

Sevion Therapeutics, Inc.
Form 10-K
October 13, 2017

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended June 30, 2017

OR

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

For the transition period from _____ to _____

Commission file number: **001-31326**

SEVION THERAPEUTICS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

84-1368850
(I.R.S. Employer Identification No.)

10210 Campus Point Drive, Suite 150, 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

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

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

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

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

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, 2016 the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$2,520,758, 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 25, 2017:

Class	Number of Shares
Common Stock, \$0.01 par value	51,414,613
Preferred Stock, \$0.01 par value	-0-

TABLE OF CONTENTS

	<u>Item</u>	<u>Page</u>
<u>PART I</u>	<u>1. Business</u>	<u>3</u>
	<u>1A. Risk Factors</u>	<u>8</u>
	<u>1B. Unresolved Staff Comments</u>	<u>23</u>
	<u>2. Properties</u>	<u>23</u>
	<u>3. Legal Proceedings</u>	<u>23</u>
	<u>4. Mine Safety Disclosures</u>	<u>23</u>
<u>PART II</u>	<u>5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>24</u>
	<u>6. Selected Financial Data</u>	<u>26</u>
	<u>7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
	<u>7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>40</u>
	<u>8. Financial Statements and Supplementary Data</u>	<u>41</u>
	<u>9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>41</u>
	<u>9A. Controls and Procedures</u>	<u>41</u>
	<u>9B. Other Information</u>	<u>43</u>
<u>PART III</u>	<u>10. Directors, Executive Officers and Corporate Governance</u>	<u>44</u>
	<u>11. Executive Compensation</u>	<u>48</u>
	<u>12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>54</u>
	<u>13. Certain Relationships and Related Transactions and Director Independence</u>	<u>57</u>
	<u>14. Principal Accounting Fees and Services</u>	<u>59</u>

<u>PART</u> <u>IV</u>	<u>15. Exhibits and Financial Statement Schedules</u>	<u>60</u>
<u>SIGNATURES</u>		<u>61</u>
<u>FINANCIAL STATEMENTS</u>		<u>F-1</u>

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, Fabrus, Inc., a Delaware corporation incorporated in 2011 and Sevion Sub Ltd., an Israeli company incorporated in 2017, 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 multispansing 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, included discovery of antibodies against multiple targets in several therapeutic areas. We and Janssen jointly conducted research on antibodies discovered by us, and Janssen has an option to an exclusive license to develop, manufacture, and commercialize candidates which resulted from the collaboration. Under the terms of the agreement, we received an up-front payment and research support payments for activities conducted in collaboration with Janssen. The research activities concluded in the third quarter of 2016 and the final report was transferred to 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 estimate of future beneficial value of our patent assets was uncertain. Due to this uncertainty, we determined it was necessary to amend the Company's accounting policy for patent costs. 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 four (4) employees, three (3) of whom are executive officers and who are involved in our management and we also have four (4) consultants.

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

Eloxx Transaction

On May 31, 2017, we entered into an agreement, or the Agreement, which was amended on August 1, 2017, with Sevion Acquisition Co. Ltd., an Israeli company and our wholly-owned subsidiary, or Acquisition Subsidiary, and Eloxx Pharmaceuticals Ltd., an Israeli company, or Eloxx, pursuant to which Eloxx will merge with and into Acquisition Subsidiary, with Eloxx surviving as our wholly-owned subsidiary. We refer to the transaction with Eloxx herein as the “Transaction.” Consummation of the Transaction is subject to certain closing conditions, including, among other things: (i) approval of the Transaction by the stockholders of Eloxx; (ii) the successful consummation of separate equity financings resulting in cash investments in our business and Eloxx of no less than \$12,000,000 each, or the Financing Covenant; (iii) the entering into a lockup agreement and registration rights agreement by and among us, certain of our shareholders and certain holders of Registrable Securities (as defined in the Agreement). Pursuant to the Agreement, the Transaction must close, if it closes, on or prior to December 31, 2017.

On July 28, 2017, we received gross proceeds of \$1,500,000 from OPKO Health, Inc., or OPKO, one of our existing shareholders, pursuant to a subscription agreement, which we refer to as the Subscription Agreement, by and among us, Eloxx, OPKO and certain other subscribers that we entered into in connection with the Transaction. The funds we received from OPKO satisfied a portion of our Financing Covenant. If the Transaction does not close, we will not be entitled to keep any portion of the money that we ultimately raise in fulfillment of our Financing Covenant, with the exception of the \$1.5 million in gross proceeds we received from OPKO, which is not conditioned upon closing of the Transaction.

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, 2017. 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.

As of June 30, 2017, we had cash in the amount of \$33,198. On July 28, 2017, we received gross proceeds of \$1,500,000 from OPKO Health OPKO, pursuant to the Subscription Agreement in partial satisfaction of our Financial Covenant under the Agreement. The funds we received from OPKO are not conditioned upon closing of the Transaction, but we will not receive any additional funds we raise in fulfillment of the Financial Covenant unless and until we successfully close the Transaction. If we do not complete the Transaction and are unable to raise additional funds (apart from any funds we raise in satisfaction of our Financing Covenant, which funds are conditioned upon closing of the Transaction), we do not believe that we will have enough cash to continue as a going concern past December 31, 2017. However, we believe we currently have enough cash to fund operations through December 31, 2017.

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 \$121,824,326 at June 30, 2017. 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 or complete the Transaction, we will need to do one or more of the following:

- 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, 2017, and the gross proceeds received from OPKO, we believe we have enough cash to fund operations through December 31, 2017.

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, 2017, we had cash in the amount of \$33,198. On July 28, 2017, we received gross proceeds of \$1.5 million from OPKO, in partial satisfaction of our Financial Covenant under the Agreement. The funds we received from OPKO are not conditioned upon closing of the Transaction, but we will not receive any additional funds we raise in fulfillment of the Financial Covenant unless and until we successfully close the Transaction.

Our historical operating results indicate substantial doubt exists related to our ability to continue as a going concern. While we believe that consummation of the Transaction would mitigate the substantial doubt raised by our historical

operating results and allow us to continue as a going concern for at least the next 12 months, we, cannot predict with certainty whether the Transaction will be successfully completed or if the proceeds received in connection with the Transaction will be sufficient to allow us to continue our current operations as a going concern.

If the Company is unable to raise additional funds and complete the Transaction, it 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, 2017, we had 448,036,507 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 audits of our fiscal year 2017 and 2016 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 and convertible notes. 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, 2017, our executive officers and directors together beneficially own approximately 10% 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, 2017, held by these stockholders. Additionally, there are three 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, 2017, we had 29,202,799 shares of our common stock issued and outstanding, 270 shares of Series A convertible preferred stock outstanding which can convert into 1,080,000 shares of common stock and 158,336 shares of Series C convertible preferred stock outstanding which can convert into 2,968,801 shares of common stock. As of June 30, 2017, 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. On July 1, 2017, shareholders exchanged 200 shares of outstanding Series A convertible preferred stock for 800,000 shares of our common stock, and exchanged the remaining 70 shares of outstanding Series A convertible preferred stock for 700,000 shares of our common stock on August 24, 2017. On September 20, 2017, shareholders exchanged the remaining 158,336 shares of Series C convertible preferred stock for 2,968,800 shares of our common stock. As of September 25, 2017, there were no shares of Series A convertible preferred stock or Series C convertible preferred stock issued and outstanding. Please see Note 11 of our Notes to the Consolidated Financial Statements for more information.

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, 2017, our common stock traded between \$0.08 and \$0.38 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, 2017, we have outstanding 270 shares of Series A convertible preferred stock which may convert into 1,080,000 shares of common stock and 158,336 shares of Series C convertible preferred stock outstanding which can convert into 2,968,801 shares of common stock and warrants to purchase 5,011,591 shares of our common stock. In addition, as of June 30, 2017, 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 6,261,602 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.

Item 1B.

Unresolved Staff Comments.

None.

Item 2.

Properties.

From June 30, 2016 to October 31, 2016, we leased space in a shared lab facility under a lease agreement for a monthly rental fee of \$23,410. Our lease agreement expired on October 31, 2016, and since that time we have been leasing space in the same shared lab facility on a month to month basis for a current monthly rental fee of \$3,000.

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, 2015, 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, 2015	\$0.99	\$0.55
December 31, 2015	\$0.72	\$0.32
March 31, 2016	\$0.40	\$0.19
June 30, 2016	\$0.28	\$0.15
September 30, 2016	\$0.22	\$0.08
December 31, 2016	\$0.20	\$0.11
March 31, 2017	\$0.30	\$0.16
June 30, 2017	\$0.38	\$0.16

As of September 25, 2017, the approximate number of holders of record of our common stock was 159. 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, 2017.

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	2,319,267	(1)	2.59	5,119,433	(2)
Equity compensation plans not approved by security holders	—		—	—	
Total	2,319,267	(1) \$	2.59	5,119,433	(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.

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,				
	2017	2016	2015	2014	2013
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenue	\$0	\$75	\$75	\$100	\$0
Operating expenses:					
General and administrative	1,409	1,606	3,170	3,683	2,500
Research and development	734	2,183	4,568	3,339	2,086
Gain on sale of patents	(150)				
Acquisition related costs	-	-	-	545	-
Impairment of Goodwill	-	5,781	8,122	-	-
Impairment of acquired R&D	2,600	1,700	-	-	-
Impairment and write-off of patents abandoned	-	-	2,291	1,681	64
Total operating expenses	4,593	11,270	18,151	9,248	4,650
Loss from operations	(4,593)	(11,195)	(18,076)	(9,148)	(4,650)
Fair value – stock right	651	254	12	-	-
Fair value – warrant liability	249	1,994	3	-	371
Fair value - note derivative	(1,175)				
Stock issuance for anti dilution right	(1,418)				
Modification of warrant exercise price	(285)				
Loss on extinguishment of debt	-	-	-	-	(1,725)
Interest expense, net	(265)	(1)	(3)	(77)	(119)
Net loss	(6,836)	(8,948)	(18,064)	(9,225)	(6,123)
Income tax benefit	1,040	680	-	-	-
Net Loss	(5,796)	(8,268)	(18,064)	(9,225)	(6,123)
Preferred dividends	(398)	(179)	(839)	(4,629)	(863)
Net loss available to common shares	\$(6,194)	\$(8,447)	\$(18,903)	\$(13,854)	\$(6,986)
Basic and diluted net loss per common share	\$(0.27)	\$(0.42)	\$(1.31)	\$(2.53)	\$(5.11)
Basic and diluted weighted average number of common shares outstanding	23,219	20,323	14,417	5,477	1,366
Balance Sheet Data:					
Cash and cash equivalents	\$33	\$811	\$3,335	\$6,111	\$1,602
Working capital (deficit)	(2,490)	614	2,951	5,399	310
Total assets	5,845	9,226	19,547	33,335	7,097

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

Accumulated deficit	(121,824)	(115,630)	(107,183)	(88,280)	(74,426)
Total stockholders' equity	871	4,561	12,225	27,490	3,786

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.

On May 31, 2017, we entered into an agreement, or the Agreement, which was amended on August 1, 2017, with Sevion Acquisition Co. Ltd., an Israeli company and our wholly-owned subsidiary, or Acquisition Subsidiary, and Eloxx Pharmaceuticals Ltd., an Israeli company, or Eloxx, pursuant to which Eloxx will merge with and into Acquisition Subsidiary, with Eloxx surviving as our wholly-owned subsidiary. We refer to the transaction with Eloxx herein as the “Transaction.” Consummation of the Transaction is subject to certain closing conditions, including, among other things: (i) approval of the Transaction by the stockholders of Eloxx; and (ii) the successful consummation of separate equity financings resulting in cash investments in our business and Eloxx of no less than \$12,000,000 each, or the Financing Covenant. Pursuant to the Agreement, the Transaction must close, if it closes, on or prior to December 31, 2017, and we will not be entitled to receive any portion of the money that we ultimately raise in fulfillment of our Financing Covenant unless the Transaction closes.

On July 28, 2017, we received gross proceeds of \$1,500,000 from OPKO Health, Inc., or OPKO, one of our existing shareholders, pursuant to a subscription agreement, which we refer to as the Subscription Agreement, by and among us, Eloxx, OPKO and certain other subscribers that we entered into in connection with the Transaction. The funds we received from OPKO satisfied a portion of our Financing Covenant. If the Transaction does not close, we will not be entitled to keep any portion of the money that we ultimately raise in fulfillment of our Financing Covenant, with the exception of the \$1.5 million in gross proceeds we received from OPKO, which is not conditioned upon closing of the Transaction. Accordingly, if we do not complete the Transaction and are unable to raise additional funds (apart from any funds we raise in satisfaction of our Financing Covenant, which funds are conditioned upon closing of the Transaction), we do not believe that we will have enough cash to continue as a going concern past December 31, 2017. However, we believe we currently have enough cash to fund operations through December 31, 2017.

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. As of June 30, 2017, we have not made any 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. Patent expense incurred during fiscal year 2016 and 2017 were \$421,287 and \$176,655, respectively.

Goodwill and Intangible Assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired by us. Goodwill is not amortized, but assessed for impairment on an annual basis or more frequently if impairment indicators exist.

The impairment model for goodwill 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 and intangible assets. The implied fair value of the reporting unit's goodwill and intangible assets is then compared with the carrying amount of the reporting unit's goodwill and intangible assets to determine the impairment loss to be recognized, if any. We recorded an impairment of goodwill in the amount of \$5,780,951 and \$0 for the year ended June 30, 2016 and 2017, respectively.

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 we 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. IPR&D are assessed for impairment annually, or more frequently if necessary. If an indicator is identified for potential impairment, we will record an impairment for any excess of the carrying value over the fair value of the IPR&D. For the years ended June 30, 2016 and 2017, we determined that there was impairment to in process research and development in the amount of \$1,700,000 and \$2,600,000, respectively.

Derivative Liabilities

The Company has financial instruments that contain embedded features subject to derivative accounting. Embedded derivatives are valued separately from the host instrument and are recognized as derivative liabilities in the Company's balance sheet. The Company measures derivative liabilities at their estimated fair value using the Black-Scholes option pricing model, and recognizes changes in their estimated fair value in other non-operating income or loss in the statement of operations. The Black-Scholes option pricing model requires management to develop significant estimates and assumptions. Any changes in these assumptions and estimates may materially affect the amount of the derivative liabilities recorded on our consolidated balance sheet.

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 us 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 our overall financial condition. Changes in these assumptions may materially affect the amount of the warrant liability recorded on our consolidated balance sheet. In addition, the Monte Carlo valuation model also requires use of estimates such as volatility, interest rates, and expected term.

