AGENUS INC
Form 10-Q
November 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 000-29089

Agenus Inc.

(exact name of registrant as specified in its charter)

Delaware	06-1562417
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3 Forbes Road, Lexington, Massachusetts 02421

(Address of principal executive offices, including zip code)

Registrant’s telephone number, including area code:

(781) 674-4400

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations 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 o

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

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

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

Number of shares outstanding of the issuer's Common Stock as of October 30, 2015: 84,646,215 shares

Agenus Inc.

Nine Months Ended September 30, 2015

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements
AGENUS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$184,138,960	$25,714,519
Short-term investments	14,993,700	14,509,570
Inventories	88,200	95,700
Accounts Receivable	7,331,624	463,007
Prepaid expenses	1,953,486	1,247,548
Other current assets	437,311	639,957
Total current assets	208,943,281	42,670,301
Plant and equipment, net of accumulated amortization and depreciation of $29,351,331 and $28,369,982 at September 30, 2015 and December 31, 2014, respectively	7,829,693	5,996,687
Goodwill	18,139,991	17,869,023
Acquired intangible assets, net of accumulated amortization of $873,667 and $462,248 at September 30, 2015 and December 31, 2014, respectively	6,490,481	6,773,722
Other long-term assets	1,204,804	1,216,795
Total assets	$242,608,250	$74,526,528
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion, long-term debt	$146,061	$1,257,178
Current portion, deferred revenue	5,967,198	184,421
Accounts payable	3,091,199	1,710,946
Accrued liabilities	13,738,916	5,501,527
Other current liabilities	5,342,496	575,351
Total current liabilities	28,285,870	9,229,423
Long-term debt	110,553,452	4,769,359
Deferred revenue	15,498,207	3,009,568
Contingent royalty obligation	—	15,279,000
Contingent purchase price consideration	3,747,000	16,420,300
Other long-term liabilities	7,547,617	2,800,491
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.01 per share; 5,000,000 shares authorized:		
Series A-1 convertible preferred stock; 31,620 shares designated, issued, and outstanding at September 30, 2015 and December 31, 2014; liquidation value	316	316

of $32,164,572 at September 30, 2015		
Common stock, par value $0.01 per share; 140,000,000 shares authorized;		
84,646,215 and 62,720,065 shares issued at September 30, 2015 and		
December 31, 2014, respectively	846,462	627,201
Additional paid-in capital	841,041,405	715,667,633
Accumulated other comprehensive loss	(1,331,638)	(1,970,420)
Accumulated deficit	(763,580,441)	(691,306,343)
Total stockholders' equity	76,976,104	23,018,387
Total liabilities and stockholders' equity	$242,608,250	$74,526,528

See accompanying notes to unaudited condensed consolidated financial statements.

AGENUS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue:				
Research and development revenue	$ 6,848,194	$ 1,563,378	$ 17,178,191	$ 5,358,322
Total revenues	6,848,194	1,563,378	17,178,191	5,358,322
Operating expenses:				
Research and development	(18,502,063)	(5,284,607)	(52,495,316)	(14,979,844)
General and administrative	(6,407,902)	(4,919,675)	(19,910,650)	(16,209,790)
Contingent purchase price consideration fair value adjustment	6,994,000	969,000	(7,326,700)	(164,000)
Operating loss	(11,067,771)	(7,671,904)	(62,554,475)	(25,995,312)
Other (expense) income:				
Non-operating (expense) income	(653,376)	(127,367)	(7,356,139)	10,449,462
Interest expense, net	(1,401,102)	(310,080)	(2,363,484)	(962,015)
Net loss	(13,122,249)	(8,109,351)	(72,274,098)	(16,507,865)
Dividends on Series A-1 convertible preferred stock	(50,780)	(51,159)	(152,099)	(153,292)
Net loss attributable to common stockholders	$ (13,173,029)	$ (8,160,510)	$ (72,426,197)	$ (16,661,157)
Per common share data:				
Basic and diluted net loss attributable to common stockholders	$ (0.16)	$ (0.13)	$ (0.95)	$ (0.28)
Weighted average number of common shares outstanding:				
Basic and diluted	84,569,118	62,831,541	75,935,985	58,710,338
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	$ (680,993)	$ (1,294,720)	$ 625,132	$ (1,161,036)
Unrealized gain on investments	7,760	1,863	13,650	3,816
Other comprehensive income (loss)	(673,233)	(1,292,857)	638,782	(1,157,220)
Comprehensive loss	$ (13,846,262)	$ (9,453,367)	$ (71,787,415)	$ (17,818,377)

See accompanying notes to unaudited condensed consolidated financial statements.

AGENUS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	$(72,274,098)	$(16,507,865)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,403,324	1,019,073
Share-based compensation	5,218,479	3,700,518
Non-cash interest expense	1,643,417	461,653
Loss on disposal of assets	—	1,150
Change in fair value of contingent obligations	14,190,000	(10,652,557)
In-process research and development purchase	12,245,230	—
Loss on extinguishment of debt	154,117	—
Change in fair value of assumed convertible notes	—	(205,143)
Changes in operating assets and liabilities:		
Accounts receivable	(7,232,669)	1,200
Inventories	7,500	(95,700)
Prepaid expenses	(693,981)	(425,485)
Accounts payable	1,266,219	35,207
Deferred revenue	18,465,694	(2,695,737)
Accrued liabilities and other current liabilities	8,390,007	(2,021,879)
Other operating assets and liabilities	(10,367,586)	(341,034)
Net cash used in operating activities	(27,584,347)	(27,726,599)
Cash flows from investing activities:		
Cash acquired in acquisition	—	514,470
Purchases of plant and equipment	(2,818,429)	(1,105,472)
Purchases of available-for-sale securities	(15,006,730)	(14,517,644)
Proceeds from sale of available-for-sale securities	14,534,486	—
Net cash used in investing activities	(3,290,673)	(15,108,646)
Cash flows from financing activities:		
Net proceeds from sale of equity	109,669,980	56,792,252
Proceeds from employee stock purchases and option exercises	1,963,738	150,140
Financing of plant and equipment	—	(39,156)
Proceeds from issuance of long-term debt	109,000,000	—
Debt issuance costs	(1,774,323)	—
Payments of debt	(1,111,112)	(2,500,000)
Payment of contingent purchase price consideration	(8,380,483)	—
Payment of preferred stock dividends	—	(460,963)
Payment of contingent royalty obligation	(20,000,000)	(400,000)
Net cash provided by financing activities	189,367,800	53,542,273
Effect of exchange rate changes on cash	(68,339)	327,128
Net increase in cash and cash equivalents	158,424,441	11,034,156
Cash and cash equivalents, beginning of period	25,714,519	27,351,969

Cash and cash equivalents, end of period	$184,138,960	$38,386,125
Supplemental cash flow information:		
Cash paid for interest	$770,538	$531,863
Supplemental disclosures - non-cash activities:		
Purchases of plant and equipment in accounts payable and accrued liabilities	111,903	292,106
Issuance of common stock, $0.01 par value, issued in connection with the settlement of the contingent royalty obligation	2,142,000	—
Issuance of common stock, $0.01 par value, issued in connection with the acquisition of the SECANT Yeast Display technology	3,000,000	—
Issuance of common stock, $0.01 par value, for acquisition of 4-Antibody AG	—	10,102,259
Issuance of common stock, $.01 par value, in connection with payment of the contingent purchase price obligation	344,550	—
Contingent purchase price consideration issued in connection with the acquisition of 4-Antibody AG	—	9,721,000
Issuance of common stock, $0.01 par value, as payment of long-term debt	—	953,765

See accompanying notes to unaudited condensed consolidated financial statements.

