Sevion Therapeutics, Inc.
Form 10-Q
February 16, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2015

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 No. 001-31326

SEVION THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**84-1368850**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

4045 Sorrento Valley Boulevard

San Diego, CA 92121
(Address of principal executive offices)

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

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

Yes:x No: ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes: x No: ¨

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

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes: ¨ No: x

20,420,608 shares of the issuer's common stock, par value $0.01 per share, were outstanding as of February 5, 2016.

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION.

Item 1. Financial Statements (Unaudited).

Certain information and footnote disclosures required under United States generally accepted accounting principles have been condensed or omitted from the following consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission. However, Sevion Therapeutics, Inc., a Delaware corporation, and its wholly owned subsidiaries, Senesco, Inc., a New Jersey corporation and Fabrus, Inc., a Delaware corporation (collectively, "Sevion" or the "Company"), believe that the disclosures are adequate to assure that the information presented is not misleading in any material respect.

The results of operations for the interim periods presented herein are not necessarily indicative of the results to be expected for the entire fiscal year.

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(unaudited)

	December 31, 2015	June 30, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$2,366,573	$3,334,626
Prepaid expenses and other current assets	321,361	395,100
Total Current Assets	2,687,934	3,729,726
Equipment, furniture and fixtures, net	124,299	185,948
Acquired research and development	9,800,000	9,800,000
Goodwill	2,980,951	5,780,951
Security deposits	50,770	50,770
TOTAL ASSETS	$15,643,954	$19,547,395
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$63,504	$232,033
Accrued expenses	450,929	408,705
Other current liabilities	54,722	137,778
Total Current Liabilities	569,155	778,516
Warrant and stock right liabilities	2,330,492	2,502,047
Deferred tax liability	3,920,000	3,920,000
Other liabilities	99,728	122,038
TOTAL LIABILITIES	6,919,375	7,322,601
STOCKHOLDERS' EQUITY:		
Convertible preferred stock, $0.01 par value, authorized 5,000,000 shares Series C 235,837 shares issued and 235,004 and 235,837 outstanding, respectively (liquidation preference of $2,350 and $2,358 at December 31, 2015 and June 30, 2015, respectively)	2,350	2,358
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Series A 10,297 shares issued and 380 and 380 shares outstanding, respectively (liquidation preference of $389,504 and $399,000 at December 31, 2015 and June 30, 2015, respectively)		
Common stock, $0.01 par value, authorized 500,000,000 shares, issued and outstanding 20,420,608 and 18,752,813 at December 31, 2015 and June 30, 2015, respectively	204,206	187,528
Capital in excess of par	119,899,641	119,217,880
Accumulated deficit	(111,381,622)	(107,182,976)
Total Stockholders' Equity	8,724,579	12,224,794
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$15,643,954	$19,547,395

See Notes to Condensed Consolidated Financial Statements

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(unaudited)

	Three Months Ended December 31,		Six Months Ended Ended December 31,	
	2015	2014	2015	2014
Licensing Revenue	$ 37,500	$ -	$ 75,000	$ -
Operating expenses:				
General and administrative	401,102	1,253,226	988,375	2,027,826
Research and development	594,504	1,371,930	1,196,087	3,492,086
Impairment of goodwill	2,800,000	8,121,966	2,800,000	8,121,966
Impairment and write-off of patents	-	-	-	2,290,836
Total operating expenses	3,795,606	10,747,122	4,984,462	15,932,714
Loss from operations	(3,758,106)	(10,747,122)	(4,909,462)	(15,932,714)
Other non-operating income (expense)				
Change in fair value of stock right	(448,725)		(426,391)	-
Change in fair value of warrant liability	351,500	-	1,300,061	-
Interest income (expense) - net	(89)	995	(371)	2,780
Net loss	(3,855,420)	(10,746,127)	(4,036,163)	(15,929,934)
Preferred dividends	(14,114)	(17,722)	(162,483)	(32,222)
Loss applicable to common shares	(3,869,534)	(10,763,849)	(4,198,646)	(15,962,156)
Other comprehensive loss	-	-	-	-
Comprehensive loss	$ (3,869,534)	$ (10,763,849)	$ (4,198,646)	$ (15,962,156)
Basic and diluted net loss per common share	$ (0.19)	$ (0.78)	$ (0.21)	$ (1.15)
Basic and diluted weighted-average number of common shares outstanding	20,420,608	13,866,627	20,213,530	13,856,439

See Notes to Consolidated Financial Statements

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SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED DECEMBER 31, 2015

(unaudited)