Liquidity and Capital Resources

Overview

For the fiscal year ended June 30, 2017, net cash of \$1,925,110 was used in operating activities primarily due to a net loss of \$5,796,363 which was reduced by non-cash expenses of \$3,732,166 and increased by changes in operating assets and liabilities in the amount of \$139,087.

The \$139,087 change in operating assets and liabilities was the result of an increase in accounts payable and accrued expenses in the amount of \$177,520 due to the timing of expenses and payments and a reduction in security deposits of \$40,970, which were partially offset by an increase in prepaid expenses of \$79,403.

During the fiscal year ended June 30, 2017, there was \$47,500 provided by investing activities which consisted of \$50,000 provided from the sale of patents, which was offset by \$2,500 for the purchase of equipment. Cash provided by financing activities during the fiscal year ended June 30, 2017 amounted to \$1,100,000, as a result of proceeds from the issuance of convertible promissory notes.

As of June 30, 2017, our cash balance totaled \$33,198 and we had a working capital deficit of \$2,489,573. On July 28, 2017, we received gross proceeds of \$1.5 million from OPKO in partial satisfaction of our Financial Covenant under the Agreement. Presently, with no further financing, we project that our current cash balance will allow us to operate in the normal course of business until December 31, 2017. While we believe that consummation of the Transaction would mitigate the substantial doubt raised by the historical operating results and allow us to continue our current operations as a going concern for at least the next 12 months, we cannot predict with certainty whether the Transaction will be successfully completed or if the proceeds received in connection with the Transaction will be sufficient to allow us to continue our current operations as a going concern.

Capital Resources

We did not generate any revenue during the fiscal year ended June 30, 2017.. 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

During the year ended June 30, 2017, we received aggregate net proceeds of \$1,100,000 from the issuance of convertible promissory notes.

Contractual Obligations

Our contractual obligations as of June 30, 2017 consist of our month to month facility lease in the amount of \$3,000 per month:

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, 2017 and the \$1,500,000 financing we received from OPKO in partial satisfaction of our Financial Covenant, which is not subject to closing of the Transaction, we will be able to fund our operations through December 31, 2017.

Over the next 12 months, in order to fund our research and development we will need to do one or more of the following:

- raise capital through the placement of equity or debt instruments
- complete the Transaction, or
- raise 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 OperationsFiscal Year ended June 30, 2017*Revenue*

During the fiscal year ended June 30, 2017, there was no revenue.

Operating expenses

	Fiscal Year ended June 30		Change	%
	2017	2016		
General and administrative	\$ 1,408,936	\$ 1,606,043	\$(197,107)	-12.3 %
Research and development	733,661	2,182,989	(1,449,328)	-66.4 %
Gain on Sale of Patents	(149,728)	-	(149,728)	-100.0 %
Impairment of goodwill	-	5,780,951	(5,780,951)	-100.0 %
Impairment of acquired R&D	2,600,000	1,700,000	900,000	52.9 %
Total Operating Expenses	\$ 4,592,869	\$ 11,269,983	\$(6,677,114)	-59.2 %

General and administrative expenses

General and administrative expenses consist of the following:

	Fiscal Year ended June 30		Change	%
	2017	2016		
Payroll and benefits	\$ 40,295	\$ 31,513	\$ 8,782	27.9 %
Professional fees	1,083,636	876,305	207,331	23.7 %
Stock-based compensation	73,708	130,185	(56,477)	-43.4 %
Consultants	70,770	162,980	(92,209)	-56.6 %
Investor relations	17,978	13,124	4,854	37.0 %

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

Delaware Franchise Tax	(66,000)	181,366	(247,366)	-136.4%
Other general & Administrative Expenses	188,549	210,570	(22,021)	-10.5 %
Total G&A	\$ 1,408,936	\$ 1,606,043	\$(197,106)	-12.3 %

Payroll and benefits for the fiscal year ended June 30, 2017 were higher than for the fiscal year ended June 30, 2016 due to reversal of an accrual for severance benefits during the fiscal year ended June 30, 2016.

Professional fees for the fiscal year ended June 30, 2017 was higher than for the fiscal year ended June 30, 2016 due to legal and accounting fees related to ongoing strategic alliance and financing efforts.

Stock-based compensation for the fiscal years ended June 30, 2017 and June 30, 2016 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, 2017 and 2016, 436,363 and 485,682 options, respectively, were granted to such individuals. In addition, during the fiscal years ended June 30, 2017 and 2016, 34,334 and 195,363 options, respectively, expired or were forfeited.

Stock-based compensation for the fiscal year ended June 30, 2017 was lower than the fiscal year ended June 30, 2016 primarily due to previously issued options fully vested.

Consulting fees for the fiscal year ended June 30, 2017 were lower than for the fiscal year ended June 30, 2016 as a result of salary reductions with respect to our Chief Executive Officer, who is treated as a consultant rather than an employee, along with reduced utilization of other consultants to preserve cash.

Investor relations fees for the fiscal year ended June 30, 2017 was higher than for the fiscal year ended June 30, 2016 as a result of increased shareholder activity and spending.

Delaware Franchise Tax decreased for the fiscal year ended June 30, 2017 from the fiscal year ended June 30, 2016 as the basis for the tax which includes total assets decreased resulting in an overpayment from prior year tax.

Other general and administrative expenses for the fiscal year ended June 30, 2017 were lower than for the fiscal year ended June 30, 2016 due to reduced insurance expense as activities have been reduced combined with ongoing cost reduction efforts.

Research and development expenses

	Fiscal Year ended June 30			
	2017	2016	Change	%
Payroll	\$ 396,055	\$ 996,744	\$(600,689)	-60.3 %
Patent Costs	178,848	443,622	(264,774)	-59.7 %

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

Facility Rent	148,214	386,051	(237,837)	-61.6 %
Depreciation	44,075	93,393	(49,318)	-52.8 %
Stock-based compensation	6,401	26,492	(20,091)	-75.8 %
Other research and development	(39,932)	236,687	(276,619)	-116.9%
Total research and development	\$ 733,661	\$ 2,182,989	\$(1,449,328)	-66.4 %

Payroll for the fiscal year ended June 30, 2017 was lower than for the fiscal year ended June 30, 2016 as a result of employee attrition and a reduction in salaries during fiscal year 2016 due to cost saving efforts.

Patent Costs for the fiscal year ended June 30, 2017 was lower than for the fiscal year ended June 30, 2016 primarily as a result of discontinuing patent prosecution services for certain of our patents.

Facility Rent for the fiscal year ended June 30, 2017 was lower than for the fiscal year ended June 30, 2016 due to our relocation to a smaller, less expensive facility at the end of October 2016.

Depreciation for the fiscal year ended June 30, 2017 was lower than for the fiscal year ended June 30, 2016 as certain assets were fully depreciated.

Stock-based compensation for the fiscal year ended June 30, 2017 was lower than the fiscal year ended June 30, 2016 primarily because options attributed to research and development were not issued during the fiscal year ended June 30, 2017.

Other research and development costs for the fiscal year ended June 30, 2017 were lower than for the fiscal year ended June 30, 2016 because, in an effort to preserve cash on hand, we drastically reduced our research effort. In addition, previous accruals for clinical site costs were written off because they never materialized, resulting in a credit.

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 of Goodwill

During the fiscal year ended June 30, 2016, we reviewed goodwill for impairment and determined that impairment had occurred as a result of the decrease in the market value of the Company. The company recognized an impairment charge of \$5,780,951, the balance of the remaining goodwill, for the fiscal year ended June 30, 2016.

Impairment of acquired R&D

During the fiscal year ended June 30, 2017 and 2016, we reviewed acquired R&D for impairment and determined that impairment had occurred as a result of the decrease in the market value of the Company for the fiscal years ended June 30, 2017 and 2016 resulting in the company recognizing an impairment charge of \$2,600,000 and \$1,700,000, respectively.

Impairment and write-off of patents abandoned

During the fiscal year ended June 30, 2015, we reviewed our patent portfolio and determined that our agricultural patents 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 in the amount of \$2,290,836 during fiscal year 2015.

Fiscal Year ended June 30, 2016*Revenue*

During the fiscal year ended June 30, 2016, revenue in the amount of \$75,000 represented the amortization of deferred revenue for a collaboration and option agreement.

Operating expenses

	Fiscal Year ended June 30			
	2016	2015	Change	%
General and administrative	\$ 1,606,043	\$ 3,170,499	\$(1,564,456)	-49.3 %
Research and development	2,182,989	4,568,435	(2,385,446)	-52.2 %
Impairment of goodwill	5,780,951	8,121,966	(2,341,015)	-28.8 %
Impairment of acquired R&D	1,700,000	-	1,700,000	100.0 %
Impairment and write-off of patents	-	2,290,836	(2,290,836)	-100.0%
Total Operating Expenses	\$ 11,269,983	\$ 18,151,736	\$(6,881,753)	-37.9 %

General and administrative expenses

General and administrative expenses consist of the following:

	Fiscal Year ended June 30			
	2016	2015	Change	%
Payroll and benefits	\$ 31,513	\$ 1,122,624	\$(1,091,111)	-97.2 %
Professional fees	876,305	670,507	205,798	30.7 %
Stock-based compensation	130,186	401,412	(271,226)	-67.6 %
Delaware Franchise Tax	181,366	258,685	(77,319)	-29.9 %
Investor relations	13,124	166,692	(153,568)	-92.1 %
Consultants	162,980	116,217	46,765	40.2 %
Depreciation and amortization	-	2,818	(2,818)	-100.0%

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

Other general & Administrative Expenses	210,569	431,545	(220,976)	-51.2 %
Total G&A	\$ 1,606,043	\$ 3,170,499	\$(1,564,455)	-49.3 %

Payroll and benefits for the fiscal year ended June 30, 2016 was lower than for the fiscal year ended June 30, 2015 as a result of onetime severance payments previously paid to employees terminated in connection with the closing of our New Jersey office in November 2014.

Professional fees for the fiscal year ended June 30, 2016 was higher than for the fiscal year ended June 30, 2015 as a result of an increase in accounting costs associated with additional bookkeeping, consulting and auditing fees related to our financing efforts in June and July of 2015.

Stock-based compensation for the fiscal years ended June 30, 2016 and June 30, 2015 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, 2016 and 2015, 485,682 and 1,203,676 options, respectively, were granted to such individuals. In addition, during the fiscal years ended June 30, 2016 and 2015, 195,363 and 556,061 options, respectively, expired or were forfeited.

Stock-based compensation for the fiscal year ended June 30, 2016 was lower than the fiscal year ended June 30, 2015 primarily due to fewer options issued during the fiscal year ended June 30, 2016.

Delaware Franchise Tax decreased for the fiscal year ended June 30, 2016 from the fiscal year ended June 30, 2015 as a result of an increase in the computed tax calculation resulting from the reverse stock split and acquisition of Fabrus, Inc. in May 2014.

Investor relations fees for the fiscal year ended June 30, 2016 was lower than for the fiscal year ended June 30, 2015 as a result of reduced investor relations activity and spending.

Consulting fees for the fiscal year ended June 30, 2016 were higher than for the fiscal year ended June 30, 2015 primarily due to our treatment of our CEO as a consultant, as compared to the prior year when our CEO was paid as an employee for the majority of the period.

Other general and administrative expenses for the fiscal year ended June 30, 2016 were lower than for the fiscal year ended June 30, 2015 due to reduction in employees and reduced operating activity.

Research and development expenses

	Fiscal Year ended June 30		Change	%
	2016	2015		
Payroll	\$ 996,744	\$ 1,392,426	\$(395,682)	-28.4 %
Patent Costs	443,622	771,181	(327,559)	-42.5 %
Facility Rent	386,051	328,189	57,862	17.6 %
Depreciation	93,393	174,255	(80,862)	-46.4 %
Stock-based compensation	26,492	79,270	(52,778)	-66.6 %
Other research and development	236,687	391,519	(154,832)	-39.5 %
Phase 1b/2a clinical trial	-	1,585,082	(1,585,082)	-100.0 %
Research Contract with the University of Waterloo	-	284,600	(284,600)	-100.0 %

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

Gain on forgiveness of debt	-	(442,689)	442,689	100.0 %
Total research and development	\$ 2,182,989	\$ 4,563,832	\$(2,380,843)	-52.2 %

Payroll for the fiscal year ended June 30, 2016 was lower than for the fiscal year ended June 30, 2015 primarily as a result of the closure of the New Jersey office in November 2014 and subsequent attrition.

Patent Costs for the fiscal year ended June 30, 2016 was lower than for the fiscal year ended June 30, 2015 primarily as a result of discontinuing patent prosecution services for certain of our patents.

Facility Rent for the fiscal year ended June 30, 2016 was higher than for the fiscal year ended June 30, 2015 due to relocation of our principal offices to San Diego, California in October 2014.

Depreciation for the fiscal year ended June 30, 2016 was lower than for the fiscal year ended June 30, 2015 due to certain assets becoming fully depreciated.

Stock-based compensation for the fiscal year ended June 30, 2016 was lower than for the fiscal year ended June 30, 2015 primarily due to fewer options issued during the fiscal year ended June 30, 2016 combined with the cancellation of options for terminated employees.

Other research and development costs for the fiscal year ended June 30, 2016 were lower than for the fiscal year ended June 30, 2015 primarily due to the discontinuation of our clinical programs in 2014 and a reduction in research and development efforts.

During the fiscal year ended June 30, 2015, the Phase 1b/2a clinical trial was concluded. The program was subsequently abandoned and all associated costs were written off, including research supplies. No costs associated with the trial were incurred in the fiscal year ended June 30, 2016.

Our research contract with the University of Waterloo was suspended in 2014 and therefore no costs related to the agreement were incurred in the fiscal year ended June 30, 2016.

Impairment of Goodwill

During the fiscal year ended June 30, 2016 and 2015, we reviewed goodwill for impairment and determined that impairment had occurred as a result of the decrease in the market value of the Company. The company recognized an impairment charge in the amounts of \$5,780,951 and \$8,121,966 for the fiscal years ended 2016 and 2015.

Impairment of acquired R&D

During the fiscal year ended June 30, 2016 and 2015, we reviewed acquired R&D for impairment and determined that impairment had occurred as a result of the decrease in the market value of the Company. The company recognized an impairment charge in the amounts of \$1,700,000 and \$0 for the fiscal years ended 2016 and 2015.

Impairment and write-off of patents abandoned

During the fiscal years ended June 30, 2016 and June 30, 2015, 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 \$0 and \$2,290,836, 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

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic and current reports that we file with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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, 2017, 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, 2017 and as a result, our disclosures controls and procedures were not effective.

A material weakness is defined as “a deficiency, or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis.”