AGENUS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2015

Note A - Business, Liquidity and Basis of Presentation

Agenus Inc. (including its subsidiaries, also referred to as “Agenus,” the “Company,” “we,” “us,” and “our”) is an immunology company discovering and developing novel checkpoint modulators, vaccines and adjuvants to treat cancer and other diseases. Our approaches are driven by three platform technologies:

- our antibody platforms, including our proprietary Retrocyte Display™, SECANT® yeast display, our phage display technologies, and our antibody programs, including checkpoint modulators, or CPMs;
- our heat shock protein (HSP)-based vaccines; and
- our saponin-based vaccine adjuvants, principally our QS-21 Stimulon® adjuvant, or QS-21 Stimulon.

We have a portfolio of programs in pre-clinical and clinical stages, including a series of CPMs in investigational new drug (IND)-enabling studies, our Prophage vaccine, a HSP-based autologous vaccine candidate for glioblastoma multiforme, or GBM, a form of brain cancer, and a number of advanced QS-21 Stimulon-containing vaccine candidates in late stage development by our partner, GlaxoSmithKline plc (GSK).

For the treatment of cancer, our programs aim to stimulate the immune system to recognize and eradicate cancer cells and disable the mechanisms that cancer cells employ to evade detection and destruction by the immune system. Because of the breadth of our portfolio, we have the ability to combine our proprietary vaccines with a portfolio of checkpoint modulating antibodies against major checkpoint targets to explore and optimize cancer treatments. Our strategy is to develop these agents either alone or in combinations to yield best-in-class treatments. We assess the development, commercialization and/or partnering strategies with respect to each of our internal product candidates periodically based on several factors, including clinical trial results, competitive positioning and funding requirements and resources.

Agenus’ core technologies include Retrocyte Display, a powerful proprietary platform designed to effectively discover and optimize novel, fully human and humanized monoclonal antibodies against antigens of interest. Our Retrocyte Display technology is applied to the discovery and development of antibodies, including those targeting significant checkpoint targets. Agenus and its partners currently have pre-clinical programs targeting GITR, OX40, CTLA-4, LAG-3, TIM-3, PD-1, CEACAM1 and other undisclosed check-point programs. In April 2015, we expanded our antibody discovery platform through the acquisition of key antibody assets from Celexion, LLC (Celexion); see Note L. Among the acquired assets was the SECANT yeast display platform for the generation of novel monoclonal antibodies and efficient integration of drug targets such as CPMs.

On January 9, 2015 and effective February 19, 2015, we entered into a broad, global alliance with Incyte Corporation and a wholly-owned subsidiary thereof (collectively "Incyte") to pursue the discovery and development of CPMs, initially targeting GITR, OX40, TIM-3 and LAG-3 in the fields of hematology and oncology. We also began collaborating with Merck Sharp & Dohme Corp in April 2014 to discover antibodies against two undisclosed CPM targets. We anticipate initiating clinical trials with the first of our CPM antibody candidates in 2016.

We have also been advancing a series of HSP-based vaccines to treat cancer and infectious disease. In June 2015, at the American Society of Clinical Oncology (ASCO) meeting, we reported positive results from a Phase 2 clinical trial with our Prophage vaccine, which showed that patients with newly-diagnosed GBM who were treated with a combination of our Prophage vaccine and standard of care showed substantial improvement both in progression-free

survival and median overall survival, as compared to historical control data. The most significant clinical improvements were seen in patients with less elevated PD-L1 expression in peripheral blood monocytes. These observations suggested that while some patients may derive the greatest benefit from standard of care and the Prophage vaccine alone, patients with more elevated PD-L1 expression on peripheral monocytes may benefit from a combination of Prophage in addition to checkpoint modulators PD-1 or PD-L1. We are currently exploring advancing our Prophage vaccine into well-controlled randomized trials designed to study Prophage versus the standard of care. In addition, efforts are currently underway to conduct adequately controlled and randomized combination studies using Prophage while we simultaneously explore partnership opportunities to license Prophage. In 2014, we also reported positive results from a Phase 2 clinical trial with our HerpV vaccine candidate for genital herpes, and while we do not expect to advance into a Phase 3 clinical trial for genital herpes, we are currently in the process of evaluating the broader application of our HSP peptide-based vaccines.

The Company’s QS-21 Stimulon adjuvant is a key component in several of GSK’s pre-clinical and clinical stage vaccine programs, which target prophylactic or therapeutic impact in a variety of infectious diseases and cancer. In December 2014, GSK reported that its Phase 3 clinical trial with shingles vaccine candidate, HZ/su, using our QS-21 Stimulon adjuvant, met its primary

endpoint, reducing the risk of shingles by 97.2% in adults aged 50 years and older compared to placebo. GSK also reported positive Phase 3 clinical trial results in October 2013 for its malaria vaccine candidate using QS-21 Stimulon, Mosquirix™ (RTS,S), which recently received a positive opinion from the Committee for Medicinal Products for Human Use of the European Medicines Agency. In September 2015, we monetized a portion of the future royalties we are contractually entitled to receive from GSK from sales of its shingles and malaria vaccines through a Note Purchase Agreement and received net proceeds of approximately $98.2 million; refer to Note E for additional information. QS-21 Stimulon is also the subject of an out-license agreement with Janssen Sciences Ireland Uc for use in a vaccine for Alzheimer's disease.

Our business activities include product research and development, intellectual property prosecution, manufacturing, regulatory and clinical affairs, corporate finance and development activities, and support of our collaborations. Our product candidates require clinical trials and approvals from regulatory agencies, as well as acceptance in the marketplace. Part of our strategy is to develop and commercialize some of our product candidates by continuing our existing arrangements with academic and corporate collaborators and licensees and by entering into new collaborations.

We have incurred significant losses since our inception. As of September 30, 2015, we had an accumulated deficit of $763.6 million. To date, we have financed our operations primarily through the sale of equity and debt securities. We believe that, based on our current plans and activities, our working capital resources at September 30, 2015 will be sufficient to satisfy our liquidity requirements into the first half of 2018.

We may attempt to raise additional funds by: (1) pursuing collaboration, out-licensing and/or partnering opportunities for our portfolio programs and product candidates with one or more third parties, (2) renegotiating third party agreements, (3) selling assets, (4) securing additional debt financing and/or (5) selling equity securities. Satisfying long-term liquidity needs may require the successful commercialization and/or substantial out-licensing or partnering arrangements for our antibody discovery platforms, CPM antibody programs, HSP-based vaccines, and vaccines containing QS-21 Stimulon under development by our licensees. Our long-term success will also be dependent on the successful identification, development and commercialization of potential other product candidates, each of which will require additional capital with no certainty of timing or probability of success. If we incur operating losses for longer than we expect and/or we are unable to raise additional capital, we may become insolvent and be unable to continue our operations.

