
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): March 21, 2017

KaloBios Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other Jurisdiction of
Incorporation)

001-35798
(Commission File No.)

77-0557236
(IRS Employer Identification No.)

**1000 Marina Boulevard, Suite 250
Brisbane, CA 94005-1878**
(Address of principal executive offices, including zip code)

(650) 243-3100
(Registrant's telephone number, including area code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry into a Material Definitive Agreement
Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant

On March 23, 2017, KaloBios Pharmaceuticals, Inc. (the “Company”) issued a press release announcing that it had received proceeds of approximately \$5.5 million from an additional loan from its key investors. A copy of the press release is filed as Exhibit 99.1 hereto and incorporated herein by reference.

Amendment to Credit and Security Agreement

On March 21, 2017, the Company entered into an amendment (the “Amendment”) to the Credit and Security Agreement dated December 21, 2016 (the “Credit Agreement”) with Black Horse Capital Master Fund Ltd., as administrative agent and lender (“BHCMF” or “Agent”), Black Horse Capital LP, as a lender (“BHC”), Cheval Holdings, Ltd., as a lender (“Cheval”) and Nomis Bay LTD, as a lender (“Nomis” and, together with BHCMF, BHC and Cheval, the “Lenders”). The Credit Agreement provided for a term loan in the original principal amount of \$3,315,217.00 (the “Term Loan”)

The Amendment provides for an additional loan of \$5,978,260, less an upfront fee equal to \$478,260 (the “Upfront Fee”), and requires the payment by the Company to the Lenders of a commitment fee equal to \$275,000 (the “Commitment Fee”), bringing the total amount of the Term Loan to \$9,293,477. In accordance with the terms of the Credit Agreement, the Company will use the proceeds from the additional loan for general working capital, the payment of certain fees and expenses owed to the Agent and the Lenders in connection with the Credit Agreement and other costs incurred in the ordinary course of business. Aside from the increase in the principal amount extended, the Amendment did not modify any of the terms under the Credit Agreement, all of which will be applicable to the additional loan extended to the Company by the Lenders.

The foregoing description of the Amendment does not purport to be complete and is qualified in its entirety by reference to the copy thereof filed as exhibit 10.1 hereto and incorporated herein by reference.

Promissory Notes

In connection with the Company’s execution of the Amendment, the Company has issued in favor of each Lender a promissory note in an amount equal to each Lender’s additional loan commitment under the Amendment. The new promissory notes are attached hereto as Exhibits 10.2, 10.3, 10.4 and 10.5 and are incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.

(d)

| <u>Exhibit</u> | <u>Exhibit Description</u> |
|----------------|---|
| 10.1 | Amendment to the Credit and Security Agreement, dated as of March 21, 2017, by and among KaloBios Pharmaceuticals, Inc., Black Horse Capital Master Fund Ltd., Black Horse Capital LP, Cheval Holdings, Ltd. and Nomis Bay LTD. |
| 10.2 | Term Loan Note, dated March 21, 2017, by KaloBios Pharmaceuticals, Inc. in favor of Black Horse Capital Master Fund Ltd. |
| 10.3 | Term Loan Note, dated March 21, 2017, by KaloBios Pharmaceuticals, Inc. in favor of Black Horse Capital LP. |

10.4 Term Loan Note, dated March 21, 2017, by KaloBios Pharmaceuticals, Inc. in favor of Cheval Holdings, Ltd.

10.5 Term Loan Note, dated March 21, 2017, by KaloBios Pharmaceuticals, Inc. in favor of Nomis Bay LTD.

99.1 Press release dated March 23, 2017.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

KaloBios Pharmaceuticals, Inc.

By: /s/Cameron Durrant

Name: Cameron Durrant

Title: Chairman of the Board and Chief Executive Officer

Dated: March 23, 2017

EXHIBIT INDEX

| <u>Exhibit</u> | <u>Exhibit Description</u> |
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| 10.2 | Term Loan Note, dated March 21, 2017, by KaloBios Pharmaceuticals, Inc. in favor of Black Horse Capital Master Fund Ltd. |
| 10.3 | Term Loan Note, dated March 21, 2017, by KaloBios Pharmaceuticals, Inc. in favor of Black Horse Capital LP. |
| 10.4 | Term Loan Note, dated March 21, 2017, by KaloBios Pharmaceuticals, Inc. in favor of Cheval Holdings, Ltd. |
| 10.5 | Term Loan Note, dated March 21, 2017, by KaloBios Pharmaceuticals, Inc. in favor of Nomis Bay LTD. |
| 99.1 | Press release dated March 23, 2017 |