In light of the material weakness described below, we performed additional analysis and other procedures to ensure that our consolidated financial statements included in this Annual Report on Form 10-K were prepared in accordance with generally accepted accounting principles in the United States (“GAAP”). Notwithstanding the material weaknesses that existed as of June 30, 2017, 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 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 13a15-(f) and 15d-15(f) under the Securities Exchange Act of 1934. A 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;
- (ii) 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 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.

As of June 30, 2017, management assessed the effectiveness of internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). In adopting the 2013 Framework, management assessed the applicability of the

principles within each component of internal control and determined whether or not they have been adequately addressed within the current system of internal control and adequately documented. Based on this assessment, management, under the supervision and with the participation of our principal executive officer and principal financial officer, identified a material weakness in our internal control over accounting and calculation surrounding the equity-linked financial instruments and concluded that, as of June 30, 2017, our internal control over financial reporting was not effective at the reasonable assurance level based on those criteria.

This annual filing does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to 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

An evaluation was also performed under the supervision and with the participation of management, including the principal executive officer and the principal financial officer, of any changes in our internal control over financial reporting that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. That evaluation did not identify any change in our internal control over financial reporting that occurred during our latest fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting

Item 9B. Other Information.

None.

43

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

The following table identifies our current directors and executive officers as of September 25, 2017:

Name	Age	Capacities in Which Served	In Current Position Since
<i>Executive Officers:</i>			
David Rector (1)	70	Chief Executive Officer and Director	January 2015
Vaughn Smider, M.D., Ph.D. (2)	47	Chief Scientific Officer and Director	May 2014
Miguel A. de los Rios, Ph.D. (3)	43	Vice President of Research and Development	May 2014
James Graziano, Ph.D.(4)	49	Chief Technology Officer	May 2014
James Schmidt (5)	57	Chief Financial Officer	May 2015
<i>Directors:</i>			
John N. Braca* (6)	59	Director	October 2003
Phillip Frost, M.D. (7) **	81	Director	May 2014
Steven Rubin* (8)	57	Director	May 2014

*Member of the Audit Committee and the Compensation Committee

**Member of the Nominating and Corporate Governance Committee

(1)Mr. Rector has been our Chief Executive Officer since January 2015 and our director since February 2002. As of July 2015, Mr. Rector also serves as a director of Majesco Entertainment Inc. and as of May 2015, as a director of SciVac Therapeutics, Inc. Since 1985, Mr. Rector has been the Principal of The David Stephen Group, which provides enterprise consulting services to emerging and developing companies in a variety of industries. Mr. Rector served as a director and member of the compensation and audit committee of the Dallas Gold and Silver Exchange Companies Inc. (formerly Superior Galleries, Inc.) from May 2004 to September 2015. Since January 2014 through January 2015, Mr. Rector served on the board of directors of MV Portfolios, Inc. (formerly California Gold Corp.) From November 2012 through January 2014, Mr. Rector has served as the CEO and President of Valor Gold. Since February 2012 through January 2013, Mr. Rector has served as the VP Finance & Administration of Pershing Gold Corp. From May 2011 through February 2012, Mr. Rector served as the President of Sagebrush Gold, Ltd. From October 2009 through August 2011, Mr. Rector had served as President and CEO of Li3 Energy, Inc. From July 2009 through May 2011, Mr. Rector had served as President and CEO of Nevada Gold Holdings, Inc. From September 2008 through November 2010, Mr. Rector served as President and CEO Universal Gold Mining Corp. Since October 2007 through February 2013, Mr. Rector has served as President and CEO of

Standard Drilling, Inc. From May 2004 through December 2006, Mr. Rector had served in senior management positions with Nanoscience Technologies, Inc., a development stage company engaged in the development of DNA Nanotechnology. From 1983 until 1985, Mr. Rector served as President and General Manager of Sunset Designs, Inc., a domestic and international manufacturer and marketer of consumer product craft kits, and a wholly-owned subsidiary of Reckitt & Coleman N.A. From 1980 until 1983, Mr. Rector served as the Director of Marketing of Sunset Designs. From 1971 until 1980, Mr. Rector served in progressive roles in the financial and product marketing departments of Crown Zellerbach Corporation, a multi-billion dollar pulp and paper industry corporation. Mr. Rector received a Bachelor of Science degree in Business/Finance from Murray State University in 1969.

Dr. Smider has been our Chief Scientific Officer and director since May 2014. From January 2007 through May 2014, Dr. Smider was the founder and President of Fabrus, Inc., which became a wholly-owned subsidiary of Sevion in May 2014. Since 2005, Dr. Smider has been a faculty member at The Scripps Research Institute, where (2) he has directed protein engineering research. From 2001 through 2005, Dr. Smider was Chief Scientific Officer at IntegriGen, Inc. Dr. Smider is on the Leadership Council for The American Cancer Society in San Diego and is a founder and board member of The Elizabeth Smider Foundation. Dr. Smider received his M.D. and Ph.D. degrees from Stanford University School of Medicine.

Dr. de los Rios has been our Vice President, Research and Development since May 2014 and was previously the Vice President of Research and Development of Fabrus, Inc., which became a wholly-owned subsidiary of Sevion in May 2014. Prior to Fabrus, he founded Chimeros, Inc., a venture-backed biologics therapeutic company, in (3)2003. At Chimeros, he served as both the Chief Executive Officer as well as the Chief Scientific Officer from 2003 through 2011, and was the inventor of Chimeros core technologies. Dr. de los Rios received his Ph.D. in Biophysical Chemistry from the University of California, Santa Barbara. Dr. de los Rios currently advises several start-up biotechnology companies.

Dr. Graziano has been our Chief Technology Officer since May 2014 and was previously the Chief Operating Officer of Fabrus, Inc., which became a wholly-owned subsidiary of Sevion in May 2014, since its founding in 2007. Prior to Fabrus, Dr. Graziano was a Staff Scientist at Kythera Biopharmaceuticals, Inc. managing sponsored preclinical research activities from 2006 to 2007. Dr. Graziano received his Ph.D. in Macromolecular and Cellular (4)Structure and Chemistry from The Scripps Research Institute in 2006 and concurrently served as a Graduate Fellow in the Protein Sciences group at the Genomics Institute of the Novartis Research Foundation. He received his Bachelor of Arts degree in Molecular and Cellular Biology from the University of California at Berkeley. Before completing his academic studies, Dr. Graziano served in the US Navy as a qualified Naval Nuclear Power Plant Mechanical Operations Supervisor.

Mr. Schmidt has been our Chief Financial Officer since May 2015. Prior to Mr. Schmidt's engagement by the Company, he was and continues to provide independent financial consulting services to start-up and growing companies. He formerly served as the Vice President, Finance and Administration of Receptos, Inc. from 2009 to 2013. From 2007 to 2009, he served as Senior Director of Finance and Operations for Apoptos, Inc. which was acquired by Receptos, Inc. in May 2009. He was formerly Senior Director of Finance and Operations at Conform (5)Therapeutics from 2001 until its acquisition by Biogen Idec in 2006 where he assisted in the transition and integration of the companies. Prior to that, from 1986 to 2001 Mr. Schmidt served in various financial and operational roles including Chief Financial Officer for Kent SeaTech Corporation, Controller for Medical Imaging Centers of America, Inc., MCA, Inc./MCA Concerts, Inc. and Manager of Accounting—Retirement Inns of America, Inc. He started his career with Coopers & Lybrand and received his B.S. in Accounting and Corporate Finance from Drake University in Des Moines, Iowa.

(6)Mr. Braca has been our director since October 2003. Mr. Braca has also served as a director and board observer for other healthcare, technology and biotechnology companies over the course of his career. Since April 2013, Mr. Braca has been the President and sole proprietor of JNB Consulting, which provides strategic business development counsel to biotechnology companies. From August 2010 through April 2013, Mr. Braca had been the executive director controller for Iroko Pharmaceuticals, a privately-held global pharmaceutical company based in Philadelphia. From April 2006 through July 2010, Mr. Braca was the managing director of Fountainhead Venture Group, a healthcare information technology venture fund based in the Philadelphia area, and has been working with both investors and developing companies to establish exit and business development opportunities. From May 2005 through March 2006, Mr. Braca was a consultant and advisor to GlaxoSmithKline management in their research operations. From 1997 to April 2005, Mr. Braca was a general partner and director of business investments for S.R. One, Limited, or S.R. One, the venture capital subsidiary of GlaxoSmithKline. In addition, from January 2000 to July 2003, Mr. Braca was a general partner of Euclid SR Partners Corporation, an independent venture capital partnership. Prior to joining S.R. One, Mr. Braca held various finance and operating positions of increasing responsibility within several subsidiaries and business units of GlaxoSmithKline. Mr. Braca

is a licensed Certified Public Accountant in the state of Pennsylvania and is affiliated with the American Institute of Certified Public Accountants and the Pennsylvania Institute of Certified Public Accountants. Mr. Braca received a Bachelor of Science in Accounting from Villanova University and a Master of Business Administration in Marketing from Saint Joseph's University.

Dr. Frost has been our director since May 2014. Dr. Frost has been the Chief Executive Officer and Chairman of OPKO Health, Inc. since March 2007. Dr. Frost was named Chairman of the Board of Ladenburg Thalmann Financial Services Inc. (“Ladenburg Thalmann”) (NYSE MKT:LTS), an investment banking, asset management, and securities brokerage firm providing services through its principal operating subsidiary, Ladenburg Thalmann & Co. Inc., in July 2006 and has been a director of Ladenburg Thalmann from 2001 until 2002 and again since 2004. Dr. Frost is Vice Chairman of Cogint, Inc. (NASDAQ MKT:COGT), an information solutions provider focused on the data-fusion market, and a director for each of Castle Brands (NYSE MKT:ROX), a developer and marketer of premium brand spirits and Cocystal Pharma, Inc. (OTCBB:COCP), a publicly traded biotechnology company developing new treatments for viral diseases. He serves as a member of the Board of Trustees of the University of Miami, the Skolkovo Foundation Scientific Advisory Council in Russia, the Shanghai Institute for Advanced (7)Immunochemical Studies in China, and The Florida Council of 100 and as a Trustee of each of the Miami Jewish Home for the Aged and the Mount Sinai Medical Center. Dr. Frost served as a director of Teva Pharmaceutical Industries, Limited, or Teva (NYSE:TEVA) from January 2006 until February 2015 and had served as Chairman of the Board of Teva from March 2010 until December 2014 and as Vice Chairman from January 2006 until March 2010. Dr. Frost previously served as a director for TransEnterix, Inc., SafeStitch Medical Inc. prior to its merger with TransEnterix, Inc. and PROLOR Biotech, Inc. prior to its acquisition by the Company in August 2013, as Governor and Co-Vice Chairman of the American Stock Exchange (now NYSE MKT), and as a member of the Board of Trustees of the Scripps Research Institute until November 2012. Dr. Frost had served as Chairman of the Board of Directors and Chief Executive Officer of IVAX Corporation (“IVAX”) from 1987 until its acquisition by Teva in January 2006. Dr. Frost was Chairman of the Board of Directors of Key Pharmaceuticals, Inc. from 1972 until the acquisition of Key Pharmaceuticals by Schering Plough Corporation in 1986.

Mr. Rubin has been our director since May 2014. Since May 2007, Mr. Rubin has been the Executive Vice President – Administration at OPKO Health, Inc. and a director of OPKO since February 2007. Mr. Rubin currently serves on the board of directors of VBI Vaccines, Inc. (NASDAQ:VBIV), a commercial-stage biopharmaceutical which develops, produces and markets next generation of vaccines to address unmet needs in infectious disease and immuno-oncology, Cogint, Inc. (NASDAQ MKT: COGT), an information solutions provider focused on the data-fusion market, Kidville, Inc. (OTCBB:KVIL), which operates large, upscale facilities, catering to newborns through five-year-old children and their families and offers a wide range of developmental classes for newborns to five-year-olds, Non-Invasive Monitoring Systems, Inc. (OTCBB:NIMU), a medical device company, Cocystal Pharma, Inc. (OTCBB: COCP), a publicly traded biotechnology company developing new treatments for viral (8)diseases, Castle Brands, Inc. (NYSE MKT:ROX), a developer and marketer of premium brand spirits, Neovasc, Inc. (TSXV:NVC), a company developing and marketing medical specialty vascular devices, and ChromaDex Corp. (NASDAQ:CDXC), an innovator of proprietary health, wellness and nutritional ingredients that creates science-based solutions for dietary supplement, food and beverage, skin care, sports nutrition, and pharmaceutical products. Mr. Rubin previously served as a director of Dreams, Inc. (NYSE MKT: DRJ), a vertically integrated sports licensing and products company, Safestitch Medical, Inc. prior to its merger with TransEnterix, Inc., SciVac Therapeutics, Inc. prior to its merger with VBI Vaccines, Inc., Tiger X Medical, Inc. prior to its merger with BioCardia, Inc., and PROLOR Biotech, Inc., prior to its acquisition by the Company in August 2013. Mr. Rubin served as the Senior Vice President, General Counsel and Secretary of IVAX from August 2001 until September 2006.

None of our current executive officers or directors are related to any other executive officer or to any of our directors. Our executive officers are elected annually by our board of directors and serve until their successors are duly elected and qualified.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) requires a company’s directors, officers and stockholders who beneficially own more than 10% of any class of equity securities of the company registered pursuant to Section 12 of the Exchange Act, collectively referred to herein as the Reporting Persons, to file initial statements of beneficial ownership of securities and statements of changes in beneficial ownership of securities with respect to the company’s equity securities with the Securities Exchange Commission (the “SEC”). All Reporting Persons are required by SEC regulation to furnish us with copies of all reports that such Reporting Persons file with the SEC pursuant to Section 16(a).

Based solely on our review of the copies of such forms received by us, we believe that there has been compliance with all Section 16(a) filing requirements applicable to our Reporting Persons during the fiscal year ended June 30, 2017.

Code of Business Ethics and Conduct

On March 17, 2003, our board of directors adopted a Code of Business Ethics and Conduct, or Code of Ethics, which may be found on our website at www.seviontherapeutics.com. The Code of Business Ethics and Conduct applies to our principal executive officer, principal financial officer, principal accounting officer, and other persons who perform similar functions for Sevion, in addition to our corporate directors and employees.

Our Code of Ethics contains written standards designed to deter wrongdoing and to promote:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- full, fair, accurate, timely, and understandable disclosure in reports and documents filed with the SEC and in other public communications made by our company;
- compliance with applicable governmental laws, rules and regulations;
- the prompt internal reporting of violations of our Code of Ethics to an appropriate person or persons identified in our Code of Ethics; and
- accountability for adherence to our Code of Ethics.

Each of our employees, officers and directors completed a signed certification to document his or her understanding of and compliance with our Code of Ethics.