	Preferred Stock		Common Stock		Capital in Excess	Accumulated	Stockholders'
	Shares	Amount	Shares	Amount	of Par Value	Deficit	Equity
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
Warrant Liability	-	-	-	-	(559,261)	-	(559,261)
Derivative Stock Right	-	-	-	-	(142,854)	-	(142,854)
Stock-based compensation	-	-	-	-	88,833	-	88,833
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			32,799	328	23,287	(17,280)	6,335
Dividends accrued and unpaid at Dec 31, 2015	-	-	-	-	-	(9,502)	(9,502)
Net loss	-	-	-	-	-	(4,036,163)	(4,036,163)
Balance at December 31, 2015	235,384	$2,354	20,420,608	$204,206	$119,899,641	$(111,381,622)	$8,724,579

See Notes to Consolidated Financial Statements

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six Months Ended December 31,	
	2015	2014
Cash flows from operating activities:		
Net loss	$ (4,036,163)	$ (15,929,934)
Adjustments to reconcile net loss to net cash used in operating activities:		
Noncash income related to change in fair value		
- stock right	426,391	-
- warrant liability	(1,300,061)	-
Stock-based compensation expense	88,833	379,171
Depreciation and amortization	61,649	100,220
Impairment of goodwill	2,800,000	8,121,966
Write-off of intangibles	-	2,290,836
Write-off of prepaid research supplies	-	669,750
Deferred rent	(30,366)	45,224
(Increase) decrease in operating assets:		
Accounts receivable	-	(160,782)
Prepaid expenses and other current assets	73,739	337,728
Security deposit	-	(50,770)
Increase (decrease) in operating liabilities:		
Accounts payable	(168,529)	404,061
Accrued expenses	39,057	170,026
Deferred revenue	(75,000)	150,000
Net cash used in operating activities	(2,120,450)	(3,472,504)
Cash flows from investing activities:		
Capitalized Patent costs	-	(420,339)
Purchase of equipment, furniture and fixtures	-	(111,045)
Net cash used in investing activities	-	(531,384)
Cash flows from financing activities:		
Proceeds from issuance of common stock and warrants, net and exercise of warrants and options	1,152,397	-
Net cash provided by financing activities	1,152,397	-
Net (decrease) increase in cash and cash equivalents	(968,053)	(4,003,888)
Cash and cash equivalents at beginning of period	3,334,626	6,111,340
Cash and cash equivalents at end of period	$ 2,366,573	$ 2,107,452

Supplemental disclosure of non-cash transactions:		
Conversion of preferred stock into common stock	$ 6,075	$ -
Allocation of equity proceeds to warrants	$ 559,261	$ -
Allocation of equity proceeds to stock rights	$ 142,854	$ -
Allocation of preferred stock proceeds to beneficial conversion feature	$ 135,701	$ -
Issuance of common stock for dividend payments on preferred stock	$ 23,615	$ 32,222
Dividends accrued on preferred stock	$ (9,502)	$ (14,500)
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ -	$ 132

See Notes to Consolidated Financial Statements

SEVION THERAPEUTICS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1 - Basis of Presentation:

The financial statements included herein have been prepared by Sevion Therapeutics, Inc. (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2015.

In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting solely of those which are of a normal recurring nature, necessary to present fairly its financial position as of December 31, 2015 and the results of its operations for the three and six months ended December 31, 2015 and cash flows for the six months ended December 31, 2015.

Interim results are not necessarily indicative of results for the full fiscal year.

Note 2 – Liquidity:

As shown in the accompanying condensed consolidated financial statements, the Company has a history of losses with an accumulated deficit of $111,381,622 and has generated minimal revenues by licensing its technology to companies willing to share in its development costs. In addition, the Company's technology may not be ready for commercialization for several years. The Company expects to continue to incur losses for the next several years because it anticipates that its expenditures on research and development and administrative activities will significantly exceed its revenues during that period. The Company cannot predict when, if ever, it will become profitable.

As of December 31, 2015, the Company had cash and cash equivalents in the amount of $2,366,573, which consisted of checking accounts and money market funds. The Company estimates that its cash and cash equivalents as of

December31, 2015 will cover its expenses through at least June 30, 2016.

The Company will need additional capital to operate and expand its research program and plans to raise additional capital possibly through the exercise of outstanding warrants, placement of debt instruments, equity instruments or any combination thereof. However, the Company may not be able to obtain adequate funds for its operations when needed or on acceptable terms. If the Company is unable to raise additional funds, it will need to do one or more of the following:

- delay, scale-back or eliminate some or all of its research and product development programs;
- license third parties to develop and commercialize products or technologies that it would otherwise seek to develop and commercialize itself;
- seek strategic alliances or business combinations;

- attempt to sell the Company;
- cease operations; or
- declare bankruptcy.