Our research and development program costs include compensation and other direct costs plus an allocation of indirect costs, based on certain assumptions, and our review of the status of each program. Our product candidates are in various stages of research and development and significant additional expenditures will be required if we start new clinical trials, encounter delays in our programs, apply for regulatory approvals, continue development of our technologies, expand our operations, and/or bring our product candidates to market. The eventual total cost of each clinical trial is dependent on a number of factors such as trial design, length of the trial, number of clinical sites, number of patients, and trial sponsorship. The process of obtaining and maintaining regulatory approvals for new therapeutic products is lengthy, expensive, and uncertain. Because our CPM antibody programs are pre-clinical and the further development of our HSP-based vaccines is subject to evaluation and uncertainty, we are unable to reliably estimate the cost of completing our research and development programs or the timing for bringing such programs to various markets or substantial partnering or out-licensing arrangements. Therefore, we cannot predict if or when material cash inflows from operating activities are likely to commence. We will continue to adjust other spending as needed in order to preserve liquidity. Active programs involving QS-21 Stimulon depend on our collaboration partners or licensees successfully completing clinical trials, successfully manufacturing QS-21 Stimulon to meet demand, obtaining regulatory approvals and successfully commercializing product candidates containing QS-21 Stimulon.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the

instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete annual consolidated financial statements. In the opinion of our management, the condensed consolidated financial statements include all normal and recurring adjustments considered necessary for a fair presentation of our financial position and operating results. All significant intercompany transactions and accounts have been eliminated in consolidation. Certain reclassifications have been made to previously reported amounts to conform to the current presentation. Operating results for the nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. For further information, refer to our consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission (the “SEC”).

For our foreign subsidiaries the local currency is the functional currency. Assets and liabilities of our foreign subsidiaries are translated into U.S. dollars using rates in effect at the balance sheet date while revenues and expenses are translated into U.S. dollars using average exchange rates during the period. The cumulative translation adjustment resulting from changes in exchange rates are included in the consolidated balance sheets as a component of accumulated other comprehensive loss in total stockholders’ equity.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances. Actual results could differ materially from those estimates.

Note B - Net Loss Per Share

Basic net loss per common share is calculated by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding (including common shares issuable under our Directors' Deferred Compensation Plan, or DDCP). Diluted net loss per common share is calculated by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding (including common shares issuable under our DDCP) plus the dilutive effect of outstanding instruments such as warrants, stock options, nonvested shares, and convertible preferred stock. Because we reported a net loss attributable to common stockholders for all periods presented, diluted net loss per common share is the same as basic net loss per common share, as the effect of utilizing the fully diluted share count would have reduced the net loss per common share. Therefore, the following potentially dilutive securities have been excluded from the computation of diluted weighted average shares outstanding because they would be anti-dilutive:

	Nine months ended September 30,	
	2015	2014
Warrants	4,351,450	2,951,450
Stock options	8,226,791	6,841,400
Nonvested shares	1,734,821	78,828
Convertible preferred stock	333,333	333,333

Note C - Investments

Cash equivalents and short-term investments consisted of the following as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015		December 31, 2014	
	Cost	Estimated Fair Value	Cost	Estimated Fair Value
Institutional Money Market Funds	$172,811	$172,811	$25,149	$25,149
U.S. Treasury Bills	14,971	14,994	14,508	14,510
Total	$187,782	$187,805	$39,657	$39,659

For the nine months ended September 30, 2015, we received proceeds of approximately $14.5 million from the sale of available-for-sale securities. No proceeds from the maturity of available-for-sale securities were received for the year ended December 31, 2014. Gross realized gains included in net loss as a result of the sale of available-for-sale securities were immaterial for the nine months ended September 30, 2015. As a result of the short-term nature of our investments, there were minimal unrealized holding gains or losses as of September 30, 2015 and December 31, 2014.

Of the investments listed above, $172.8 million and $25.1 million have been classified as cash equivalents and $15.0 million and $14.5 million as short-term investments on our condensed consolidated balance sheet as of September 30, 2015 and December 31, 2014, respectively.

Note D - Goodwill and Acquired Intangible Assets

The following table sets forth the changes in the carrying amount of goodwill for the nine months ended September 30, 2015 (in thousands):

Balance, December 31, 2014	$17,869
Foreign currency translation adjustment	271
Balance, September 30, 2015	$18,140

Acquired intangible assets consisted of the following at September 30, 2015 (in thousands):

	Amortization period (years)	Gross carrying amount	Accumulated amortization	Net carrying amount
Intellectual Property	15 years	$ 4,425	$ (479)	$ 3,946
Trademarks	4.5 years	829	(300)	529
Other	3 years	175	(95)	80
In-process research and development	Indefinite	1,935	—	1,935
Total		$ 7,364	$ (874)	$ 6,490

The weighted average amortization period of our finite-lived intangible assets is 13 years. Amortization expense related to acquired intangibles is estimated at $134,000 for the remainder of 2015, $512,000 for each of the years ending 2016 and 2017, $410,000 for the year ending 2018, $295,000 for the year ending 2019, and $299,000 for each of the years ending 2020-2029.

The acquired in-process research and development ("IPR&D") asset relates to the pre-clinical CPM antibody programs acquired with our acquisition of 4-Antibody AG (“4-AB”) 4-AB in February 2014. IPR&D acquired in a business combination is capitalized at fair value until the underlying project is completed and is subject to impairment testing at least annually. Once the project is completed, the carrying value of IPR&D is amortized over the estimated useful life of the asset. Post-acquisition research and development expenses related to the acquired IPR&D are expensed as incurred.

Note E - Debt

Debt obligations consisted of the following as of September 30, 2015 and December 31, 2014 (in thousands):

Debt instrument	Principal at September 30, 2015	Non-cash Interest	Unamortized Debt Issuance Costs	Unamortized Debt Discount	Balance at September 30, 2015
Current Portion:					
Debentures	$ 146	$ —	$ —	$ —	$ 146
Long-term Portion:					
2015 Subordinated Notes	14,000	—	—	(2,510)	11,490
Note Purchase Agreement	100,000	825	(1,514)	(248)	99,063
Total long-term	$ 114,000	$ 825	$ (1,514)	$ (2,758)	$ 110,553
Total	$ 114,146	$ 825	$ (1,514)	$ (2,758)	$ 110,699
Debt instrument	Principal at December 31,	Non-cash Interest	Unamortized Debt	Unamortized Debt	Balance at December

	2014		Issuance Costs	Discount	31, 2014
Current Portion:					
Debentures	$ 146	$ —	$ —	$ —	$ 146
SVB Loan	1,111	—	—	—	1,111
Total current	$ 1,257	$ —	$ —	$ —	$ 1,257
Long-term Portion:					
2013 Notes	5,000	—	—	(231)	4,769
Total	$ 6,257	$ —	$ —	$ (231)	$ 6,026

Subordinated Notes

On February 20, 2015, we, certain existing investors and certain additional investors entered into an Amended and Restated Note Purchase Agreement, pursuant to which we (i) canceled our senior subordinated promissory notes issued in April 2013 (the "2013 Notes") in exchange for new senior subordinated promissory notes (the “2015 Subordinated Notes”) in the aggregate principal amount of $5.0 million, (ii) issued additional 2015 Subordinated Notes in the aggregate principal amount of $9.0 million and (iii) issued five year warrants to purchase 1,400,000 shares of our common stock at an exercise price of $5.10 per share.