Audit Committee

Our Audit Committee was established in July 1999. On March 11, 2011, our board of directors adopted an Amended and Restated Audit Committee Charter. The primary responsibilities of our Audit Committee include:

- appointing, approving the compensation of, and assessing the independence of our independent registered public accounting firm;

overseeing the work of our independent registered public accounting firm, including through the receipt and consideration of certain reports from our independent registered public accounting firm;
reviewing and discussing with management and our independent registered public accounting firm our annual and quarterly financial statements and related disclosures;
monitoring our internal control over financial reporting, disclosure controls and procedures and code of business conduct and ethics;
discussing our risk management policies;
establishing policies regarding hiring employees from our independent registered public accounting firm and procedures for the receipt and retention of accounting related complaints and concerns;
meeting independently with our independent registered public accounting firm and management; and
preparing the audit committee report required by SEC rules.

Our Audit Committee is currently comprised of John N. Braca and Steven Rubin. Mr. Braca currently serves as the chairman of the Audit Committee. Although we are not currently subject to audit committee independence requirements, in determining whether our Audit Committee members are independent, we use the definition of independence provided under Section 803 of the NYSE MKT Company Guide. The NYSE MKT currently requires an Audit Committee comprised solely of independent directors. Messrs. Braca and Rubin are “independent” members of our board of directors as defined in Rule 10A-3 under the Exchange Act, and Section 803 of the NYSE MKT Company Guide. In addition, our board of directors has determined that Mr. Braca satisfies the definition of an audit committee “financial expert” as set forth in Item 407(d)(5) of Regulation S-K promulgated by the SEC. Our Audit Committee held four (4) meetings during Fiscal 2017.

Item 11. Executive Compensation.**Summary Compensation Table**

The following table sets forth information concerning compensation for services rendered in all capacities during the fiscal years ended June 30, 2017 and June 30, 2016, if applicable, awarded to, earned by or paid to: (i) all persons that served as our Chief Executive Officer during Fiscal 2017; (ii) our three most highly compensated executive officers other than the Chief Executive Officer who were serving as executive officers at the end of Fiscal 2017; and (iii) individuals who would qualify under (ii) but for the fact that the individual was not serving as an executive officer at the end of the fiscal year, collectively referred to herein as the named executive officers. No other executive officers who would have otherwise been includable in such table on the basis of total compensation for Fiscal 2017 have been excluded by reason of their termination of employment or change in executive status during that year.

Name and Principal Position	Year (1)	Salary (\$)(2)	Option Awards (\$)(3)	Total (\$)
David Rector (4) Chief Executive Officer	2017	\$60,000	—	\$60,000
	2016	\$150,000	—	\$150,000
Vaughn Smider, M.D., Ph.D. Chief Scientific Officer	2017	\$41,538	—	\$41,538
	2016	\$164,308	—	\$164,308
James Graziano, Ph.D. Chief Technology Officer	2017	\$127,211	—	\$127,211
	2016	\$163,288		\$163,288
Miguel de los Rios Ph.D. Vice President of Research and Development	2017	\$90,865	—	\$90,865
	2016	\$155,481	—	\$155,481

(1) Sevion's fiscal year ends on June 30.

(2) Such amount represents actual salary paid, including such amounts deferred in connection with our 401K plan.

(3) Mr. Rector was appointed as the Company's Interim Chief Executive Officer on January 9, 2015 and is a consultant of the Company.

Narrative Explanation of Certain Aspects of the Summary Compensation Table

Each of our named executive officers is eligible to receive (i) a base salary and (ii) an annual performance bonus payable in cash, stock or a combination at the discretion of the compensation committee of the board of directors, or the Compensation Committee.

Cash Compensation

The base salary for each of our named executive officers for our Fiscal 2017, is listed in the table below:

Name	Fiscal 2017 Base Salary
David Rector	\$ 60,000
Vaughn Smider, M.D., Ph.D.	\$ 40,000
James Graziano, Ph.D.	\$ 122,500
Miguel de los Rios Ph.D.	\$ 87,500

The Compensation Committee determined, as a result of reviewing several factors, and primarily because of our limited cash resources reserved for research and development activities, that no bonuses were or would be granted for Fiscal 2017.

Equity Compensation

During Fiscal 2017, the Compensation Committee determined that there would be no performance based options.

Grants of Plan-Based Awards

The Company did not grant any stock awards, option awards or equity incentive plan awards to its named executive officers during the fiscal year ended June 30, 2017.

Outstanding Equity Awards at Fiscal Year-End

The following table summarizes the equity awards we have made to our named executive officers, which remain outstanding as of June 30, 2017.

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

Option Awards

Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date
David Rector		—	—	—		
Vaughn Smider, M.D., Ph.D.	11/18/2014	16,621	—	8,706	(1) \$ 0.83	11/18/2024
James Graziano, Ph.D.	11/18/2014	10,157	—	5,320	(1) \$ 0.83	11/18/2024
Miguel de los Rios Ph.D.	5/16/2014	113,082	—	—	\$ 2.65	7/9/2023
	11/18/2014	16,744	—	8,771	(1) \$ 0.83	11/18/2024

(1) Such amounts consist of performance based options with the maximum number of option shares in which the optionee may vest to be determined by the Compensation Committee within 90 days following the fiscal year-end based on achievement of performance metrics and shall vest one-quarter on the first anniversary of the date of grant with one-thirty-sixth of the balance vesting each month thereafter with continued service.

Option Exercises and Stock Vested

There were no option exercises and stock vested activity for our named executive officers during the year ended June 30, 2017.

Executive Benefits and Perquisites

In General – The named executive officers are also provided with certain market competitive benefits, described below. It is the Compensation Committee’s belief that such benefits are necessary for us to remain competitive and to attract and retain top caliber executive officers, since such benefits are typically provided by companies in the biotechnology industry and with other companies with which we compete for executive talent.

Retirement Benefits – The named executive officers may participate in our 401(k) plans administered by Sevion and Fabrus, Sevion’s wholly-owned subsidiary.

Other Benefits and Perquisites – All administrative employees, including the named executive officers, are eligible to receive standard health, disability, and life insurance. We do not provide any additional benefits and perquisites.

Severance and Change in Control Benefits

Retention Policy

On October 9, 2012, our board of directors approved a Retention Policy for those officers who do not have an employment agreement as of the date of their termination (the “Policy”). Pursuant to the terms and provisions of the Policy, in the event that an officer is terminated or resigns for good reason (as such term is defined in the Policy) in connection with a change of control transaction (as such term is defined in the Policy), such officer will be entitled to receive the following (subject to the limitation discussed below):

- (i) The involuntary termination benefits provided in the officer's employment agreement, if any, including unpaid compensation and benefits.
- (ii) The full incentive bonus allocated to the officer for the calendar year in which termination occurs, as determined by the Board.
- (iii) A multiple of the officer's annual base salary: (CEO=2x, CFO=1.5x, VP R&D=1.5x, VP Clinical=1.5x, other officers=1x).
- (iv) Medical coverage with term equal to base salary continuation under the Company's group health insurance.
- (v) Allowance for all vested options to be exercisable for the remainder of each such vested option's full remaining exercise period.
- (vi) Immediate vesting of all unvested options granted to the officer.

Notwithstanding the foregoing, if the aggregate compensation set forth in clauses (i), (ii), (iii) and (iv) above to be paid to all officers exceeds 10% of the value of the transaction as determined by the parties (as reflected in a definitive agreement, including the fair market value of any publicly traded securities), or if not reflected in a definitive agreement, then as determined by a qualified, independent third party selected by our board of directors, then the board of directors shall have the discretion to reduce such compensation pro-rata to the extent necessary to consummate the change of control transaction.

The Policy also provides that our board of directors shall have discretion to grant a termination package in the event an officer is terminated by the board without cause (as such term is defined in the Policy) or resigns for good reason (as such term is defined in the Policy).

The Compensation Committee believes that the severance benefits under the Policy provide financial protection against the potential loss of employment in designated circumstances and will allow our executive officers to focus attention on changes that are in the best interests of the stockholders, without undue concern as to each officer's own financial situation. The Compensation Committee also believes the accelerated vesting of equity awards is justified because those awards are designed to serve as the primary vehicle for the executives to accumulate financial resources for retirement. Finally, given the time periods and risks involved in pharmaceutical development, the Compensation Committee believes that the extended exercise period is an appropriate way to provide the officers with an opportunity to realize financial gains from decisions made during his or her tenure as an officer.

On October 6, 2017, our board of directors terminated the policy.

Executive Compensation Agreements

Consulting Agreement

On January 9, 2015, we entered into a consulting agreement with The David Stephen Group LLC, an entity controlled by David Rector, our interim President and Chief Executive Officer, setting forth Mr. Rector's monthly compensation amount for the provision of his services as our interim President and Chief Executive Officer, as well as certain other standard provisions, such as confidentiality and invention assignment. Effective as of March 23, 2016, our consulting agreement with The David Stephen Group LLC was amended to reflect a reduction in the compensation payable under such agreement.

Director Compensation

We pay our non-employee directors cash compensation, paid in quarterly increments as consideration for their service on our board of directors for each fiscal year as follows:

Annual (Base) Retainer	\$10,000
Per Scheduled Board Meeting Fee	\$1,500 (1)
Per Committee Meeting Fee	\$750 (2)
Additional Annual Retainer:	
Chairman of the Board	\$5,000
Audit Committee Chair	\$3,500

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

Compensation Committee Chair	\$3,500
Nominating and Corporate Governance Committee Chair	\$1,500
Non-Chair Committee Member Additional Retainer (All Committees)	\$1,000
Maximum Per Diem For All Meetings	\$2,000

- (1) \$750 for telephonic meetings (less than 30 minutes: \$375).
(2) \$375 for telephonic meetings.

Equity Compensation

Equity Election Program

A non-employee director may elect to receive, in lieu of such cash retainer and meeting fees, either (i) restricted stock units, or RSUs, covering that number of shares having a fair market value on the grant date equal to such cash award or (ii) a number of option shares equal to twice the number of RSU's that would have been received, with an exercise price per share equal to the fair market value of our common stock on the option grant date. Such election must be timely made and generally applies for the entire year. The awards are fully-vested on the grant date and each option has a maximum term of 10 years subject to earlier termination 3 months following cessation of board service. The RSUs or options are generally granted quarterly, effective two (2) days following the filing of our quarterly reports on Form 10-Q for that quarter, and are fully vested as of the grant date.

For Fiscal 2017, all of the non-employee directors elected to receive options in lieu of cash. Accordingly, the directors received options to purchase shares of our common stock pursuant to the provisions of the 2008 Stock Plan and their equity elections with the exercise price per share equal to the closing price on the option grant date. The dollar amount of the fees paid in equity pursuant to such program by each director for Fiscal 2017 and the number of shares subject to such equity awards was as follows:

Director	Grant Date	\$ Amount of Fees paid in Equity	Number of Shares subject to Options
John N. Braca	02/14/17	\$ 18,375	167,045
Phillip Frost, M.D.	02/14/17	\$ 12,000	109,091
Steven Rubin	02/14/17	\$ 17,625	160,227

Annual Equity Awards

We do not automatically grant options or other equity to our non-employee board members. Our Compensation Committee reviews the equity program each year and determines the appropriate level of the equity awards to be made for that year. The Compensation Committee did not approve any grant of options or other equity to our non-employee board members during Fiscal 2017.

Aggregate Equity Compensation

The following table sets forth information relating to the equity awards granted to the non-employee directors during Fiscal 2017.

Director	Grant Date	Stock Awards	Option Awards		Grant Date Fair Value
		Number of Shares	Option Number of Shares	Exercise Price (\$)/	

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

		Share			
John N. Braca	02/14/17	\$0.22	167,045	(1)	\$ 28,501
Phillip Frost, M.D	02/14/17	\$0.22	109,091	(2)	\$ 18,613
Steven Rubin	02/14/17	\$0.22	160,227	(3)	\$ 27,338

- (1) Includes 36,363 additional options granted for service during Fiscal 2016, not for cash compensation for Fiscal 2017. The remainder of the grant of 130,682 options represents payment for service during the first half of 2017.
- (2) Includes 30,682 additional options granted for service during Fiscal 2016, not for cash compensation for Fiscal 2017. The remainder of the grant of 78,409 options represents payment for service during the first half of 2017.
- (3) Includes 36,363 additional options granted for service during Fiscal 2016, not for cash compensation for Fiscal 2017. The remainder of the grant of 123,864 options represents payment for service during the first half of 2017.

Director Compensation Summary

The table below shows the compensation paid or awarded to our non-employee directors during the fiscal year ended June 30, 2017.

Name	Fees Earned or Paid in Cash (\$)	Option Awards (\$) (1)	All Other Compensation (\$)	Total (\$)
John N. Braca	—	\$ 28,565	—	\$ 28,565
Phillip Frost, M.D.	—	\$ 18,655	—	\$ 18,655
Steven Rubin	—	\$ 27,399	—	\$ 27,399

In accordance with SEC rules, this column reflects the aggregate grant date fair value of the option awards granted during FY2017 computed in accordance with ASC 718. Assumptions used in the calculation of these amounts are included in Notes 2 and 9 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The grant date fair values used to calculate such compensation costs were not adjusted to take into (1) account any estimated forfeitures. These amounts do not reflect the actual economic value that will be realized by the named executive officer upon the vesting of the stock options, the exercise of the stock options or the sale of the common stock underlying such stock options. For further information concerning such equity awards, see the section above entitled “Aggregate Equity Compensation” and the section below entitled “Outstanding Director Equity Awards.”

Outstanding Director Equity Awards

The following table shows the total number of shares of our common stock subject to option awards (vested and unvested) held by each non-employee director as of June 30, 2017:

Director	Number of Stock Awards Outstanding	Number of Option Awards Outstanding
John N. Braca	—	376,382
Phillip Frost, M.D.	—	245,344

Steven Rubin

— 318,658

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee is or has been an officer or employee of our company or any of our subsidiaries. In addition, no member of the Compensation Committee had any relationships with us or any other entity that requires disclosure under the regulations promulgated by the SEC and none of our executive officers served on the Compensation Committee or board of any company that employed any member of our board of directors in Fiscal 2017.

Report of the Compensation Committee

The Compensation Committee has reviewed and discussed the section captioned “Executive Compensation” with management, and based on this review and these discussions, the Compensation Committee recommended to the board of directors that this “Executive Compensation” section be included in Sevion’s Annual Report on Form 10-K.

This report is submitted on behalf of the
Compensation Committee
Steven Rubin, Chairman
John N. Braca

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

As of June 30, 2017, there were 159 holders of record of our common stock, and we had outstanding 29,202,799 shares of our common stock and each outstanding share is entitled to one (1) vote at the Meeting. The following table sets forth certain information known to us based on our review of reports filed with the SEC, as of June 30, 2017, with respect to holdings of our common stock by (i) each person known by us to be the beneficial owner of more than 5% of the total number of shares of our common stock outstanding as of such date; (ii) each of our directors, which includes all nominees, and our named executive officers; and (iii) all of our directors and our current executive officers as a group.

Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership (2)	Percent of Class (3)		
(i) Certain Beneficial Owners:				
OPKO Health, Inc. 4400 Biscayne Boulevard Miami, FL 33137	16,233,919	(4)	31.5	%
Frost Gamma Investments Trust Miami, FL 33137	1,855,202	(5)	3.6	%
(ii) Directors and Named Executive Officers:				
Phillip Frost, M.D.	1,855,202	(5)	3.6	%
Vaughn Smider, M.D., Ph.D.	1,090,451	(6)	2.1	%
John N. Braca	376,482	(7)	*	
Steven Rubin	318,658	(8)	*	
James Graziano, Ph.D.	119,449	(9)	*	
Miguel de los Rios, Ph.D.	130,890	(10)	*	
David Rector	79,797	(11)	*	
(iii) All Directors and current executive officers as a group (7 persons)	3,988,060	(12)	7.7	%

*Less than 1%

(1) Unless otherwise provided, all addresses should be care of Sevion Therapeutics, Inc., 10210 Campus Point Dr., Suite 150, San Diego, California 92121.

(2)

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

Except as otherwise indicated, all shares of common stock are beneficially owned and sole investment and voting power is held by the persons named, and all third-party information is based on information contained in such person's filings on Form 13G or Form 13D, as applicable.

Applicable percentage of ownership is based on 51,414,613, shares of our common stock outstanding as of (3) September 25, 2017, plus any common stock equivalents, convertible notes and options or warrants held by such holder which are presently or will become exercisable within sixty (60) days after June 30, 2017.

(4) Includes 15,893,844 shares of common stock, 4,126,822 of which were issued pursuant to the conversion of certain convertible promissory notes held by OPKO and accrued interest thereon and 1,250,007 of which were issued pursuant to the conversion of Series C convertible preferred stock, and 340,075 shares of common stock underlying warrants.

(5) Includes 1,598,170 shares of common stock and 11,688 shares of warrants held by Frost Gamma Investments Trust, of which Dr. Phillip Frost is the trustee, and 245,344 shares of presently exercisable options held by Dr. Phillip Frost.

(6) Includes 1,058,970 shares of common stock, 13,804 shares of common stock underlying warrants, and 17,808 shares of common stock issuable pursuant to presently exercisable options or options which will become exercisable within sixty (60) days from June 30, 2017. Excludes, 7,518 shares of common stock issuable pursuant to options which become exercisable after sixty (60) days from June 30, 2017.

(7) Includes 100 shares of common stock and 376,382 shares of warrants issuable pursuant to presently exercisable options.

(8) Includes 318,658 shares of common stock pursuant to presently exercisable options.

(9) Includes 104,386 shares of common stock, 1,361 shares of common stock underlying warrants and 10,881 shares of common stock issuable pursuant to presently exercisable options or options which will become exercisable within sixty (60) days from June 30, 2017. Excludes 4,596 shares of common stock issuable pursuant to options which become exercisable after sixty (60) days from June 30, 2017.

(10) Includes 131,023 shares of options issuable pursuant to presently exercisable options or options which will become exercisable within sixty (60) days from June 30, 2017. Excludes 7,574 shares of common stock issuable pursuant to options which become exercisable after sixty (60) days from June 30, 2017.

(11) Includes 1,997 shares of common stock and 77,800 shares of options issuable pursuant to presently exercisable options.

(12) See Notes 5 through 11.

Equity Compensation Plan Information

The following table reflects information relating to equity compensation plans as of June 30, 2017.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflect in column (a))	
Stock Option plans approved by security holders	2,319,267	(1) \$ 2.59	5,119,433	(2)
Equity compensation plans not approved by security holders	—	—	—	
Total	2,319,267	(1) \$ 2.59	5,119,433	(2)

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

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

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

Certain Relationships and Related Transactions

Consulting Agreement with David Rector

On January 9, 2015, we entered into a consulting agreement with The David Stephen Group LLC, an entity wholly-owned and controlled by David Rector, our interim President and Chief Executive Officer, setting forth Mr. Rector's monthly compensation amount for the provision of his services as our interim President and Chief Executive Officer, as well as certain other standard provisions, such as confidentiality and invention assignment. Under this agreement, we have agreed to pay Mr. Rector \$10,000 per month as compensation for his services provided under the agreement. Effective June 2015, the Compensation Committee increased the monthly compensation to \$15,000 per month for his services. Effective March 23, 2016, the Compensation Committee amended the consulting agreement with The David Stephen Group LLC to reflect a decrease of the monthly compensation payable under the agreement to \$5,000 per month for his services. We paid \$60,000 to Mr. Rector pursuant to the consulting agreement during the fiscal year ended June 30, 2017.

Debt / Equity Transactions

July 2015 Transaction with OPKO Health, Inc.

As previously disclosed, during May through July 2015, we entered into separate subscription agreements (each, a "Subscription Agreement") with certain accredited investors (the "Investors") whereby we sold (the "Offering") units of our securities (the "Units") with each Unit consisting of one share of our common stock or, at the election of the Investor, shares of our 0% Series C Convertible Preferred Stock and a thirty-month 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 aggregate net offering proceeds to us from the sale of the Units, after deducting the aggregate placement agent fees of approximately \$424,542 and other estimated aggregate offering expenses payable by us of approximately \$103,500, were approximately \$5,979,966.

On July 27, 2015, we entered into a subscription agreement with OPKO Health, Inc., ("OPKO") pursuant to which OPKO purchased 666,667 Units consisting of Series C Convertible Preferred Stock for a purchase price of \$500,000. Phillip Frost, M.D., a member of our board of directors, is the Chairman of the Board and Chief Executive Officer of OPKO. Steven D. Rubin, a member of our board of directors, is Executive Vice President and a director of OPKO.

Debt Transactions with OPKO Health, Inc.

On November 10, 2016, we issued unsecured promissory notes in the aggregate amount of \$300,000 to OPKO Health, Inc. and an existing stockholder of the Company (the “November Notes”). The November Note issued to OPKO was in the amount of \$150,000. The November Notes have customary events of default, an interest rate of 5% per annum with principal and interest due twelve months from their issuance. The notes were used to fund operations

On February 15, 2017, we issued convertible promissory notes (the “February Notes”) in the aggregate amount of \$500,000 to OPKO and certain of our existing stockholders. The February Note issued to OPKO was in the amount of \$250,000. The February Notes have customary events of default, an interest rate of 6% per annum, and principal and interest due six months from the date of issuance. In connection with the issuance of the February Notes, the November Notes were amended and restated to convert upon the same terms as the February Notes.

Eloxx Transaction and Subscription Agreement with OPKO Health, Inc.

As previously disclosed, on May 31, 2017, we entered into an agreement (the “Agreement”), which was amended on August 1, 2017, with Sevion Acquisition Co. Ltd., an Israeli company and our wholly-owned subsidiary (“Acquisition Subsidiary”), and Eloxx Pharmaceuticals Ltd., an Israeli company (“Eloxx”), pursuant to which Eloxx will merge with and into Acquisition Subsidiary, with Eloxx surviving as our wholly-owned subsidiary (the “Transaction”).

Consummation of the Transaction is subject to certain closing conditions, including, among other things: (i) approval of the Transaction by the stockholders of Eloxx; (ii) the successful consummation of separate equity financings resulting in cash investments in our business and Eloxx of no less than \$12,000,000 each (the “Financing Covenant”); (iii) the entering into a lockup agreement and registration rights agreement by and among us, certain of our shareholders and certain holders of Registrable Securities (as defined in the Agreement). Pursuant to the Agreement, the Transaction must close, if it closes, on or prior to December 31, 2017.

On July 28, 2017, we received gross proceeds of \$1,500,000 from OPKO, pursuant to a subscription agreement by and among us, Eloxx, OPKO and certain other subscribers that we entered into in connection with the Transaction (the “Subscription Agreement”). The funds received from OPKO satisfied a portion of our Financing Covenant. If the Transaction does not close, we will not be entitled to keep any portion of the money that it ultimately raises in fulfillment of the Financing Covenant, with the exception of the \$1.5 million in gross proceeds we received from OPKO, which is not conditioned upon closing of the Transaction

Review and Approval of Related Person Transactions

Our Audit Committee Charter requires that our Audit Committee review and approve or ratify transactions involving us and any executive officer, director, director nominee, 5% stockholder and certain of their immediate family members, also referred to herein as a related person. The policy and procedures cover any transaction involving a related person, also referred to herein as a related person transaction, in which the related person has a material interest and which does not fall under an explicitly stated exception set forth in the applicable disclosure rules of the SEC.

A related person transaction will be considered approved or ratified if it is authorized by the Audit Committee after full disclosure of the related person’s interest in the transaction. In considering related person transactions, the Audit Committee will consider any information considered material to investors and the following factors:

- the related person’s interest in the transaction;
- the approximate dollar value of the transaction;

whether the transaction was undertaken in the ordinary course of our business;
whether the terms of the transaction are no less favorable to us than terms that we could have reached with an
unrelated third party; and
the purpose and potential benefit to us of the transaction.

Director Independence

We are not a listed issuer and so is not subject to the director independence requirements of any exchange or interdealer quotation system. Although we are not currently subject to director independence requirements, we have, nevertheless, in determining whether our directors and director nominees are independent, we use the definition of independence provided under Section 803 of the NYSE MKT Company Guide. Under this definition of independence, a director will, among other things, qualify as an “independent director” if, in the determination of our board of directors, that person does not have a relationship that would interfere with his or her exercise of independent judgment in carrying out the responsibilities of a director. Our board of directors has determined that each of Messrs. Braca and Rubin and Dr. Frost is an “independent director” under Section 803 of the NYSE MKT Company Guide. Mr. Rector and Dr. Smider would not be considered independent because they currently serve or have served as officers of our company.

Item 14. Principal Accounting Fees and Services

The aggregate fees billed by RSM US LLP for services performed for the fiscal years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Audit Fees	\$ 182,800	\$ 220,600
Audit Related Fees	-	28,000
Tax Fees	-	-
All Other Fees	-	-
Total Fees	\$ 182,800	\$ 248,000

AUDIT FEES

The aggregate audit fees for the years ended June 30, 2017 and 2016 were primarily related to the audit of our annual financial statements and review of those financial statements included in our quarterly reports on Form 10-Q and fees for professional services rendered in connection with documents filed with the Securities and Exchange Commission.

AUDIT RELATED FEES

Audit related fees for the year ended June 30, 2016 was primarily incurred in connection with our equity offerings and registration statements.

Pre-Approval Policies and Procedures

In accordance with its charter, the Audit Committee is required to approve all audit and non-audit services provided by the independent auditors and shall not engage the independent auditors to perform the specific non-audit services prescribed by law or regulation.

The Audit Committee has adopted policies and procedures relating to the pre-approval of all audit and non-audit services that are to be performed by our independent registered public accounting firm. This policy generally provides

that we will not engage our independent registered public accounting firm to render audit or non-audit services unless the service is specifically approved in advance by the Audit Committee or the engagement is entered into pursuant to one of the pre-approval procedures described below.

From time to time, the Audit Committee may pre-approve specified types of services that are expected to be provided to us by our independent registered public accounting firm during the next 12 months. Any such pre-approval is detailed as to the particular service or type of services to be provided and is also generally subject to a maximum dollar amount.

The Audit Committee has also delegated to the chairman of the Audit Committee the authority to approve any audit or non-audit services to be provided to us by our independent registered public accounting firm. Any approval of services by a member of the Audit Committee pursuant to this delegated authority is reported on at the next meeting of the Audit Committee.

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 63.

SEVION THERAPEUTICS, INC.

AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

F-1

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

SEVION THERAPEUTICS, INC.

AND SUBSIDIARIES

Report of Independent Registered Public Accounting Firm F-3

Consolidated Financial Statements:

<u>Consolidated Balance Sheets</u>	F-4
<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

F-2

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, 2017 and June 30, 2016, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended June 30, 2017. 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, 2017 and June 30, 2016, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2017, 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/ RSM US LLP

New York, New York

October 13 2017

F-3

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$33,198	\$810,808
Prepaid expenses and other current assets	251,223	171,820
Total Current Assets	284,421	982,628
Equipment, furniture and fixtures, net	50,979	92,554
Acquired research and development	5,500,000	8,100,000
Security deposits	9,800	50,770
TOTAL ASSETS	\$5,845,200	\$9,225,952
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$191,597	\$90,305
Accrued expenses	330,301	256,376
Notes Payable	407,122	-
Derivative Liability	1,844,974	-
Other current liabilities	-	22,310
Total Current Liabilities	2,773,994	368,991
Warrant and Stock Right liabilities	-	956,575
Deferred tax liability	2,200,000	3,240,000
Other liabilities	-	99,728
TOTAL LIABILITIES	4,973,994	4,665,294
STOCKHOLDERS' EQUITY:		
Convertible preferred stock, \$0.01 par value, authorized 1,228,500 shares Series C shares 158,336 and 235,004 issued and outstanding, respectively (liquidation preference of \$1,583 and \$2,350 at June 30, 2017 and June 30, 2016, respectively)	1,583	2,350
Convertible preferred stock, \$0.01 par value, authorized 5,000,000 shares		

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

Series A 10,297 shares issued and 270 and 380 shares outstanding, respectively (liquidation preference of \$280,418 and \$389,500 at June 30, 2017 and June 30, 2016, respectively)	3	4
Common stock, \$0.01 par value, authorized 500,000,000 shares, issued and outstanding 29,202,799 and 20,496,385 at June 30, 2017 and June 30, 2016 respectively	292,028	204,964
Capital in excess of par	122,401,918	119,983,399
Accumulated deficit	(121,824,326)	(115,630,059)
Total Stockholders' Equity	871,206	4,560,658
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$5,845,200	\$9,225,952