Note 3 – Intangibles:

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

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

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

Due to the decrease in the market value of the Company at December 31, 2015 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 and the Goodwill in the amount of $5,780,951 as of December 31, 2015. 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 at December 31, 2015. 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 is 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 leaving a balance of $2,980,951 at December 31, 2015.

Note 4 - Loss Per Share:

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of the Company’s Common Stock assumed to be outstanding during the period of computation. Diluted earnings per share is computed similar to basic earnings per share except that the denominator is increased to include

the number of additional shares of Common Stock that would have been outstanding if the potential shares of Common Stock had been issued and if the additional shares of Common Stock were dilutive.

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

	December 31,	
	2015	2014
Common Stock to be issued upon conversion of convertible preferred stock - Series A	506,666	290,000
Common Stock to be issued upon conversion of convertible preferred stock - Series C	2,350,040	-
Outstanding warrants	8,698,580	3,977,744
Outstanding options	1,646,563	1,568,223
Total potentially dilutive shares of Common Stock	13,201,849	5,835,967

Note 5 – Stock-Based Compensation:

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.

The Company issued 155,000 options during the six month period ended December 31, 2015.

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

Stock option activity under the Company’s 2008 Plan and 1998 Plan for the six months ended December 31, 2015 is summarized as follows:

	Aggregate Number	Weighted Average Exercise Price	Exercise Price Range
Outstanding, June 30, 2015	1,626,919	$ 4.45	$ 0.54 - $ 140.00
Granted	155,000	$ 0.50	$0.50
Exercised	-	-	-
Cancelled	(92,289)	5.69	$.83 - $ 140.00

Expired	(43,067)	$ 10.72	$.83 - $ 140.00
Outstanding, December 31, 2015	1,646,563	$ 3.85	$ 0.50 - $ 140.00
Options exercisable at December 31, 2015	1,512,863	$ 4.09	

As of December 31, 2015, the aggregate intrinsic value of stock options outstanding was $0 with a weighted-average remaining term of 6.4 years. The aggregate intrinsic value of stock options exercisable at December 31, 2014 was $0, with a weighted-average remaining term of 9.4 years. As of December 31, 2015, the Company has 3,271,107 shares available for future stock option grants.

Stock-based compensation expenses for the three months ended December 31, 2015 and December 31, 2014 amounted to $64,357 and $240,038, respectively. Stock-based compensation expense for the six months ended December 31, 2015 and December 31, 2014 amounted to $88,832 and $379,171, respectively.

As of December 31, 2015, total stock-based compensation expense not yet recognized related to stock option grants amounted to approximately $175,000 which will be recognized over the next 36 months.

Note 6 – Income Taxes:

No provision for income taxes has been made for the six months ended December 31, 2015 and 2014 given the Company's losses in 2015 and 2014 and available net operating loss carryforwards. A benefit has not been recorded as the realization of the net operating losses is not assured and the timing in which the Company can utilize its net operating loss carryforwards in any year or in total may be limited by provisions of the Internal Revenue Code regarding changes in ownership of corporations.

The deferred tax liability in the amount of $3,920,000 was recorded in connection with the related goodwill from the Company's acquisition of Fabrus, Inc. in May 2014.

Note 7 - Fair Value Measurements:

The following tables provide the assets and liabilities carried at fair value measured on a recurring basis as of December 31, 2015 and June 30, 2015:

	Carrying Value	Fair Value Measurement at Dec. 31, 2015 Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$2,366,573	$ 2,366,573	$ -	$ -
Warrant Liabilities	$2,330,492	$ -	$ -	$ 2,330,492

	Carrying Value	Fair Value Measurement at June 30, 2015 Level 1	Level 2	Level 3
Assets:				
Cash and cash equivalents	$3,334,626	$ 3,334,626	$ -	$ -
Warrant Liabilities	$2,502,047	$ -	$ -	$ 2,502,047

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For the six months ended December 31, 2015

Beginning Balance	$2,502,047
Recognition of common stock warrant liability	559,261
Recognition of stock right	142,854
Change in fair value of warrant liabilities, net	(1,300,061)
Change in fair value of stock right, net	426,391
Ending Balance	$2,330,492

Note 8 – Warrant Liabilities:

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

Changes in the unobservable input values would have likely caused material changes in the fair value of the Company's Level 3 financial instruments. The significant unobservable input used in the fair value measurement was the estimation of the likelihood of the occurrence of a change to the strike price of the warrants. A significant increase (decrease) in this likelihood would have resulted in a higher (lower) fair value measurement. The assumptions used to value the warrants at the date of issuance and at December 31, 2015 are as follows:

	Date of Issuance		December 31, 2015	
Estimated life in years	2.50		1.83	
Risk-free interest rate (1)	0.91	%	1.03	%
Volatility	108.60	%	102.20	%
Dividend paid	0.00	%	0.00	%

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

Note 9 – Series C Preferred Stock.