The 2015 Subordinated Notes bear interest at a rate of 8% per annum, payable in cash on the first day of each month in arrears. Among other default and acceleration terms customary for indebtedness of this type, the 2015 Subordinated Notes include default provisions which allow for the noteholders to accelerate the principal payment of the 2015 Subordinated Notes in the event we

become involved in certain bankruptcy proceedings, become insolvent, fail to make a payment of principal or (after a grace period) interest on the 2015 Subordinated Notes, default on other indebtedness with an aggregate principal balance of $13.5 million or more if such default has the effect of accelerating the maturity of such indebtedness, or become subject to a legal judgment or similar order for the payment of money in an amount greater than $13.5 million if such amount will not be covered by third-party insurance. The 2015 Subordinated Notes are not convertible into shares of our common stock and will mature on February 20, 2018, at which point we must repay the outstanding balance in cash. The Company may prepay the 2015 Subordinated Notes at any time, in part or in full, without premium or penalty.

The exchange of the 2013 Notes for the 2015 Subordinated Notes was accounted for as a debt extinguishment under the guidance of Accounting Standards Codification (ASC) 470-50 Debt: Modifications and Extinguishments. For the nine months ended September 30, 2015 we recorded a loss on debt extinguishment of approximately $154,000 in non-operating (expense) income in our condensed consolidated statements of operations and comprehensive loss. The debt discount of approximately $3.0 million, which relates to the warrants issued in connection with the 2015 Subordinated Notes, is being amortized using the effective interest method over three years, the expected life of the 2015 Subordinated Notes.

Note Purchase Agreement Related to Sale of Future Royalties

On September 4, 2015, we and our wholly-owned subsidiaries, Antigenics LLC (“Antigenics”) and Aronex Pharmaceuticals, Inc. (“Aronex”), entered into a Note Purchase Agreement (the “NPA”) with Oberland Capital SA Zermatt LLC, as collateral agent (“Oberland”), an affiliate of Oberland as the lead purchaser and other purchasers. Pursuant to the terms of the NPA, on September 8, 2015 (the “Closing Date”), Antigenics issued $100.0 million aggregate principal amount of limited recourse notes (the “Notes”) to the purchasers. Antigenics has the option to issue an additional $15.0 million aggregate principal amount of Notes (the “Additional Notes”) to the purchasers within 15 days after approval of GSK’s shingles vaccine, HZ/su, by the Food and Drug Administration, provided such approval occurs on or before June 30, 2018.

The Notes accrue interest at a rate of 13.5% per annum, compounded quarterly, from and after the Closing Date computed on the basis of a 360-day year and the actual number of days elapsed. Principal and interest payments are due on each of March 15, June 15, September 15 and December 15, and shall be made solely from the royalties paid from GSK to Antigenics on sales of GSK’s shingles and malaria vaccines. The Notes are limited recourse and secured solely by a first priority security interest in the royalties and accounts and payment intangibles relating thereto plus various rights of Antigenics related to the royalties under its contracts with GSK (the “Collateral”). GSK will send all royalty payments to a segregated bank account, and to the extent there are insufficient royalties deposited into the account to fund a quarterly interest payment, the interest will be capitalized and added to the aggregate principal balance of the loan. The final legal maturity date of the Notes is the earlier of (i) the 10 th anniversary of the first commercial sale of GSK’s shingles or malaria vaccines and (ii) September 8, 2030 (the “Maturity Date”). Antigenics’ obligation to repay all principal and accrued and unpaid interest by the Maturity Date is secured only by the Collateral.

At our option, we may redeem all, but not less than all, of the Notes at any time prior to the Maturity Date. The redemption price is equal to the outstanding principal amount of the Notes, plus all accrued and unpaid interest thereon, plus a premium payment that would yield an aggregate internal rate of return (“IRR”) for the purchasers as follows: (i) an IRR of 20% if the redemption occurs within 24 months of the Closing Date, (ii) an IRR of 17.5% if the redemption occurs after 24 months but within 48 months of the Closing Date, and (iii) an IRR of 15% if the redemption occurs more than 48 months after the Closing Date (the “Redemption Payment”).

On September 8, 2018, each purchaser has the option to require Antigenics to repurchase up to 15% of the Notes issued to such purchaser on the Closing Date (the “Put Notes”) at a purchase price equal to the principal amount thereof plus accrued and unpaid interest thereon (the “Put Payment”). Antigenics is required to complete any such repurchase

within 90 days after September 8, 2018.

On the earlier of (i) September 8, 2027 and (ii) the Maturity Date, Antigenics is required to pay the purchasers an amount equal to the following (the "Make-Whole Payment"): $100.0 million (or $115.0 million if the Additional Notes are sold) minus the aggregate amount of all payments made in respect of the Notes (regardless of whether characterized as principal or interest at the time of payment), including the original principal amount of any repaid Put Notes.

The NPA specifies a number of events of default (some of which are subject to applicable cure periods), including (i) failure to cause royalty payments to be deposited into the segregated bank account, (ii) payment defaults, (iii) breaches of representations and warranties made at the time the Notes were issued, (iv) covenant defaults, (v) a final and unappealable judgment against Antigenics for the payment of money in excess of $1.0 million, (vi) bankruptcy or insolvency defaults, (vii) the failure to maintain a first-priority perfected security interest in the Collateral in favor of the collateral agent and (viii) the occurrence of a change of control of Agenus. Upon the occurrence of an event of default, subject to cure periods in certain circumstance and some limited exceptions, Oberland may declare the Notes immediately due and payable, in which case Antigenics would owe a payment equal to the Redemption

Payment (the "Accelerated Default Payment"). Upon the occurrence and during the continuance of any event of default, interest on the Notes also increases by 2.5% per annum.

Agenus and Aronex (together, the "Guarantors"), are parties to the NPA as guarantors of certain of Antigenics' obligations under the NPA. The Guarantors generally guarantee the Put Payment, the Make-Whole Payment, the Redemption Payment and the Accelerated Default Payment.

In accordance with the guidance of ASC 470-10-25 Debt: Recognition, we determined the NPA represents a debt transaction and does not purport to be a sale; the balance of the outstanding notes and interest will be repaid over the estimated term of the NPA. We will periodically assess the expected royalties using a combination of historical results, internal projections and forecasts from external sources. To the extent such payments are greater or less than our initial estimates or the timing of such payments is materially different than our original estimates, we will prospectively adjust the estimated time period over which the debt and interest will be repaid. There are a number of factors that could materially affect the amount and timing of royalty payments from GSK, all of which are not within our control. Such factors include, but are not limited to, changing standards of care, the introduction of competing products, manufacturing or other delays, biosimilar competition, patent protection, adverse events that result in governmental health authority imposed restrictions on the use of the drug products, significant changes in foreign exchange rates, and other events or circumstances that could result in reduced royalty payments from GSK, all of which would result in a reduction of royalty revenues and the interest expense over the life of the NPA.