See Notes to Condensed Consolidated Financial Statements

F-4

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Twelve Months Ended June 30		
	2017	2016	2015
Licensing Revenue	\$-	\$75,000	\$75,000
Operating expenses:			
General and administrative	1,408,936	1,606,043	3,170,499
Research and development	733,661	2,182,989	4,568,435
Gain on sale of patents	(149,728)	-	-
Impairment of goodwill	-	5,780,951	8,121,966
Impairment of acquired R&D	2,600,000	1,700,000	-
Impairment and write-off of patents	-	-	2,290,836
Total operating expenses	4,592,869	11,269,983	18,151,736
Loss from operations	(4,592,869)	(11,194,983)	(18,076,736)
Other non-operating income (expense)			
Change in fair value of stock right	651,484	254,027	12,405
Change in fair value of warrant liability	249,025	1,993,560	3,313
Change in fair value of note derivative	(1,175,522)	-	-
Stock issuance for anti dilution right	(1,417,922)	-	-
Modification of warrant exercise price	(285,356)	-	-
Interest expense	(265,203)	(533)	(2,767)
Net loss before income tax benefit	(6,836,363)	(8,947,929)	(18,063,785)
Income tax benefit	1,040,000	680,000	-
Net Loss	(5,796,363)	(8,267,929)	(18,063,785)
Preferred dividends	(397,904)	(179,154)	(838,925)
Net loss available to common shares	\$(6,194,267)	\$(8,447,083)	\$(18,902,710)
Basic and diluted net loss per common share	\$(0.27)	\$(0.42)	\$(1.31)
Basic and diluted weighted-average number			

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

of common shares outstanding	23,219,237	20,322,714	14,417,029
------------------------------	------------	------------	------------

See Notes to Consolidated Financial Statements

F-5

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

AS OF JUNE 30, 2017

	Preferred Stock		Common Stock		Capital in Excess of Par Value	Accumulated Deficit	Stockholders' Equity
	Shares	Amount	Shares	Amount			
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)
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
Stock issued for Cash	66,667	667	959,996	9,600	1,142,130	-	1,152,397

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

Warrant liability	-	-	-	-	(559,261	) -	(559,261)
Derivative stock right	-	-	-	-	(142,854	) -	(142,854)
Stock-based compensation	-	-	-	-	156,678	-	156,678	
Preferred stock converted into common stock	(67,500	) (675	) 675,000	6,750	(6,075) -	-	
Deemed dividend - preferred stock	-	-	-	-	135,701	(135,701) -	
Dividends paid	-	-	108,576	1,086	39,200	(33,951	) 6,335	
Dividends accrued and unpaid at June 30, 2016	-	-	-	-	-	(9,502	) (9,502)
Net loss	-	-	-	-	-	(8,267,929	) (8,267,929)
Balance at June 30, 2016	235,384	\$ 2,354	20,496,385	\$ 204,963	\$ 119,983,399	\$(115,630,059)	\$ 4,560,657	
Stock issued for convertible debt		-	1,032,219	10,322	258,055	-	268,377	
Stock issued due to antidilution			5,671,689	56,717	1,361,205	-	1,417,922	
Warrant modification	-	-	-	-	285,356	-	285,356	
Reclass warrant from liability to equity					56,066	-	56,066	
Stock-based compensation	-	-	-	-	80,108	-	80,108	
Preferred stock converted into common stock	(76,778	) (768	) 1,790,024	17,900	(17,132) -	-	
Dividends paid			212,482	2,125	40,472	(33,096	) 9,502	
Deemed dividend - preferred stock			-	-	354,389	(354,389) -	

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

Dividends accrued and unpaid at June 30, 2017	-	-	-	-	-	(10,419)	(10,419)
Net loss	-	-	-	-	-	(5,796,363)	(5,796,363)
Balance at June 30, 2017	158,606	\$ 1,586	29,202,799	\$ 292,028	\$ 122,401,918	\$(121,824,326)	\$ 871,206

See Notes to Consolidated Financial Statements

F-6

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Twelve Months Ended June 30,		
	2017	2016	2015
Cash flows from operating activities:			
Net loss	\$(5,796,363)	\$(8,267,929)	\$(18,063,785)
Adjustments to reconcile net loss to net cash used in operating activities:			
Noncash (income) expense related to change in fair value of:			
- stock right	(651,484)	(254,027)	(12,405)
- warrant liability	(249,025)	(1,993,560)	(3,313)
- Derivative liability	1,175,522		
Noncash charge for change in warrant terms	285,356		
Noncash charge for common stock antidilution issuance	1,417,922		
Noncash charge for accretion of debt discount	241,730		
Gain on sale of patents	(149,728)		
Stock-based compensation expense	80,108	156,678	480,681
Depreciation and amortization	44,075	93,394	177,074
Loss on Disposal of Assets	-	-	8,071
Impairment of goodwill	-	5,780,951	8,121,966
Write-off of intangibles	2,600,000	1,700,000	2,290,836
Deferred Tax	(1,040,000)	(680,000)	-
Write-off of prepaid research supplies	-	-	669,750
Deferred rent	(22,310)	(62,778)	85,088
(Increase) decrease in operating assets:			
Prepaid expenses and other current assets	(79,403)	223,280	48,208
Security deposit	40,970	-	(45,599)
Increase (decrease) in operating liabilities:			
Accounts payable	101,292	(141,728)	(669,147)
Accrued expenses	76,228	(155,496)	(507,121)
Deferred revenue	-	(75,000)	75,000
Net cash used in operating activities	(1,925,110)	(3,676,215)	(7,344,696)
Cash flows from investing activities:			
Proceeds from sale of patents	50,000	-	-
Capitalized Patent costs	-	-	(136,946)
Purchase of equipment, furniture and fixtures	(2,500)	-	(122,641)
Net cash provided by (used in) investing activities	47,500	-	(259,587)
Cash flows from financing activities:			
Proceeds from issuance of convertible notes	1,100,000	-	-
Proceeds from issuance of common stock and warrants, net and exercise of warrants and options	-	1,152,397	4,827,569

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

Net cash provided by financing activities	1,100,000	1,152,397	4,827,569
Net (decrease) increase in cash and cash equivalents	(777,610)	(2,523,818)	(2,776,714)
Cash and cash equivalents at beginning of period	810,808	3,334,626	6,111,340
Cash and cash equivalents at end of period	\$33,198	\$810,808	\$3,334,626

See Notes to Consolidated Financial Statements

F-7

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED

	2017	2016	2015
Supplemental disclosure of non-cash transactions:			
Conversion of convertible note plus accrued interest into common stock	\$268,377	-	
Conversion of preferred stock into common stock	\$17,900	6,750	998
Allocation of equity proceeds to warrants	\$-	559,261	1,742,703
Allocation of equity proceeds to stock rights	\$-	142,854	775,062
Allocation of preferred stock proceeds to beneficial conversion feature	\$-	135,701	790,507
Allocation of convertible note proceeds to derivative liability	\$1,101,413	-	-
Issuance of common stock for dividend payments on preferred stock	\$42,597	40,286	56,583
Issuance of common stock in settlement of accounts payable	\$-	-	-
Dividends accrued on preferred stock	\$10,419	9,502	6,335
Reclass warrant liability to equity	\$56,066	-	-
Deemed dividend - preferred stock	\$354,389	-	-
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$-	-	137

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”), Fabrus, Inc., a Delaware corporation (“Fabrus”) and Sevion Sub Ltd., an Israeli company (“Acquisition Sub”), 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.

On May 31, 2017, the Company entered into an agreement (the “Agreement”), which was amended on August 1, 2017, with Sevion Acquisition Co. Ltd., an Israeli company and the Company’s wholly-owned subsidiary (“Acquisition Subsidiary”), and Eloxx Pharmaceuticals Ltd., an Israeli company (“Eloxx”), pursuant to which Eloxx will merge with and into Acquisition Subsidiary, with Eloxx surviving as the Company’s wholly-owned subsidiary (the “Transaction”). Consummation of the Transaction is subject to certain closing conditions, including, among other things: (i) approval of the Transaction by the stockholders of Eloxx; (ii) the successful consummation of separate equity financings resulting in cash investments in the Company’s business and Eloxx of no less than \$12,000,000 each (the “Financing Covenant”); (iii) the entering into a lockup agreement and registration rights agreement by and among the Company, certain of the Company’s shareholders and certain holders of Registrable Securities (as defined in the Agreement). Pursuant to the Agreement, the Transaction must close, if it closes, on or prior to December 31, 2017. As of June 30, 2017, the Company incurred transaction costs totaling \$312,260.

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).

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, 2017 totaled \$121,824,326, 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. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company does not have adequate cash on hand to cover its anticipated expenses for 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, 2017 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.

On May 31, 2017, the Company entered into an Agreement to acquire Eloxx Pharmaceuticals Ltd., an Israeli company for stock. Consummation of the Transaction is subject to certain closing conditions, including, among other things: (i) approval of the Transaction by the stockholders of Eloxx; (ii) the successful consummation of equity financings resulting in cash investments in each of the Company and Eloxx of no less than \$12,000,000 each; (iii) the entering into a lockup agreement and registration rights agreement by and among the Company, certain shareholders of the Company and certain holders of Registrable Securities.

As of June 30, 2017, the Company had cash in the amount of \$33,198. On July 28, 2017, the Company received gross proceeds of \$1,500,000 from OPKO Health, Inc. ("OPKO"), one of the Company's existing shareholders, pursuant to a subscription agreement by and among the Company, Eloxx, OPKO and certain other subscribers that the Company entered into in connection with the Transaction (the "Subscription Agreement"). The funds received from OPKO satisfied a portion of the Company's Financing Covenant. If the Transaction does not close, the Company will not be entitled to keep any portion of the money that it ultimately raises in fulfillment of the Financing Covenant, with the exception of the \$1,500,000 in gross proceeds the Company received from OPKO, which is not conditioned upon closing of the Transaction.

The historical operating results indicate substantial doubt exists related to the Company's ability to continue as a going concern. Presently, with no further financing, the Company projects that its current cash balance will allow it to operate in the normal course of business until December 31, 2017. While the Company believes that consummation of the Transaction would mitigate the substantial doubt raised by its historical operating results and allow the Company to continue its current operations as a going concern for at least the next 12 months, the Company cannot predict with certainty whether the Transaction will be successfully completed or if the proceeds received from the fulfillment of its Financial Covenant will be sufficient to allow it to continue its current operations as a going concern.

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

- 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., Fabrus, Inc. and Sevion Sub Ltd. All significant intercompany accounts and transactions have been eliminated in consolidation.

F-10

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, warrant, derivatives and stock rights liabilities, the determination of the fair value of equity transactions and stock-based awards, the accounting for research and development costs, the accounting for impairment and accrued expenses.

Cash and Cash Equivalents

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, derivatives which are conversion features in the Convertible Notes (Note 7), 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, and the derivatives are valued using a weighted average Black Scholes method. 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 8). The inputs used in the Black Scholes model include fair value of the common stock, interest rate, volatility of the Company's stock and expected remaining term.

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

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2017 the Company's cash amount did not exceed 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.

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. 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 4).

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 Company wrote off its remaining goodwill balance in the fiscal year ended June 30, 2016 as a result of an impairment review.

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, 2017, the Company determined that there was impairment to IPR&D. (See Note 5)

Impairment of Long-lived Assets

The Company assesses the impairment in long-lived 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 their estimated fair value. The Company recorded impairment of long lived assets of \$0, \$0, and \$2,290,836 for the fiscal year ended June 30, 2017, 2016, and 2015, respectively (Note 5).

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

	June 30, 2017	2016
Common Stock to be issued upon conversion of convertible preferred stock - Series A	1,080,000	506,666
Common Stock to be issued upon conversion of convertible preferred stock - Series C	2,968,801	2,350,040
Common Stock to be issued upon conversion of convertible notes and accrued interest	10,234,000	-
Outstanding warrants	5,011,591	8,698,580
Outstanding options	2,319,267	1,917,238
Total potentially dilutive shares of Common Stock	21,613,659	13,472,524

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.

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, 2017, the Company's tax years prior to June 30, 2014 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, 2017 and 2016, 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.

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***Stock-based Compensation*

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, 2017, 2016 and 2015.

	Fiscal Year Ended June 30,		
	2017	2016	2015
General and administrative	\$73,707	\$130,186	\$401,411
Research and development	6,401	26,492	79,270
Total	\$80,108	\$156,678	\$480,681

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

	Fiscal Year Ended June 30,		
	2017	2016	2015
Risk-free interest rate (1)	1.98%	.00% - 2.15%	0.02%-2.32%
Expected volatility	106.00%	69%-146%	95%-153%

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

Dividend yield	None	None	None
Expected life (in years) (2)	5.0	.08 - 8.4	0.63 - 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.

F-14

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Recent Accounting Pronouncements Applicable to the Company

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or other standard setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective will not have a material impact on our financial position or results of operations upon adoption.

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. In July 2015, the FASB approved a proposal to defer the effective date of the guidance until annual and interim reporting periods beginning after December 15, 2017, 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 is in the process of evaluating the effect of adoption.

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 has adopted this standard and there was no material impact on the consolidated financial statements.

F-15

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)”, which supersedes FASB ASC 840. All entities will be required to record operating leases on the balance sheet as assets and liabilities instead of recording only capital (finance) leases on the balance sheet. The guidance is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2017. The Company is in the process of evaluating the effect of adoption.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation – Stock Compensation: Improvements to Employee Share Based Payment Accounting,” which is intended to simplify several aspects of accounting for share based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early application is permitted. The Company does not anticipate that the adoption of this standard will have a material impact on the Company’s financial statements.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which addresses the presentation and classification of certain cash receipts and cash payments in the statement of cash flows under Accounting Standards Codification 230. The standard is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. Early application is permitted. The Company does not anticipate that the adoption of this standard will have a material impact on the Company’s financial statements.

In July 2017, the FASB issued ASU No. 2017-11, which amends the FASB Accounting Standards Codification. Part I of ASU No. 2017-11, Accounting for Certain Financial Instruments with Down Round Features, changes the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. The guidance is effective for reporting periods beginning after December 15, 2019 and interim periods within those fiscal years. The Company is in the process of evaluating the impact of adoption of this guidance on its consolidated financial statements.

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

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****3. Fair Value Measurements:**

The following tables provide the assets and liabilities carried at fair value measured on a recurring basis as of June 30, 2017 and 2016:

	Carrying Value	Fair Value Measurement at June 30, 2017		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$33,198	\$33,198	\$ -	\$ -
Derivative Liability	\$1,844,974	\$ -	\$ -	\$1,844,974

	Carrying Value	Fair Value Measurement at June 30, 2016		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$810,808	\$810,808	\$ -	\$ -
Warrant and Stock Right Liabilities	\$956,575	\$ -	\$ -	\$956,575

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

Fiscal Year ended June 30,	2017	2016
Beginning Balance	\$956,575	\$2,502,047
Allocation of convertible note proceeds to derivative liability	1,101,413	-
Change in fair value of derivative liability	743,561	-
Issuance of common stock warrants	-	559,261
Recognition of stock right	-	142,854
Reclass to equity	(56,066)	-
Change in fair value of warrant liabilities, net	(249,025)	(1,993,560)
Change in fair value of stock right, net	(651,484)	(254,027)
Ending Balance	\$1,844,974	\$956,575

See Note 8 for additional information.