In connection with allocation of the gross proceeds to the issuance of the Series C Preferred Stock, the Company determined that the Series C 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 $135,701 as of the issuance date of the Series C Preferred Stock.

During the six months ended December 31, 2015, 67,500 shares of Series C Preferred Stock were converted into 675,000 shares of Common Stock.

Note 10 – Recent Accounting Pronouncements

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. The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures).). 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. The Company does not anticipate that the adoption of this standard will have a material impact on the Company's financial statements.

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

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

of this standard will have a material impact on the Company's financial statements.

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

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

Note 11 – Subsequent Events

The Company has evaluated for any subsequent events through the date of the financial statements and has determined that no significant subsequent events have occurred.

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

The following discussion and analysis should be read in conjunction with our condensed consolidated financial statements and the related notes thereto included in this Quarterly Report on Form 10-Q. The discussion and analysis may contain forward-looking statements that are based upon current expectations and entail various risks and uncertainties. Our actual results and the timing of events could differ materially from those anticipated in the forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this report.

Overview

Our Business

The primary business of Sevion Therapeutics, Inc., a Delaware corporation incorporated in 1999, and its wholly-owned subsidiaries, Senesco, Inc., a New Jersey corporation incorporated in 1998, and Fabrus, Inc., a Delaware corporation incorporated in 2011, collectively referred to as "Sevion," "we," "us" or "our," is to build and develop a portfolio of innovative therapeutics, from both internal discovery and acquisition, for the treatment of cancer and immunological diseases. Our 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 multispanning 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 multispanning 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 multispanning 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 are advancing SVN001 through preclinical development where it has demonstrated potent activity as well as advancing SVN002 through preclinical development. However, given our limited capital resources, we have reduced our research and development spending on our antibody program until we are able to consummate a strategic transaction or a financing transaction.

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

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

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.

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Liquidity and Capital Resources

Overview

For the six months ended December 31, 2015, net cash of $2,120,450 was used in operating activities primarily due to a net loss of $4,036,163 which was reduced by non-cash expenses of $2,046,446 and increased by changes in operating assets and liabilities in the amount of $130,733.

The $130,733 change in operating assets and liabilities was the result of a decrease in prepaid research supplies and expenses in the amount of $73,739 and an increase in accounts payable and accrued expenses in the amount of $129,472 due to the timing of expenses and payments and a decrease in deferred revenue in the amount of $75,000.

During the six months ended December 31, 2015, no cash was used for investing activities related to the purchase of equipment, furniture and fixtures.

As of December 31, 2015, our cash balance totaled $2,366,573, and we had working capital of $2,118,779.

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 December 31, 2015, we will be able to fund our operations at least through June 30, 2016.

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

- by utilizing our current cash balance and investments,
- by raising capital through the placement of equity or debt instruments

- by completing a strategic transaction, and / or

- by raising capital through the execution of additional licensing agreements for our technology.

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

Changes to Critical Accounting Policies and Estimates

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

There have been no other changes to our critical accounting policies and estimates as set forth in our Annual Report on Form 10-K for the fiscal year ended June 30, 2015.

Results of Operations

Three Months Ended December 31, 2015 and Three Months Ended December 31, 2014

The net loss from operations for the three months ended December 31, 2015 was $3,758,106. The net loss from operations for the three months ended December 31, 2014 was $10,747,122. Such a change represents a decrease in net loss of $6,989,021, or 65%. This decrease in net loss was primarily the result of reduction of research and development activities and the closure of the New Jersey office combined with staff reductions.

Revenue

During the three months ended December 31, 2015, we generated $37,500 in revenue from the amortization of deferred revenue for a collaboration and option agreement.

This compares to no revenue for the three months ended December 31, 2014.

General and Administrative Expenses (000's)

	Three Months ended December 31,			
	2015	2014	Change	%
Payroll and benefits	$ 6	$ 630	$ (624)	-99.0 %
Professional fees	245	223	22	9.9 %
Consultants	54	5	49	980.0 %
Stock-based compensation	60	192	(132)	-68.8 %
Other general & Administrative Expenses	36	203	(167)	-82.3 %
Total G&A	$ 401	$ 1,253	$ (852)	-68.0 %

- Payroll and benefits were lower as a result of the closure of the New Jersey office in 2014 as well as the resignation of our prior CEO in fiscal year 2015 and our new CEO's classification as a consultant instead of as a salaried employee.