As royalties are remitted to the purchasers, we will record non-cash royalty revenues and non-cash interest expense within our consolidated statements of operations and comprehensive loss over the term of the NPA as interest accrues and royalties are generated. We did not recognize any royalty revenue and recorded $825,000 in non-cash interest expense for the three and nine months-ended September 30, 2015 within our condensed consolidated statement of operations and comprehensive loss.

In connection with the execution of the NPA, we reimbursed the purchasers for legal fees of $250,000 and incurred debt issuance costs of approximately $1.5 million. Under the relevant accounting guidance, legal fees and debt issuance costs have been recorded as a reduction to the gross proceeds. These amounts are being amortized over 12 years, the expected term of the Notes, using the effective interest rate method.

Other

In April 2015, we made our final payment of approximately $278,000 under our $5.0 million Loan and Security Agreement with Silicon Valley Bank (the "SVB Loan") in accordance with the terms of the SVB Loan. We have no further outstanding indebtedness or obligations under the SVB Loan.

Note F – Revenue Interest Assignment Termination

On April 15, 2013, we and Antigenics entered into a Revenue Interests Assignment Agreement (the "Original Agreement") with Ingalls & Snyder Value Partners, L.P. and Arthur Koenig (together, "Ingalls"), pursuant to which we and Antigenics sold to Ingalls 20% of all the royalties Antigenics was entitled to receive from GSK and Janssen Sciences Ireland Uc on products associated with Agenus's QS-21 Stimulon (collectively, the "Assigned Interests").

On September 4, 2015, we and Antigenics entered into a Revenue Interest Assignment and Termination Agreement (the "Assignment and Termination Agreement") with Ingalls, pursuant to which we terminated the Original Agreement and repurchased the Assigned Interests in exchange for (i) $20.0 million in cash and (ii) 300,000 shares of Agenus common stock for total consideration of approximately $22.1 million. The closing under the Assignment and Termination Agreement took place on September 8, 2015 immediately prior to the closing under the NPA. Effective

September 8, 2015, we have no further obligations under the Original Agreement.

For the three months ended September 30, 2015 we recorded a fair value adjustment of approximately $495,000 upon settlement of the contingent royalty obligation recorded within non-operating (expense) income in our condensed consolidated statement of operations and comprehensive loss.

Note G - Accrued and Other Current Liabilities

Accrued liabilities consisted of the following as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Payroll	$ 3,592	$ 3,134
Professional fees	3,349	1,438
Contract Manufacturing Costs	2,495	245
License Fees Payable	2,200	—
Other	2,103	685
Total	$ 13,739	$ 5,502

Other current liabilities consisted of the following as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Current portion of deferred purchase price (Note L)	$ 4,933	$ —
Other	409	575
Total	$ 5,342	$ 575

Note H - Collaborations

Incyte Corporation-

On January 9, 2015 and effective February 19, 2015, we entered into a global license, development and commercialization agreement (the “Collaboration Agreement”) with Incyte pursuant to which the parties plan to develop and commercialize novel immuno-therapeutics using our proprietary antibody discovery platforms. The Collaboration Agreement is initially focused on four checkpoint modulator programs directed at GITR, OX40, LAG-3 and TIM-3. In addition to the four identified antibody programs, the parties have an option to jointly nominate and pursue the development and commercialization of antibodies against additional targets during a five year discovery period which, upon mutual agreement of the parties for no additional consideration, can be extended for an additional three years.

On January 9, 2015 we also entered into a Stock Purchase Agreement with Incyte Corporation (the “Stock Purchase Agreement”) whereby, for an aggregate purchase price of $35.0 million, Incyte purchased approximately 7.76 million shares of our common stock; see Note K for more details.

Agreement Structure

Under the terms of the Collaboration Agreement, we received a non-creditable, nonrefundable upfront payment of $25.0 million. In addition, the parties will share all costs and profits for the GITR and OX40 antibody programs on a 50:50 basis (profit-share products), and we are eligible to receive up to $20 million in future contingent development milestones under these programs. Incyte is obligated to reimburse us for all development costs that we incur in connection with the TIM-3 and LAG-3 antibody programs (royalty-bearing products) and we are eligible to receive (i) up to $155 million in future contingent development, regulatory, and commercialization milestone payments and (ii)

tiered royalties on global net sales at rates generally ranging from 6% to 12%. For each royalty-bearing product, we will also have the right to elect to co-fund 30% of development costs incurred following initiation of pivotal clinical trials in return for an increase in royalty rates. Additionally, we retain co-promotion participation rights in the United States on any profit-share product. Through the direction of a joint steering committee, the parties anticipate that, for each program, we will serve as the lead for pre-clinical development activities through investigational new drug application filing, and Incyte will serve as the lead for clinical development activities. The parties expect to initiate the first clinical trials of antibodies arising from these programs in 2016. For each additional program beyond GITR, OX40, TIM-3 and LAG-3 that the parties elect to bring into the collaboration, if any, we will have the option to designate it as a profit-share product or a royalty-bearing product.

The Collaboration Agreement will continue as long as (i) any product is being developed or commercialized or (ii) the discovery period remains in effect. After the first anniversary of the effective date of the Collaboration Agreement, Incyte may terminate the Collaboration Agreement or any individual program for convenience upon 12 months' notice. The Collaboration Agreement may also be terminated by either party upon the occurrence of an uncured material breach of the other party or by us if Incyte challenges patent rights controlled by us. In addition, either party may terminate the Collaboration Agreement as to any program if the other party is acquired and the acquiring party controls a competing program.

Collaboration Revenue

For the three and nine months ended September 30, 2015, we have recognized revenue of approximately $6.5 million and $16.1 million, respectively, under the Collaboration Agreement, of which, $2.6 million and $6.6 million, respectively, is related to the amortization of the $25.0 million non-creditable, nonrefundable upfront payment. As of September 30, 2015, we have deferred revenue outstanding under the Collaboration Agreement of approximately $18.4 million, of which approximately $5.8 million and $12.6 million are classified as current and long-term, respectively, on our condensed consolidated balance sheet.

Note I - Fair Value Measurements

We measure our short-term investments, contingent purchase price consideration and in the past, our contingent royalty obligation, at fair value. Our short-term investments are comprised solely of U.S. Treasury Bills that are valued using quoted market prices with no valuation adjustments applied. Accordingly, these securities are categorized as Level 1 assets.

The fair value of our $3.7 million contingent purchase price consideration is based on significant inputs not observable in the market, which require it to be reported as a Level 3 liability within the fair value hierarchy. The valuation of this liability uses assumptions we believe would be made by a market participant. In particular, the fair value of our contingent purchase price consideration is based on estimates from a Monte Carlo simulation of our market capitalization and other factors impacting the probability of triggering the milestone payments. Market capitalization was evolved using a geometric brownian motion, calculated daily for the life of the contingent purchase price consideration.

We completed the valuation analysis for the contingent royalty obligation using discounted cash flow based on the sum of the economic income that an asset is anticipated to produce in the future. In this case, that asset was the potential royalty income to be paid to us as a result of certain license agreements for QS-21 Stimulon. The fair value of the contingent royalty obligation was estimated by applying a risk adjusted discount rate (10.2%) to the probability adjusted royalty revenue stream based on expected approval dates. These fair value estimates were most sensitive to changes in the probability of regulatory approvals.