4. Equipment, Furniture and Fixtures:

Equipment, Furniture and Fixtures consist of the following:

	June 30, 2017	2016
Laboratory Equipment	\$313,023	\$310,523
Office Equipment	15,569	21,680
Leasehold Improvements	-	10,236
Furniture and fixtures	3,700	6,920
	\$332,292	\$349,359
Less—Accumulated depreciation (281,313)	(281,313)	(256,805)
	\$50,979	\$92,554

Depreciation expense aggregated \$44,075, \$93,394 and \$152,097 for the fiscal years ended June 30, 2017, 2016, and 2015, respectively. Certain fully depreciated assets and all leasehold improvements totaling \$19,567 were abandoned upon the relocation to a new facility during the fiscal year ended June 30, 2017.

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. 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.

As a result of the further 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 and Goodwill as of December 31, 2015. 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. 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 \$2,800,000 at December 31, 2015.

For the quarter ended March 31, 2016, as a result of the significant further 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 and Goodwill. For the Acquired Research and Development the Company updated the discounted cash flow analysis and reviewed the input assumptions which were the basis for the valuation performed as of May 14, 2014 (Date of Acquisition). Updates were made to the inputs based upon industry knowledge and management experience which affected future revenue streams, timing and probabilities. Based on the evaluation, the Company determined that an impairment existed. In addition, due to the

significant drop in market value which the company experienced in the period, the company evaluated the market for the Acquired Research & Development. As a result of this evaluation, the Company determined that the intangible was impaired and market value would approximate \$8.8 million. The Company determined that the market value analysis was a better indicator of value and recorded an impairment charge in the amount of \$1,000,000 at March 31, 2016. 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 for the remaining balance of goodwill in the amount of \$2,981,000 at March 31, 2016.

F-18

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2016 the Company performed a review to determine if there was impairment to the Acquired Research and Development 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 which had been updated from the previous quarter. Based on the evaluation, the Company determined that an impairment existed. The Company measured the enterprise value for purposes of the Step 2 measurement of Intangibles. 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 there was an additional impairment to the Acquired Research and Development as of June 30, 2016 in the amount of \$700,000 beyond what had been previously recorded.

During each of the quarters ended September 30, 2016 and December 31, 2016, as a result of the significant further 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. Based on the evaluation, the Company determined that an impairment existed. The Company measured the enterprise value for purposes of the Step 2 measurement of Intangibles. The Company concluded that there was an impairment based on the significant change in the Company's market value during the quarters. As a result of these evaluations, the Company determined that there was impairment to the Acquired Research and Development as of September 30, 2016 and December 31, 2016 in the amount of \$1,600,000 and \$1,000,000, respectively.

As of June 30, 2017 the Company performed a review to determine if there was impairment to the Acquired Research and Development as of that date. The Company measured the enterprise value for purposes of the Step 2 measurement of Intangibles. The Company concluded that there was no additional impairment based on the Company's market value.

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.

F-19

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****6. Accrued Expenses:**

Accrued expenses were comprised of the following:

	June 30,	
	2017	2016
Accrued research	\$-	\$66,409
Accrued professional fees	200,000	-
Accrued interest	20,178	-
Accrued payroll	66,200	74,240
Accrued dividends payable	10,418	9,502
Accrued other	33,505	106,225
	\$330,301	\$256,376

7. Notes Payable:

On November 10, 2016, the Company entered into unsecured promissory notes (the “November Notes”) in the aggregate amount of \$300,000 with a related party, OPKO Health, Inc. (“OPKO”) and an existing stockholder of the Company. The November Notes have customary events of default, an interest rate of 5% per annum with principal and interest due twelve months from their issuance. The November Notes were used to fund the Company’s operations

The Company subsequently issued convertible promissory notes on February 15, 2017 (the “February Notes”) and May 22, 2017 (the “May Notes”, and together with the February Notes, the “2017 Notes”), in the aggregate amount of \$800,000 to OPKO and existing stockholders of the Company (the “Noteholders”). The 2017 Notes have customary events of default, an interest rate of 6% per annum, and principal and interest due six months from the date of issuance (the “Maturity Date”).

The 2017 Notes provide for mandatory conversion: (a) if the Company enters into a transaction or series of transactions for an aggregate sale price of at least One Million Dollars (\$1,000,000) of the Company’s capital stock (referred to as the “Qualified Financing”) then the outstanding principal balance and accrued but unpaid interest on the 2017 Notes will automatically convert into such capital stock sold in the Qualified Financing at a conversion price equal to the lesser of (i) the price per share paid by investors at the close of the Qualified Financing or (ii) \$0.10 (the “Conversion Price”); or (b) upon a sale of all or substantially all of the Company’s assets, whether by sale, acquisition or merger, the outstanding principal balance and accrued but unpaid interest on the Notes will automatically convert at

the Conversion Price into shares of Common Stock or such other securities on terms and conditions agreed upon by the Company and the holders of a majority of the outstanding principal amount of the 2017 Notes. Additionally, the 2017 Notes contain an optional conversion feature which provides that all or any portion of the outstanding principal balance and accrued but unpaid interest on the Notes may be converted at the Conversion Price.

In connection with the issuance of the 2017 Notes, the Company also amended and restated the November Notes in order to make them convertible upon the same terms as the 2017 Notes, including the conversion features detailed above (collectively, the "Convertible Notes"). The Company analyzed guidance in ASC 470, Debt, and determined that the modification of the November Notes met the definition of a Troubled Debt Restructuring because the noteholders granted a concession to the Company. Based on the guidance for Troubled Debt Restructuring, the amended November Notes are accounted for prospectively from the time of restructuring. The carrying amount is not changed, and a new effective interest rate is calculated to accrete the amended notes back to its principal and related interest amount through the maturity date of November 10, 2017.

Notwithstanding the above, the Convertible Notes contain a blocker feature which does not allow for conversion if it would cause such purchaser's beneficial ownership of the shares of capital stock of any class of the Company outstanding at the time of conversion to exceed 4.99%, except that the Company may increase this beneficial ownership limitation to 9.99% in such purchaser's sole discretion upon sixty-one (61) days' notice. This limitation automatically terminates on the date that is fifteen (15) days prior to the Maturity Date.

The embedded conversion features in Convertible Notes are bifurcated and accounted for separately under the guidance for derivative accounting in ASC 815 and ASC 480. A liability of the fair value of the derivatives was recorded as of the original issuance date of the Convertible Notes, and any changes in the fair value at each financial statement date are recorded in the statement of operations of the consolidated financial statements. Convertible Notes are recorded at amortized cost, net of debt discount, and accreted using the effective interest method over the term of the Convertible Notes.

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

The following table summarizes the key inputs used to calculate the estimated fair value of the derivatives, using the Black Scholes model, as of the issuance dates in February 2017 and May 2017, and as of the balance sheet dates:

	February 15, 2017	March 31, 2017	May 22, 2017	June 30, 2017
Fair Value of Common Stock	\$0.15 ~ \$0.25	\$0.15 ~ \$0.19	\$0.26	\$0.27
Exercise Price	\$0.10	\$0.10	\$0.10	\$0.10
Expected Term (years)	0.17 ~ 0.75	0.17 ~ 0.63	0.33 ~ 0.50	\$0.13 ~ 0.39
Volatility	173.5% ~ 214.5%	160% ~ 178.8%	155.1% ~ 174.6%	103.8% ~ 146.7%
Risk Free Interest Rate	0.54%~ 0.77%	0.76% ~ 0.94%	0.97% ~ 1.05%	0.84% ~ 1.09%

The Company estimated the fair value of the derivative liability related to the May Notes which was greater than the proceeds received. According to the guidance from the SEC in the 2014 AICPA conference, management recorded a loss of \$212,000 for the excess of fair value of the derivatives over the proceeds received.

On June 1, 2017, Convertible Notes with principle amount of \$100,000 and accrued interest of \$3,222 were converted into 1,032,219 shares of the Company's common stock. Based on the fair value of the common stock issued as a result of the conversion and the carrying amount of the notes and related derivative liability, a loss of \$54,000 was recorded as a result of the conversion.

8. 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.

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, 2017, 2016 and 2015, a total of 212,482, 108,576, and 59,500 shares of common stock with a fair value of \$42,598, \$40,286 and \$56,583 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.

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 was 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 was lower than the conversion price of the Series A Convertible Preferred Stock. As a result of multiple issuances of shares of common stock and the Exchange Agreement (defined below), the initial conversion prices had been adjusted from \$32.00 per share to \$0.25 per share.

On February 15, 2017, in connection with the issuance of the Notes (see Note 7), certain of the holders of the Company's outstanding Series A Preferred Stock exchanged 110 shares of Series A Preferred Stock for 440,000 shares of Common Stock, at a conversion price of \$0.25 per share, pursuant to a preferred stock exchange agreement entered into on February 15, 2017, by and among the Company and the holders of its Series A Preferred Stock (the "Exchange Agreement"), which further adjusted the conversion price to \$0.25 per share. Two holders owning 270 shares of Series A Preferred Stock remained as of June 30, 2017. The Company reviewed the authoritative guidance and determined that the amendment of the conversion price was an extinguishment of the Series A Preferred Stock, not a modification. Management believes that the amendment of the conversion price significantly changes a substantive contractual term of the Series A Preferred Stock provisions which results in an extinguishment. The Company further determined that the difference between carrying value and fair value of the Series A Preferred Stock as a result of the amendment of the conversion price is a deemed dividend to the Series A Preferred Stockholders rather than an expense of the Company, because the amendment of the conversion price is akin to a dividend to the Series A Preferred Stockholders to facilitate the contemplated merger transaction, rather than to enable a capital restructure. Consequently a deemed dividend of \$138K, representing the estimated difference from carrying value to fair value of the Series A Preferred Stock from amendment of the conversion price, is recorded in the equity section of the balance sheet, and included in the loss per share calculation for the period ended June 30, 2017.

The shares of Common Stock issued pursuant to the Exchange Agreement were issued solely to former holders of Series A Preferred Stock, upon exchange pursuant to the exemption from registration provided under Section 3(a)(9) of the Securities Act. This exemption is available to the Company because the shares of Common Stock were exchanged by the Company with its existing security holders with no commission or other remunerations being paid or given for soliciting such an exchange.

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.

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

In May, June and July, 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. For the year ended June 30, 2015, there was Common Stock issued in 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. For the year ended June 30, 2016 there was Common Stock issued in aggregate of 1,626,663 Units consisting of Common Stock and 666,667 Units consisting of 66,667 shares of Series C Preferred Stock, which are convertible into 666,667 shares of Common Stock and 813,332 warrants for gross proceeds of \$1,219,997. Offering costs totaled \$67,600.

On the closing date (July 27, 2015) the Placement Agent was issued 555,552 warrants to purchase one half of one share of Common Stock at an exercise price of \$0.75 per share (“Placement Agent Warrants”)

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 the Warrants and the Placement Agent Warrants shall be \$1.50 and \$0.75, respectively, 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.

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 and \$559,261 for the year ended June 30, 2015 and 2016, respectively. 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 years ended June 30, 2015, June 30, 2016 and June 30, 2017, the Company recorded a credit to operations amounting to \$3,313, \$1,993,560 and \$249,025 as a result of the mark to market adjustment related to the change in fair value of the warrant liability. The down round protection ended in January 2017 according to the terms of the warrant agreement. The warrants were reclassified to equity subsequent to expiration of the down round protection because they met all the necessary criteria to be classified as equity, and accordingly reclassified \$56,066 to equity.

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

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 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 June 30, 2015 and June 30, 2016 are as follows:

	May/June 2015 Issuance	30-Jun-15	July 2015 Issuance	30-Jun-16
Estimated life in years	2.5	2.4	2.5	1.4 - 1.5
Risk-free interest rate (1)	0.73%	0.73%	0.91%	0.64%
Volatility	115.20%	115.20%	108.60%	110.90%
Dividend paid	None	None	None	None

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

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 and \$142,854 for the years ended June 30, 2015 and 2016. The Company recorded a credit to operations amounting to \$12,405 and \$254,027 for the years ended June 30, 2015 and 2016 as a result of the mark to market adjustment related to the change in fair value of the rights liability. The Company also recorded a credit to operations in the amount of \$651,484 in the fiscal year ended June 30, 2017 prior to expiration of the down round protection.

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 and \$135,701 as of the issuance date of the preferred stock for the fiscal years ended June 30, 2015 and 2016 respectively.

In accordance with the Registration Rights agreement, the Company was required to file a registration statement covering the registrable security for an offering to be made on a continuous basis pursuant to Rule 415 within 45 days

from the final closing, and to be declared effected no later than 120 days from the final closing date. The agreement included 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 would 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 would 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 would 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.

As previously disclosed, on February 15, 2017, in connection with the the Exchange Agreement and the issuance of the February Notes, the Company entered into a consent and waiver agreement with certain of its existing investors, which extended certain anti-dilution and exercise price adjustment rights granted to investors in the Company's 2015 financing (the "Consent and Waver Agreement").

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

Pursuant to the Consent and Waiver Agreement, the conversion rate for the Series C Preferred Stock was set at \$0.40 per share. Prior to the Consent and Waiver Agreement, the conversion rate was \$0.75 per share. The Company reviewed the authoritative guidance and determined that the amendment of the conversion price was an extinguishment of the Series C Preferred Stock, not a modification. Management believes that the amendment of the conversion price significantly changes a substantive contractual term of the Series C Preferred Stock provisions which results in an extinguishment. The Company further determined that the difference between carrying value and fair value of the Series C Preferred Stock as a result of the amendment of the conversion price is a deemed dividend to the Series C Preferred Stockholders rather than an expense of the Company, because the amendment of the conversion price is akin to a dividend to the Series C Preferred Stockholders to facilitate the contemplated merger transaction, rather than to enable a capital restructure. Consequently a deemed dividend of \$216K, representing the estimated difference from carrying value to fair value of the Series C Preferred Stock from amendment of the conversion price, is recorded in the equity section of the balance sheet, and included in the loss per share calculation for the period ended June 30, 2017. During the twelve months ended June 30, 2017, 76,668 shares of Series C Preferred Stock were converted into 1,350,024 shares of Common Stock.

Warrants

Warrant activity is summarized as follows:

	Aggregate Number	Weighted Average Exercise Price	Exercise Price Range
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
Granted	1,368,854	\$ 1.20	\$ 0.75- \$ 1.50
Exercised	-	-	-
Cancelled	-	-	-
Expired	(3,050)	33.77	\$ 32.00 - \$ 140.00
Outstanding, June 30, 2016	8,698,580	\$ 2.83	\$ 0.75- \$ 108.00
Granted	-	-	-
Exercised	-	-	-
Cancelled	-	-	-
Expired	(3,686,989)	4.74	\$ 2.00 - \$ 108.00
Outstanding, June 30, 2017	5,011,591	0.43	\$ 0.40- \$ 26.00
Warrants as liabilities at June 30, 2015 (1)	3,552,639	\$ 1.50	
Warrants as liabilities at June 30, 2016 (1)	4,921,493	\$ 1.42	

Warrants as liabilities at June 30, 2017 (1) - \$ -

(1) Exercise price subject to reset as disclosed in public placements of series C preferred stock section, which expired on January 27, 2017. The exercise price was reset to \$0.40 on February 15, 2017.

