assets                  | 31,352,000      | 27,091,000     |
| Deferred Tax Liabilities:            |                 |                |
| Indefinite-lived intangibles         | (3,920,000 )    | (3,920,000 )   |
| Deferred tax liabilities             | (3,920,000 )    | (3,920,000 )   |
| Less: valuation allowance            | (31,352,000)    | (27,091,000)   |
| Net deferred tax asset / (liability) | \$(3,920,000 )  | \$(3,920,000 ) |

The Company will recognize interest and penalties related to uncertain tax positions in income tax expense. As of June 30, 2015 and 2014, the Company had no accrued interest or penalties related to uncertain tax positions and no amounts have been recognized in the Company's Statements of Operations and Comprehensive Loss.

The Company files income tax returns in the United States, and various state jurisdictions. The federal and state income tax returns are generally subject to tax examinations for the tax years ended June 30, 2012 through June 30, 2015. To the extent the Company has tax attribute carryforwards, the tax years in which the attribute was generated

may still be adjusted upon examination by the Internal Revenue Service or state tax authorities to the extent utilized in a future period.

**12. Commitments:**

On November 19, 2014, the Company executed a sublease agreement dated October 8, 2014 effective as of October 20, 2014, relating to the rental of approximately 10,571 square feet of office and laboratory space located in San Diego, California. The term of the Sublease Agreement will begin on the Effective Date and will continue through October 31, 2016. The Sublease Agreement provides for monthly base rental payments of \$22,728 per month, payable in advance on the first day of each month. Payments will increase by 3% on each anniversary of the Effective Date of the Sublease Agreement. Future minimum rental payments under this noncancelable operating leases at June 30, 2015 are \$278,873 and \$94,342 for fiscal years 2016 and 2017, respectively.

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**SEVION THERAPEUTICS, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**13. Subsequent Event:**

On September 8, 2015, the Company entered into an agreement to transfer certain Intellectual Property consisting of patents and patent applications and license agreements related to those patents and patent applications. The Company is not actively developing any program related to the Intellectual Property included in the agreement. The sales agreement provides that upon closing, which is subject to the attainment of certain financing goals and other customary closing conditions, the Company will receive cash and equity of the purchasing entity.