Assets and liabilities measured at fair value are summarized below (in thousands):

Description	September 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Short-term investments	$ 14,994	$ 14,994	$ —	$ —
Liabilities:				

Contingent purchase price consideration	3,747	—	—	3,747

Description	December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Short-term investments	$ 14,510	$ 14,510	$ —	$ —
Liabilities:				
Contingent royalty obligation	15,279	—	—	15,279
Contingent purchase price consideration	16,420	—	—	16,420
Total	$ 31,699	$ —	$ —	$ 31,699

The following table presents our liabilities measured at fair value using significant unobservable inputs (Level 3), as of September 30, 2015 (amounts in thousands):

Balance, December 31, 2014	$31,699
Change in fair value of contingent royalty obligation during the period	6,863
Change in fair value of contingent purchase price consideration during the period	7,327
Payment of contingent purchase price milestone	(20,000)
Settlement of contingent royalty obligation	(22,142)
Balance, September 30, 2015	$3,747

The change in fair value of the contingent royalty obligation liability is included in non-operating (expense) income in our condensed consolidated statement of operations and comprehensive loss for the nine months ended September 30, 2015. There were no changes in the valuation techniques during the period and there were no transfers into or out of Levels 1 and 2.

On January 23, 2015, we achieved the first contingent milestone pursuant to the terms of our Share Exchange Agreement dated January 10, 2014, by and among us, 4-AB, the former shareholder of 4-AB and Vischer AG, as Representative (the "Share Exchange Agreement"), and accordingly we paid $20.0 million.

As outlined in Note F, we settled our contingent royalty obligation owed to Ingalls for consideration of $22.1 million as of the transaction date, which we concluded approximated its fair value.

The estimated fair values of all of our financial instruments, excluding our outstanding debt, approximate their carrying amounts in the condensed consolidated balance sheets. The fair value of our outstanding debt was derived by evaluating the nature and terms of each note and considering the prevailing economic and market conditions at the balance sheet date.

The fair value of our outstanding debt balance at September 30, 2015 and December 31, 2014 was $116.2 million and $6.1 million, respectively, based on the Level 2 valuation hierarchy of the fair value measurements standard using a present value methodology. The principal amount of our outstanding debt balance at September 30, 2015 and December 31, 2014 was $114.1 million and $6.3 million, respectively.

Note J - Share-based Compensation Plans

We primarily use the Black-Scholes option pricing model to value stock options granted to employees and non-employees, including stock options granted to members of our Board of Directors. All stock options have 10-year terms and generally vest ratably over a 3 or 4-year period. A non-cash charge to operations for the stock options granted to non-employees that have vesting or other performance criteria is affected each reporting period, until the non-employee options vest, by changes in the fair value of our common stock.

A summary of option activity for the nine months ended September 30, 2015 is presented below:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2014	6,525,724	$ 4.40		
Granted	2,585,544	5.93		
Exercised	(458,678)	3.83		
Forfeited	(292,426)	3.77		
Expired	(133,373)	9.87		
Outstanding at September 30, 2015	8,226,791		7.63	$5,965,193
Vested or expected to vest at September 30, 2015	7,522,580	$ 4.79	7.47	$5,372,584
Exercisable at September 30, 2015	4,134,451	$ 5.07	6.62	$2,825,031

The weighted average grant-date fair values of stock options granted during the nine months ended September 30, 2015 and 2014, were $3.85 and $1.85, respectively.

As of September 30, 2015, $8.8 million of total unrecognized compensation cost related to stock options granted to employees and directors is expected to be recognized over a weighted average period of 1.8 years.

As of September 30, 2015, unrecognized expense for options granted to outside advisors for which performance (vesting) has not yet been completed but the exercise price of the option is known is $651,000. Such amount is subject to change each reporting period based upon changes in the fair value of our common stock, expected volatility, and the risk-free interest rate, until the outside advisor completes his or her performance under the option agreement.

Certain employees and consultants have been granted nonvested stock. The fair value of nonvested stock is calculated based on the closing sale price of our common stock on the date of issuance.

A summary of nonvested stock activity for the nine months ended September 30, 2015 is presented below:

	Nonvested Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2014	78,828	$ 3.93
Granted	1,720,430	8.70
Vested	(35,332)	3.97
Forfeited	(29,105)	8.57
Outstanding at September 30, 2015	1,734,821	$ 8.58

As of September 30, 2015, there was $11.7 million of unrecognized share-based compensation expense related to these nonvested shares awarded to employees of which $108,000 is expected to be recognized over a weighted average period of 1.4 years. The remaining $11.6 million of unrecognized share-based compensation expense relates to performance based awards for which, if all milestones are achieved, will be recognized over a 3 year period. As of September 30, 2015, unrecognized expense for nonvested shares awarded to outside advisors is $28,000. The total intrinsic value of shares vested during the nine months ended September 30, 2015, was $140,000.

During the nine months ended September 30, 2015, 63,539 shares were issued under the 2009 Employee Stock Purchase Plan, 35,332 shares were issued as a result of the vesting of nonvested stock and 458,678 shares were issued as a result of stock option exercises.

The impact on our results of operations from share-based compensation for the three and nine months ended September 30, 2015, and 2014, was as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Research and development	$ 453	$ 274	$ 1,695	$ 936
General and administrative	320	1,005	3,523	2,765

Total share-based compensation expense	$ 773	$ 1,279	$ 5,218	$ 3,701

Note K - Equity

On January 9, 2015, in connection with the execution of the Collaboration Agreement, we also entered into the Stock Purchase Agreement with Incyte Corporation, pursuant to which Incyte purchased approximately 7.76 million shares of our common stock (the “Shares”) in February 2015 for an aggregate purchase price of $35.0 million, or approximately $4.51 per share. Under the Stock Purchase Agreement, Incyte has agreed not to dispose of any of the Shares for a period of 12 months and we agreed to register the Shares for resale under the Securities Act of 1933, as amended (the "Securities Act").

In connection with the achievement of the first contingent milestone pursuant to the Share Exchange Agreement, in March and April 2015, we issued 50,596 shares of our common stock valued at approximately $217,000 and 29,897 shares of our common stock valued at approximately $128,000, respectively, as payment of a portion of our obligation.

In April 2015, in accordance with the payment terms of an asset purchase agreement, as detailed in Note L, we issued 574,140 shares of our common stock to the members of Celexion valued at $3.0 million.

In May 2015, we issued and sold 12,650,000 shares of our common stock in an underwritten public offering. Net proceeds after deducting offering expenses were approximately $75.0 million.

In September 2015, in accordance with the terms of the Assignment and Termination Agreement detailed in Note F, we issued 300,000 shares of our common stock to Ingalls valued at $2.1 million.