KaloBios Pharmaceuticals, Inc.
1000 Marina Blvd., Suite 250
Brisbane, CA 94005

March 21, 2017

Blackhorse Capital LP
Blackhorse Capital Master Fund Ltd.
Blackhorse Capital Management LLC
c/o Opus Equum, Inc.
P.O. Box 788
Dolores, Colorado 81323

Cheval Holdings, Ltd.
P.O. Box 309G
Ugland House,
Georgetown, Grand Cayman Islands KY1-1104

Nomis Bay LTD
Penboss Building
50 Parliament Street
Hamilton, Bermuda HM12

Re: Amendment to Credit and Security Agreement, dated as of December 21, 2016

Ladies and Gentlemen:

Reference is made to the Credit and Security Agreement (the “**Credit Agreement**”), dated as of December 21, 2016, by and between KaloBios Pharmaceuticals, Inc. (the “**Borrower**”) and Black Horse Capital LP, Black Horse Capital Master Fund Ltd., Cheval Holdings, Ltd., and Nomis Bay LTD (each a “**Lender**” and collectively, the “**Lenders**”), pursuant to which the Lenders loaned the principal amount of \$3,315,217 to the Company. Capitalized terms used but not defined herein have the meanings given to them in the Agreement.

Pursuant to our prior discussions, the Company desires to borrow an additional amount of \$5,978,260.00 (the “**Additional Amount**”) and the Lenders desire to lend the Additional Amount to the Company on the terms and conditions set forth in the Agreement, including an upfront fee of \$478,260 and a commitment fee of \$275,000 and hereby agree as follows:

1. Each Lender shall make an additional term loan to the Company on the date of this amendment (the “**Closing Date**”) in the amount identified in Exhibit I (the Lender Amount).
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2. The portion of the Additional Amount made by each Lender shall be evidenced by a promissory note (the “**Promissory Note**”) executed by Borrower for the Lender Amount and delivered on the Closing Date.
3. Each Promissory Note shall bear interest at the Fixed Rate specified in the Agreement and shall be subject to the Default Interest Rate upon the occurrence of an Event of Default as defined in the Agreement.
4. The Form of the Promissory Note is attached hereto as Exhibit II
5. Except as specifically provided in this amendment and as the context of this amendment otherwise may require to give effect to the intent and purposes of this amendment, the Agreement shall remain in full force and effect without any other amendments or modifications.
6. This amendment may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or “.pdf” signature page were an original thereof.
7. This amendment shall be governed by, and construed and enforced in accordance with, the internal laws of the State of Delaware, without regard to the principles of conflicts of law thereof.

[Signature Page Follows]

Very truly yours,

KALOBOS PHARMACEUTICALS, INC.

By: /s/ Cameron Durrant, M.D.
Name: Cameron Durrant, M.D.
Title: Chief Executive Officer

ACKNOWLEDGED AND AGREED:

BLACK HORSE CAPITAL LP

By: /s/ Dale Chappell
Name: Dale Chappell
Title: Manager of the GP

**BLACK HORSE CAPITAL MASTER
FUND LTD.**

By: /s/ Dale Chappell
Name: Dale Chappell
Title: Director

CHEVAL HOLDINGS, LTD.

By: /s/ Dale Chappell
Name: Dale Chappell
Title: Director

NOMIS BAY LTD

By: /s/ James Keyes
Name: James Keyes
Title: Director

Exhibit I
Lender Amounts

| Lender | Term Loan Commitment Amount | Term Loan Commitment Percentage |
|---|------------------------------------|--|
| Nomis Bay LTD | \$2,989,130 | 50.00% |
| Black Horse Capital Master Fund Ltd. | \$1,195,652 | 20.00% |
| Cheval Holdings, Ltd. | \$1,281,141 | 21.43% |
| Black Horse Capital LP | \$512,337 | 8.57% |
| TOTALS | \$5,978,260 | 100% |

Exhibit I
Form of Promissory Note

TERM LOAN NOTE

\$ _____

March __, 2017

FOR VALUE RECEIVED, KALOBOS PHARMACEUTICALS, INC., a Delaware corporation ("**Borrower**"), hereby unconditionally promises to pay to the order of _____, a _____ (together with its successors and assigns, "**Lender**") at the office of Lender at _____, or at such other place as Lender may from time to time designate in writing to Borrower, in lawful money of the United States of America and in immediately available funds, the principal sum of _____ and No/100 Dollars (\$ _____) or, if less, the aggregate unpaid principal amount of the portion of the Term Loan made by Lender to Borrower under the terms of that certain Credit and Security Agreement, dated as of December 21, 2016 (as amended, restated, supplemented or otherwise modified from time to time, the "**Credit Agreement**"), by and among Borrower, Lender, various other lenders as are, or may from time to time become, parties thereto as "**Lenders**" (including without limitation, Lender) and Black Horse Capital Master Fund Ltd., individually as a Lender, and as administrative agent (in such capacity and together with its successors and assigns, "**Agent**"). All capitalized terms used herein (which are not otherwise specifically defined herein) shall be used in this Term Loan Note (this "**Note**") as defined in the Credit Agreement.