As of June 30, 2017, all of the above warrants are exercisable expiring at various dates through 2020. At June 30, 2017, the weighted-average exercise price on the above warrants was \$0.43.

In connection with the issuance of the Notes (see Note 7), the Company amended the exercise price of the warrants downward to \$0.40 a share. In addition, the warrant agreement was amended so that the price reset features would no longer be in force during the remaining term of the warrants. The Company reviewed the terms of the warrant agreement and guidance in the authoritative literature in ASC 480, *Distinguishing Liabilities from Equity*, and ASC 815, *Derivatives and Hedging*, and concluded that the warrants should be classified as equity because the warrants are indexed to the Company's own stock, and the warrants also met all the criteria in ASC 815 to be classified as equity.

The Company recognized a one-time charge for the warrant price modification of \$285,356 based upon the change in value of the warrants immediately prior to and subsequent to the exercise price adjustment. The Company used a modified Black Scholes fair value method to compute this value of the warrants based upon the exercise price of \$0.75 and \$1.50 for the warrants before and \$0.40 exercise price after the modification. The stock price was \$0.25, expected life ranged from 0.71 to 0.95 of a year, volatility ranged from 124% to 131% and the discount rate ranged from 0.77% to 0.86% for the before and after calculation.

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. 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 as amended and automatically increased as discussed below, an aggregate of 7,438,700 shares of Common Stock has been reserved for issuance. 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 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.

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

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

	Aggregate Number	Weighted Average Exercise Price	Exercise Price Range
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
Granted	485,682	\$ 0.31	\$ 0.22 - \$ 0.50
Exercised	-	-	-
Cancelled	(151,588)	3.99	\$ 0.83 - \$ 140.00
Expired	(43,775)	11.02	\$ 0.83 - \$ 140.00
Outstanding, June 30, 2016	1,917,238	\$ 3.29	\$ 0.22 - \$ 140.00
Granted	436,363	\$ 0.22	0.22
Exercised	-	-	-
Cancelled	(28,140)	0.83	0.83
Expired	(6,194)	60.65	\$22.00 - \$ 108.00
Outstanding, June 30, 2017	2,319,267	\$ 2.59	
Options exercisable at June 30, 2015	1,228,739	\$ 5.53	
Options exercisable at June 30, 2016	1,841,728	\$ 3.38	
Options exercisable at June 30, 2017	2,296,470	\$ 2.61	

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

	Number of Options	Weighted-average Grant-Date Fair Value
Non-vested stock options at June 30, 2016	75,510	\$ 0.76
Granted	436,363	0.22
Vested	(475,593)	0.24
Forfeited	(13,483)	0.60
Non-vested stock options at June 30, 2017	22,797	\$ 0.60

As of June 30, 2017, the aggregate intrinsic value of stock options outstanding was \$38,352, with a weighted-average remaining term of 6.38 years. The aggregate intrinsic value of stock options exercisable at June 30, 2016 was \$0, with

a weighted-average remaining term of 6.59 years. As of June 30, 2017, the Company has 5,119,433 shares available for future stock option grants.

As of June 30, 2017 total estimated compensation expense not yet recognized related to stock option grants amounted to \$13,769, which will be recognized over the next 21 months.

F-27

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Income Taxes:

The Company has recurring losses and a valuation allowance against its deferred tax assets. The Company has recognized a deferred tax liability relating to the indefinite-lived intangible. The tax benefit recognized is the deferred tax benefit associated with the reduction of the indefinite-lived intangible net of any state minimum tax.

As of June 30, 2017, the Company had federal net operating loss (“NOL”) carry forwards of \$75,857,000 and state NOL carry forwards of approximately \$26,123,000, which are available to reduce future taxable income. The federal NOL carry forwards will begin to expire in 2019. The state NOL carry forwards will begin to expire at various dates starting in 2031. 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, 2017, 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, 2017, the Company had no unrecognized tax benefits or related interest and penalties accrued. The Company files a consolidated federal income tax return. The subsidiary files separate state and local income tax returns.

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, 2017 and 2016, 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 \$702,000 and decreased by \$2,590,000 during the years ended June 30, 2017 and 2016, respectively, due primarily to changes in net operating losses during the periods.

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

Edgar Filing: Sevion Therapeutics, Inc. - Form 10-K

	June 30,		
	2017	2016	2015
Federal income tax provision at statutory rate	(34.0)%	(34.0)%	(34.0)%
State income taxes, net of federal benefit	(3.7)%	(3.5)%	(3.2)%
Change in State Rate	- %	28.7 %	- %
Deferred Tax Adjustment	- %	17.1 %	- %
Goodwill Impairment	- %	22.0 %	15.3 %
Permanent items	12.6 %	(8.4)%	0.4 %
Research and development credits	(0.4)%	(0.7)%	(3.0)%
Change in valuation allowance	10.3 %	(28.8)%	24.5 %
Actual income tax provision (benefit) effective tax rate	(15.2)%	(7.6)%	- %

F-28

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

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

	June 30,	
	2017	2016
Deferred Tax Assets:		
Net operating loss carryforwards	\$27,315,000	\$26,096,000
Stock-based compensation	1,415,000	1,386,000
Other	734,000	1,281,000
Deferred tax assets	29,464,000	28,763,000
Deferred Tax Liabilities:		
Indefinite-lived intangibles	(2,200,000)	(3,240,000)
Deferred tax liabilities	(2,200,000)	(3,240,000)
Less: valuation allowance	(29,464,000)	(28,763,000)
Net deferred tax asset / (liability)	\$(2,200,000)	\$(3,240,000)

The Company will recognize interest and penalties related to uncertain tax positions if any in income tax expense. As of June 30, 2017 and 2016, 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.

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, 2014 through June 30, 2017. 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.

11. Subsequent Event:

On July 1, 2017, the Company exchanged 200 shares of its outstanding Series A Preferred Stock for 800,000 shares of Common Stock, at a conversion price of \$0.25 per share, pursuant to the Exchange Agreement.

On July 28, 2017, the Company received aggregate proceeds of \$1,500,000 from OPKO from the sale of 10,000,000 shares of Common Stock at a price of \$0.15 per share pursuant to the Subscription Agreement ("July 2017 Financing"). Please see Note 1 for more details.

The July 2017 financing was a qualified financing in accordance with the provisions of the Convertible Notes agreement. As a result, all of the Company's Convertible Notes become mandatorily convertible on July 28, 2017, Convertible Notes with principle amount of \$750,000 and accrued interest of \$20,490 were converted into 7,704,903 shares of Common Stock. The remaining Convertible Notes with principle amount of \$250,000 and accrued interest of \$4,290 will convert into 2,542,905 shares of Common Stock upon consummation of the Merger pursuant to a letter agreement.

On August 24, 2017, the Company exchanged the remaining 70 shares of its outstanding Series A Preferred Stock for 700,000 shares of Common Stock, at a conversion price of \$0.10 per share, pursuant to a preferred stock exchange agreement that the Company entered into on August 11, 2017.

On September 20, 2017, the Company exchanged the remaining 158,336 shares of its Series C Preferred Stock for 2,968,800 shares of Common Stock, at a conversion price of \$0.40 per share pursuant to the Consent and Waiver Agreement.

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 13th day of October, 2017.

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.

Signature	Title	Date
/s/ David Rector David Rector	Chief Executive Officer and Director (principal executive officer)	October 13, 2017
/s/ James Schmidt James Schmidt	Chief Financial Officer (principal financial and accounting officer)	October 13, 2017
/s/ John Braca John Braca	Director	October 13, 2017
/s/ Phillip Frost, M.D. Phillip Frost, M.D.	Director	October 13, 2017
/s/ Steven Rubin Steven Rubin	Director	October 13, 2017

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
2.1	<u>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.)</u>
2.2	<u>Agreement, dated as of May 31, 2017, by and among Sevion Therapeutics, Inc., Sevion Sub, Ltd. and Eloxx Pharmaceuticals Ltd. (Incorporated by reference to Exhibit 2.1 of our current report on Form 8-K filed on June 6, 2017.)</u>
2.3†	<u>Amendment to Agreement, dated as of August 1, 2017, by and among Sevion Therapeutics, Inc., Sevion Sub, Ltd. and Eloxx Pharmaceuticals Ltd.</u>
3.1	<u>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.)</u>
3.2	<u>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.)</u>
3.3	<u>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 for the period ended June 30, 2009.)</u>
3.4	<u>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.)</u>
3.5	<u>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.)</u>
3.6	<u>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.)</u>
3.7	<u>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.)</u>
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.)

Exhibit No.	Description of Exhibit
3.9	<u>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.)</u>
3.10	<u>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.)</u>
3.11	<u>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.)</u>
4.1	<u>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.)</u>
4.2	<u>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.)</u>
4.3	<u>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.)</u>
4.4	<u>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.)</u>
4.5	<u>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.)</u>
4.6	<u>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.)</u>
4.7	<u>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 4.2 of our current report on Form 8-K, filed on July 30, 2009.)</u>
4.8	<u>Form of Series B Warrant issued to Cato Holding Company. (Incorporated by reference to Exhibit 4.4 of our current report on Form 8-K, filed on July 30, 2009.)</u>
4.9	<u>Form of Warrant. (Incorporated by reference to Exhibit 4.1 of our current report on Form 8-K filed on January 9, 2012.)</u>
4.10	<u>Form of Warrant. (Incorporated by reference to Exhibit 4.1 of our current report on Form 8-K filed on March 2, 2012.)</u>

4.11 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.)

64

Exhibit No.	Description of Exhibit
4.12	<u>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.)</u>
4.13†	<u>Form of 2015 Common Stock Warrant. (Incorporated by reference to Exhibit 4.18 of our annual report on Form 10-K for the period ended June 30, 2015.)</u>
10.1	<u>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.)</u>
10.2	<u>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.)</u>
10.3†	<u>Form of Indemnification Agreement (Incorporated by reference to Exhibit 10.4 of our annual report on Form 10-K for the period ended June 30, 2015.)</u>
10.4†	<u>Form of Nondisclosure, Noncompetition and Invention Assignment (Incorporated by reference to Exhibit 10.5 of our annual report on Form 10-K for the period ended June 30, 2015.)</u>
10.5 +	<u>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.)</u>
10.6*	<u>1998 Stock Incentive Plan, as amended on December 13, 2002. (Incorporated by reference to Exhibit 10.1 of our quarterly report on Form 10-QSB for the period ended December 31, 2002.)</u>
10.7*	<u>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.)</u>
10.8*	<u>Form of Stock Option Agreement under the Senesco Technologies, Inc. 2008 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.5 of our quarterly report on Form 10-Q for the period ended September 30, 2009.)</u>
10.9*	<u>Retention Policy. (Incorporated by reference to Exhibit 10.1 of our current report on Form 8-K filed on October 15, 2012.)</u>
10.10	<u>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.)</u>
10.11+	<u>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, 2015.)</u>

10.12* 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.)

10.13* 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.)

Exhibit No.	Description of Exhibit
10.14*	<u>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.)</u>
10.15*	<u>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.)</u>
10.16†	<u>Form of Registration Rights Agreement by and among Sevion Therapeutics, Inc. and certain investors (Incorporated by reference to Exhibit 10.20 of our annual report on Form 10-K for the period ended June 30, 2015.)</u>
10.17†	<u>Form of Subscription Agreement by and among Sevion Therapeutics, Inc. and certain investors (Incorporated by reference to Exhibit 10.21 of our annual report on Form 10-K for the period ended June 30, 2015.)</u>
10.18†	<u>Amendment to Form of Subscription Agreement, dated July 27, 2015, by and among Sevion Therapeutics, Inc. and certain investors ((Incorporated by reference to Exhibit 10.22 of our annual report on Form 10-K for the period ended June 30, 2015.)</u>
10.19	<u>Form of Promissory Note, dated as of November 10, 2016 (Incorporated by reference to Exhibit 10.01 of our quarterly report on Form 10-Q filed on November 14, 2016.)</u>
10.20	<u>Form of Convertible Promissory Note, dated as of February 15, 2017, by and among the Company and the Noteholders (Incorporated by reference to Exhibit 4.1 of our current report on Form 8-K filed on February 22, 2017.)</u>
10.21	<u>Form of Amended and Restated Convertible Promissory Note, dated as of February 15, 2017, by and among the Company and the Noteholders, amending and restating the Convertible Promissory Notes, dated November 10, 2016 (Incorporated by reference to Exhibit 4.2 of our current report on Form 8-K filed on February 22, 2017.)</u>
10.22	<u>Form of Consent and Waiver Agreement, dated as of February 15, 2017, by and among the Company and the Investors listed as signatories thereto (Incorporated by reference to Exhibit 10.1 of our current report on Form 8-K filed on February 22, 2017.)</u>
10.23	<u>Form of Series A Preferred Stock Exchange Agreement, dated as of February 15, 2017, by and among the Company and the Holders listed as signatories thereto (Incorporated by reference to Exhibit 10.2 of our current report on Form 8-K filed on February 22, 2017.)</u>
10.24	<u>Form of Convertible Promissory Note, dated as of May 19, 2017, by and among the Company and the Noteholder (Incorporated by reference to Exhibit 10.3 of our quarterly report on Form 10-Q filed on May 22, 2017.)</u>

Exhibit No.	Description of Exhibit
<u>10.25</u>	<u>Form of Company Subscription Agreement, by and among Sevion Therapeutics, Inc. and certain investors (Incorporated by reference to Exhibit 10.1 of our current report on Form 8-K filed on August 3, 2017.)</u>
<u>21.1</u>	<u>Subsidiaries of the Registrant. (Incorporated by reference to Exhibit 21.1 of our annual report on Form 10-K filed on September 29, 2014.)</u>
<u>23.1</u> †	<u>Consent of RSM US LLP.</u>
<u>31.1</u> †	<u>Certification of the principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>31.2</u> †	<u>Certification of the principal financial and accounting officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.1</u> †	<u>Certification of the principal executive officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>32.2</u> †	<u>Certification of the principal financial and accounting officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
<u>101.1</u> †	Financial Statements from the Annual Report on Form 10-K of Sevion Therapeutics, Inc. for the fiscal year ended June 30, 2017, filed on October 13, 2017, 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.