Note L - Asset Purchase Agreement

On April 7, 2015 (the “Celexion Closing Date”), we entered into an Asset Purchase Agreement (the "Purchase Agreement") with Celexion and each of the members of Celexion, pursuant to which, we acquired Celexion’s SECANT yeast display antibody discovery platform, its full-length IgG antibody library, its technology for the discovery of molecules targeting cell membrane-associated antigens, and certain other related intellectual property assets (collectively, the “Purchased Assets”). As consideration for the Purchased Assets, on the Celexion Closing Date we paid Celexion $1.0 million in cash and issued Celexion 574,140 shares of our common stock valued at approximately $5.23 per share. As additional consideration for the Purchased Assets, we agreed under the Purchase Agreement to pay to Celexion (i) $1.0 million in cash payable on each of the 9-month and 18-month anniversaries of the Celexion Closing Date and (ii) $4.0 million on each of the 12-month and 24-month anniversaries of the Celexion Closing Date payable at our discretion in cash, shares of our common stock, or any combination thereof. If we elect to pay any of the additional consideration in shares of our common stock, such shares will be issued at a price per share equal to the simple average of the daily closing volume weighted average price over the 20 trading days preceding the date of issuance. We agreed to file one or more registration statements under the Securities Act to cover the resale of all shares issued as consideration under the Purchase Agreement. In May 2015, we filed a registration statement covering the resale of 574,140 shares issued to Celexion, and the SEC declared the registration statement effective in June 2015. This transaction was accounted for as an asset acquisition in accordance with ASC 805 Business Combinations. In accordance with ASC 730 Research and Development, the purchase price of approximately $13.2 million was recorded as research and development expense in our condensed consolidated statement of operations and comprehensive loss for the nine months ended September 30, 2015 as the IPR&D was deemed to have no future alternative use, no expense was recorded for the three months ended September 30, 2015.

Note M - Benefit Plans

We maintain a multiple employer benefit plan that covers all of our international employees. The annual measurement date for this plan is December 31. Benefits are based upon years of service and compensation.

For the three and nine months ended September 30, 2015 we contributed approximately $26,000 and $80,000, respectively, and for the three and nine months ended September 30, 2014 we contributed approximately $27,000 and $81,000, to our international multiple employer benefit plan. For the remainder of the year ending December 31, 2015 we expect to contribute approximately $24,000 to the plan.

Note N - Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, ("ASU 2014-09"). ASU 2014-09 amends revenue recognition principles and provides a single set of criteria for revenue recognition among all industries. This new standard provides a five step framework whereby revenue is recognized when promised goods or services are transferred to a customer at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires enhanced disclosures pertaining to revenue recognition in both interim and annual periods. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2017. We are currently evaluating the potential impact that ASU 2014-09 may have on our financial position and results of operations.

In August 2014, the FASB issued ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, ("ASU 2014-15"). ASU 2014-15 describes how an entity should assess its ability to meet obligations and sets rules for how this information should be disclosed in the financial statements. The standard provides accounting that will be used along with existing auditing standards. ASU 2014-15 applies to all entities and is effective for the annual period ending after December 15, 2016, and for annual and interim periods thereafter with early adoption permitted. We are currently evaluating the potential impact that ASU 2014-15 may have on our consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, (“ASU 2015-03”). ASU 2015-03 simplifies the presentation of debt issuance costs, as this new standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt

issuance costs are not affected by this update. This guidance is effective for annual reporting beginning after December 15, 2015, including interim periods within the year of adoption, and calls for retrospective application, with early application permitted. We adopted ASU 2015-03 with the interim period ended September 30, 2015. During the quarter ended September 30, 2015, in connection with the execution of the NPA as described in Note E, the Company incurred approximately $1.5 million in debt issuance costs that are classified as a reduction to long-term debt in our condensed consolidated balance sheet. No debt issuance costs required retrospective application as the result of the adoption of ASU 2015-03. The amortization of the debt issuance costs for the three and nine months ended September 30, 2015 was minimal.

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

Forward Looking Statements

This Quarterly Report on Form 10-Q and other written and oral statements we make from time to time contain certain "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). You can identify these forward-looking statements by the fact they use words such as "could," "expect," "anticipate," "estimate," "target," "may," "project," "guidance," "intend," "plan," "b "potential," "opportunity," "future" and other words and terms of similar meaning and expression in connection with any discussion of future operating or financial performance. You can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. Such forward-looking statements are based on current expectations and involve inherent risks and uncertainties, including factors that could delay, divert or change any of them, and could cause actual outcomes to differ materially from current expectations. These statements are likely to relate to, among other things, our business strategy, our research and development, our product development efforts, our ability to commercialize our product candidates, the activities of our licensees, our prospects for initiating partnerships or collaborations, the timing of the introduction of products, the effect of new accounting pronouncements, uncertainty regarding our future operating results and our profitability, anticipated sources of funds as well as our plans, objectives, expectations, and intentions.

We have included more detailed descriptions of these risks and uncertainties and other risks and uncertainties applicable to our business that we believe could cause actual results to differ materially from any forward-looking statements in Part II-Item 1A "Risk Factors" of this Quarterly Report on Form 10-Q. We encourage you to read those descriptions carefully. Although we believe we have been prudent in our plans and assumptions, no assurance can be given that any goal or plan set forth in forward-looking statements can be achieved. We caution investors not to place significant reliance on forward-looking statements contained in this document; such statements need to be evaluated in light of all the information contained in this document. Furthermore, the statements speak only as of the date of this document, and we undertake no obligation to update or revise these statements.

Overview

We are an immunology company discovering and developing novel checkpoint modulators, vaccines and adjuvants to treat cancer and other diseases. Our approaches are driven by three platform technologies:

- our antibody platforms, including our proprietary Retrocyte Display, SECANT yeast display, our phage display technologies, and our antibody programs, including checkpoint modulators, or CPMs;
- our heat shock protein (HSP)-based vaccines; and
- our saponin-based vaccine adjuvants, principally our QS-21 Stimulon adjuvant, or QS-21 Stimulon.

We have a portfolio of programs in pre-clinical and clinical stages, including a series of CPMs in investigational new drug (IND)-enabling studies, a HSP-based autologous vaccine candidate for glioblastoma multiforme, or GBM, a form of brain cancer, and a number of advanced QS-21 Stimulon-containing vaccine candidates in late stage development by our partner, GlaxoSmithKline plc (GSK).

For the treatment of cancer, our programs aim to stimulate the immune system to recognize and eradicate cancer cells and disable the mechanisms that cancer cells employ to evade detection and destruction by the immune system. Because of the breadth of our portfolio, we have the ability to combine our proprietary vaccines with a portfolio of checkpoint modulating antibodies against major checkpoint targets to explore and optimize cancer treatments. Our strategy is to develop these agents either alone or in combinations to yield best-in-class treatments. We assess the development, commercialization and/or partnering strategies with respect to each of our internal product candidates periodically based on several factors, including clinical trial results, competitive

positioning and funding requirements and resources.

Our antibody discovery platforms have been applied to the discovery and development of CPMs targeting significant checkpoint targets. Agenus and its partners have pre-clinical programs targeting GITR, OX40, CTLA-4, LAG-3, TIM-3, PD-1, CEACAM1 and other undisclosed checkpoints. In April 2015, we expanded our antibody discovery platform through the acquisition of key antibody assets from Celexion. Among the assets we acquired from Celexion was the SECANT yeast display platform for the generation of novel monoclonal antibodies and efficient integration of drug targets such as CPMs. In July 2015, we entered into a license agreement with Diatheva s.r.1 pursuant to which we acquired rights to antibodies targeting CEACAM1, further expanding our antibody capabilities and CPM targets.