- Professional fees were higher primarily as a result of an increase in accounting fees due to the financial audit, quarterly review and SOX review, and accounting staff, including our CFO, being paid as consultants.

- Consultant costs increased as a result of our treatment of our CEO as a consultant, as compared to the quarter ended December 31, 2014, when our CEO was paid as an employee.

- Stock-based compensation was lower primarily because fewer options were issued during the quarter ended December 31, 2015.

- Other general and administrative expenses were lower due to reduced activity and fewer employees over the prior year.

Research and Development Expenses (000's)

	Three Months ended December 31,			
	2015	2014	Change	%
Payroll	305	345	(40)	-11.6 %
Patent Costs	78	179	(101)	-56.4 %
Facility Rent	87	87	-	0.0 %
Research Supplies	24	43	(19)	-44.2 %
Depreciation	30	38	(8)	-21.1 %
Stock-based compensation	5	48	(43)	-89.6 %
Other research and development	66	206	(140)	-68.0 %
Research Contract with the University of Waterloo	-	184	(184)	-100.0%
Phase 1b/2a clinical trial	-	242	(242)	-100.0%
Total research and development	$ 595	$ 1,372	$ (777)	-56.6 %

- Payroll and benefits were lower due to the closure of the New Jersey office in November 2014, partially offset by the addition of Fabrus research personnel.

- Despite the change in our accounting policies to now expense patent costs as incurred, patent costs were lower this three month period than in 2014 as we took impairment against the Factor 5A patent during 2014.

- Research supplies were lower primarily due to discontinuing development of our Factor 5A technology combined with the reduction of research costs with the collaboration cost reimbursement.

- Depreciation and amortization was lower due to the elimination of amortization of patent costs as a result of the change in our accounting policies to now expense patent costs as incurred.

- Stock-based compensation was lower primarily because fewer options were issued during the quarter ended December 31, 2015.

- Other research and development expenses were lower due to the discontinuation of our clinical programs in 2014 and reduction of spending placed on ongoing programs.

- Research contract expenses with the University of Waterloo were lower due to the suspension of the agreement in 2014.

- During the quarter ended September 30, 2014, we concluded our Phase 1b /2a clinical trial but did not use all of the material purchased for the clinical trial. As we have put the clinical program for this product candidate on hold, we wrote-off the cost of the remaining material at December 31, 2014.

Six Months Ended December 31, 2015 and Six Months Ended December 31, 2014

The net loss from operations for the six months ended December 31, 2015 was $4,909,462. The net loss from operations for the six months ended December 31, 2014 was $15,932,714. Such a change represents a decrease in net loss of $11,023,252, or 69%. This decrease in net loss was primarily the result of reduction of research and development activities.

Revenue

There was $75,000 in revenue during the six months ended December 31, 2015, which represented the amortization of deferred revenue for a collaboration and option agreement.

This compares to no revenue for the six months ended December 31, 2014.

General and Administrative Expenses (000's)

	Six Months ended December 31			
	2015	2014	Change	%
Payroll and benefits	$ 11	$ 867	$(856)	-98.7 %
Professional fees	624	422	202	47.9 %
Delaware Franchise Tax	74	5	69	1380.0%
Consultants	98	37	61	164.9 %
Stock-based compensation	73	285	(212)	-74.4 %
Other general & Administrative Expenses	108	412	(304)	-73.8 %
Total G&A	$ 988	$ 2,028	$(1,040)	-51.3 %

- Payroll and benefits were lower as a result of the closure of the New Jersey office in 2014 as well as the resignation of our prior CEO in fiscal year 2015 and our new CEO's classification as a consultant instead of as a salaried employee.

- Professional fees were higher primarily as a result of an increase in accounting fees due to the financial audit and SOX review, accounting staff, including our CFO, being paid as consultants, and increased legal expense due to the complexity of the recent financing.

- Delaware Franchise Tax increased due to the prepayment requirements on computed tax resulting from the reverse stock split effected during the prior fiscal year.

- Consultant costs increased as a result of our treatment of our CEO as a consultant, as compared to the six months ended December 31, 2014, when our CEO was paid as an employee.

- Stock-based compensation was lower primarily because fewer options were issued during the six month period ended December 31, 2015.

- Other general and administrative expenses were lower due to reduced activity and fewer employees over the prior year.

Research and Development Expenses (000's)

	Six Months ended December 31,			
	2015	2014	Change	%
Payroll	586	698	(112)	-16.0%