In January 2015, we announced a broad, global alliance with Incyte Corporation, or Incyte, to pursue the discovery and development of CPMs that initially target GITR, OX40, TIM-3 and LAG-3, and potentially other antibodies for the treatment of patients with cancer. We also began collaborating with Merck Sharp & Dohme Corp, or Merck, in April 2014 to discover antibodies against two undisclosed checkpoint targets. We plan to file two INDs in 2015 for CPM antibody candidates targeting GITR and CTLA-4, and we anticipate initiating clinical trials with the first of our CPM antibody candidates in 2016.

In addition to our internal development efforts, we continue to pursue collaboration, out-licensing and/or partnering opportunities for our portfolio programs and product candidates, as well as explore in-licensing, acquisitions and collaboration arrangements in areas of synergy with our existing programs. Our business activities have included product research and development, intellectual property prosecution, manufacturing, regulatory and clinical affairs, corporate finance and development activities, and support of our collaborations.

To date, we have financed our operations primarily through the sale of equity and debt securities. We believe that, based on our current plans and activities, our working capital resources at September 30, 2015 will be sufficient to satisfy our liquidity requirements into the first half of 2018. We may attempt to raise additional funds by: (1) pursuing collaboration, out-licensing and/or partnering opportunities for our portfolio programs and product candidates with one or more third parties, (2) renegotiating third party agreements, (3) selling assets, (4) securing additional debt financing and/or (5) selling equity securities. Satisfying long-term liquidity needs may require the successful commercialization and/or substantial out-licensing or partnering arrangements for our antibody discovery platforms, CPM antibody programs, HSP-based vaccines, and vaccines containing QS-21 Stimulon under development by our licensees. Our long-term success will also be dependent on the successful identification, development and commercialization of potential other product candidates, each of which will require additional capital with no certainty of timing or probability of success. If we incur operating losses for longer than we expect and/or we are unable to raise additional capital, we may become insolvent and be unable to continue our operations.

Historical Results of Operations

Three months ended September 30, 2015 compared to the three months ended September 30, 2014

Revenue: We recognized revenue of approximately $6.8 and $1.6 million during the three months ended September 30, 2015 and 2014, respectively. Revenues primarily include fees earned under our license agreements, including approximately $3.9 million for the three months ended September 30, 2015, related to reimbursement of development costs under our Collaboration Agreement with Incyte, and $2.7 million and $1.2 million for the three months ended September 30, 2015 and 2014, respectively, from the amortization of deferred revenue.

Research and development: Research and development expenses include the costs associated with our internal research and development activities, including compensation and benefits, occupancy costs, clinical and contract manufacturing costs, costs of consultants, and certain administrative costs. Research and development expense increased 250% to $18.5 million for the three months ended September 30, 2015 from $5.3 million for the three months ended September 30, 2014. Increased expenses in 2015 primarily relate to an increase in third-party services of $7.9 million primarily relating to the advancement of our CPM antibody programs, $1.7 million increase in payroll related expenses due in increases in headcount, and $2.5 million in one-time technology license fees.

General and administrative: General and administrative expenses consist primarily of personnel costs, facility expenses, and professional fees. General and administrative expenses increased 30% to $6.4 million for the three months ended September 30, 2015 from $4.9 million for the three months ended September 30, 2014. Increased general and administrative expenses in 2015 primarily relate to a $1.5 million increase in professional fees related to our corporate activities.

Contingent purchase price consideration fair value adjustment: Contingent purchase price consideration fair value adjustment represents the change in the fair value of our contingent purchase price consideration which has decreased due to our decreased market capitalization during the periods and the corresponding estimated length of time to achieve the second and third milestones under our 4-AB Share Exchange Agreement.

Non-operating (expense) income: Non-operating expense for the three months ended September 30, 2015 represents the fair value adjustment of our contingent royalty obligation of $495,000 and foreign currency translation loss of $158,000. Non-operating income for the three months ended September 30, 2014 represents the change in the fair value of our contingent royalty obligation and our then outstanding convertible notes.

Interest expense, net: Interest expense, net increased to approximately $1.4 million for the three months ended September 30, 2015 from $310,000 for the three months ended September 30, 2014 due to the issuance of our 2015 Subordinated Notes in February 2015 and the issuance of the Notes under our NPA which was executed in September 2015.

Nine months ended September 30, 2015 compared to the nine months ended September 30, 2014

Revenue: We generated revenue of approximately $17.2 million and $5.4 million during the nine months ended September 30, 2015 and 2014, respectively. Revenues primarily include fees earned under our license agreements, including approximately $9.6 million for the nine months ended September 30, 2015, related to reimbursement of development costs under our Collaboration Agreement with Incyte and $6.7 million and $3.0 million for the nine months ended September 30, 2015 and 2014, respectively, from the amortization of deferred revenue.

Research and development: Research and development expenses include the costs associated with our internal research and development activities, including compensation and benefits, occupancy costs, clinical and contract manufacturing costs, costs of consultants, and administrative costs. Research and development expense increased 250% to $52.5 million for the nine months ended September 30, 2015 from $15.0 for the nine months ended September 30, 2014. Increased expenses in 2015 primarily relate to the $16.0 million increase in third-party services and other expenses relating largely to the advancement of our CPM antibody programs, our $13.2 million asset acquisition which was expensed as in-process research and development, a $3.6 million increase in payroll related costs due to increased headcount, and a $3.6 million in one-time license technology fees.

General and administrative: General and administrative expenses consist primarily of personnel costs, facility expenses, and professional fees. General and administrative expenses increased 23% to $19.9 million for the nine months ended September 30, 2015 from $16.2 million for the nine months ended September 30, 2014. Increased general and administrative expenses in 2015 primarily relate to a $1.9 million increase in professional fees related to our corporate activities, and $1.0 million increase in payroll related expenses due to increased headcount.

Contingent consideration fair value adjustment: Contingent consideration fair value adjustment represents the change in the fair value of our purchase price consideration during the nine months ended September 30, 2015 which resulted in expense of $7.3 million related to the changes in our market capitalization, including the achievement of the first milestone under our 4-AB Share Exchange Agreement.

Non-operating (expense) income: Non-operating expense for the nine months ended September 30, 2015 represents the change in the fair value of our contingent royalty obligation of $6.9 million, as well as our foreign currency exchange loss and our loss on extinguishment of our 2013 Notes. Non-operating income for the nine months ended September 30, 2014 represents the change in the fair value of our contingent royalty obligation and our then outstanding convertible notes.

Interest expense, net: Interest expense, net increased to approximately $2.4 million for the nine months ended September 30, 2015 from $962,000 for the nine months ended September 30, 2014 due to the issuance of our 2015 Subordinated Notes in February 2015 and the issuance of the Notes under our NPA which was executed in September 2015.

Research and Development Programs

During the nine months ended September 30, 2015, our research and development programs consisted largely of our CPM antibody programs as indicated in the following table (in thousands).

	Nine months ended	Year Ended December 31,

Research and Development Program	Product	September 30, 2015 2015	2014	2013	2012	Prior to 2012	Total
Heat shock proteins for cancer	Prophage Series Vaccines	$ 3,370	$6,153	$5,882	$5,613	$292,033	$313,051
Heat shock proteins for infectious diseases	HerpV	273	2,443	6,358	4,862	19,088	33,024
Vaccine adjuvant	QS-21 Stimulon	126	321	753			