1. The outstanding principal balance of the Term Loan evidenced by this Note shall be due and payable or otherwise satisfied in full on the Termination Date or the Maturity Date in accordance with the terms of the Credit Agreement.

2. This Note is issued in accordance with the provisions of the Credit Agreement and is entitled to the benefits and security of the Credit Agreement and the other Financing Documents, and reference is hereby made to the Credit Agreement for a statement of the terms and conditions under which the Term Loan evidenced hereby were made and are required to be repaid. In the event of any conflict between the terms of this Note and the terms of the Credit Agreement, the terms of the Credit Agreement shall prevail.

3. Borrower promises to pay interest from the date hereof until payment in full hereof on the unpaid principal balance of the Term Loan evidenced hereby at the per annum rate or rates set forth in the Credit Agreement. Interest on the unpaid principal balance of the Term Loan evidenced hereby shall be payable on the dates and in the manner set forth in the Credit Agreement. Interest as aforesaid shall be calculated in accordance with the terms of the Credit Agreement.

4. Upon and after the occurrence and during the continuation of an Event of Default, and as provided in the Credit Agreement, the Term Loan evidenced by this Note may be declared, and shall thereupon immediately become, due and payable without presentment, demand, protest, notice, or legal process of any kind whatsoever.

5. Payments received in respect of the Term Loan shall be applied as provided in the Credit Agreement.

6. Presentment, demand, protest and notice of presentment, demand, nonpayment and protest are each hereby waived by Borrower as provided in the Credit Agreement.

7. No waiver by Agent or any Lender of any one or more defaults by the undersigned in the performance of any of its obligations under this Note shall operate or be construed as a waiver of any future default or defaults, whether of a like or different nature, or as a waiver of any obligation of Borrower to any other Lender under the Credit Agreement.

8. No provision of this Note may be amended, waived or otherwise modified unless such amendment, waiver or other modification is in writing and is signed or otherwise approved by Borrower, the Required Lenders and any other Lender under the Credit Agreement to the extent required under Section 10.15 of the Credit Agreement. No failure or delay on the part of any Lender in exercising any right, power, or remedy under this Note (including, without limitation, the right to declare this Note due and payable) shall operate as a waiver of such right, power, or remedy.

9. **THIS NOTE SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES.**

10. Whenever possible each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable law, but in case any provision of or obligation under this Note shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

11. Whenever in this Note reference is made to Agent, Lenders or Borrower, such reference shall be deemed to include, as applicable, a reference to their respective successors and assigns. The provisions of this Note shall be binding upon Borrower and its successors and assigns *except that* Borrower may not assign any of its rights or delegate any of its obligations under this Note without the prior written consent of Lenders. This Note shall inure to the benefit of Lender and its successors and assigns.

12. In addition to and without limitation of any of the foregoing, this Note shall be deemed to be a Financing Document and shall otherwise be subject to all of the general terms and conditions contained in Article 11 of the Credit Agreement, *mutatis mutandis*.

[SIGNATURES APPEAR ON FOLLOWING PAGE(S)]

IN WITNESS WHEREOF, intending to be legally bound, and intending that this Note constitutes an agreement executed under seal, the undersigned has executed this Note under seal as of the day and year first hereinabove set forth.

BORROWER:

KALOBIOS PHARMACEUTICALS, INC.

By: _____

Name: Dr. Cameron Durrant

Title: Chairman and Chief Executive Officer

Address for Borrower:

1000 Marina Blvd #250

Brisbane, CA 94005-1878

Attn: Dr. Cameron Durrant

Facsimile: _____

E-Mail: camerondurrant@yahoo.com

TERM LOAN NOTE

\$1,195,652

March 21, 2017

FOR VALUE RECEIVED, KALOBOS PHARMACEUTICALS, INC., a Delaware corporation ("**Borrower**"), hereby unconditionally promises to pay to the order of **BLACK HORSE CAPITAL MASTER FUND LTD.**, an exempted company organized in the Cayman Islands (together with its successors and assigns, "**Lender**") at the office of Lender at c/o Opus Equum, Inc., P.O. Box 788, Dolores, Colorado 81323, or at such other place as Lender may from time to time designate in writing to Borrower, in lawful money of the United States of America and in immediately available funds, the principal sum of One Million One Hundred Ninety Five Thousand Six Hundred Fifty Two and No/100 Dollars (\$1,195,652) or, if less, the aggregate unpaid principal amount of the portion of the Term Loan made by Lender to Borrower under the terms of that certain Credit and Security Agreement, dated as of December 21, 2016 (as amended, restated, supplemented or otherwise modified from time to time, the "**Credit Agreement**"), by and among Borrower, Lender, various other lenders as are, or may from time to time become, parties thereto as "**Lenders**" (including without limitation, Lender) and Black Horse Capital Master Fund Ltd., individually as a Lender, and as administrative agent (in such capacity and together with its successors and assigns, "**Agent**"). All capitalized terms used herein (which are not otherwise specifically defined herein) shall be used in this Term Loan Note (this "**Note**") as defined in the Credit Agreement.

1. The outstanding principal balance of the Term Loan evidenced by this Note shall be due and payable or otherwise satisfied in full on the Termination Date or the Maturity Date in accordance with the terms of the Credit Agreement.

2. This Note is issued in accordance with the provisions of the Credit Agreement and is entitled to the benefits and security of the Credit Agreement and the other Financing Documents, and reference is hereby made to the Credit Agreement for a statement of the terms and conditions under which the Term Loan evidenced hereby were made and are required to be repaid. In the event of any conflict between the terms of this Note and the terms of the Credit Agreement, the terms of the Credit Agreement shall prevail.

3. Borrower promises to pay interest from the date hereof until payment in full hereof on the unpaid principal balance of the Term Loan evidenced hereby at the per annum rate or rates set forth in the Credit Agreement. Interest on the unpaid principal balance of the Term Loan evidenced hereby shall be payable on the dates and in the manner set forth in the Credit Agreement. Interest as aforesaid shall be calculated in accordance with the terms of the Credit Agreement.

4. Upon and after the occurrence and during the continuation of an Event of Default, and as provided in the Credit Agreement, the Term Loan evidenced by this Note may be declared, and shall thereupon immediately become, due and payable without presentment, demand, protest, notice, or legal process of any kind whatsoever.

5. Payments received in respect of the Term Loan shall be applied as provided in the Credit Agreement.

6. Presentment, demand, protest and notice of presentment, demand, nonpayment and protest are each hereby waived by Borrower as provided in the Credit Agreement.

7. No waiver by Agent or any Lender of any one or more defaults by the undersigned in the performance of any of its obligations under this Note shall operate or be construed as a waiver of any future default or defaults, whether of a like or different nature, or as a waiver of any obligation of Borrower to any other Lender under the Credit Agreement.

8. No provision of this Note may be amended, waived or otherwise modified unless such amendment, waiver or other modification is in writing and is signed or otherwise approved by Borrower, the Required Lenders and any other Lender under the Credit Agreement to the extent required under Section 10.15 of the Credit Agreement. No failure or delay on the part of any Lender in exercising any right, power, or remedy under this Note (including, without limitation, the right to declare this Note due and payable) shall operate as a waiver of such right, power, or remedy.

9. **THIS NOTE SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES.**

10. Whenever possible each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable law, but in case any provision of or obligation under this Note shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

11. Whenever in this Note reference is made to Agent, Lenders or Borrower, such reference shall be deemed to include, as applicable, a reference to their respective successors and assigns. The provisions of this Note shall be binding upon Borrower and its successors and assigns *except that* Borrower may not assign any of its rights or delegate any of its obligations under this Note without the prior written consent of Lenders. This Note shall inure to the benefit of Lender and its successors and assigns.

12. In addition to and without limitation of any of the foregoing, this Note shall be deemed to be a Financing Document and shall otherwise be subject to all of the general terms and conditions contained in Article 11 of the Credit Agreement, *mutatis mutandis*.

[SIGNATURES APPEAR ON FOLLOWING PAGE(S)]

IN WITNESS WHEREOF, intending to be legally bound, and intending that this Note constitutes an agreement executed under seal, the undersigned has executed this Note under seal as of the day and year first hereinabove set forth.

BORROWER:

KALOBOS PHARMACEUTICALS, INC.

By: /s/ Dr. Cameron Durrant

Name: Dr. Cameron Durrant

Title: Chairman and Chief Executive Officer

Address for Borrower:

1000 Marina Blvd #250

Brisbane, CA 94005-1878

Attn: Dr. Cameron Durrant

Facsimile: _____

E-Mail: camerondurrant@yahoo.com

TERM LOAN NOTE

\$512,337

March 21, 2017

FOR VALUE RECEIVED, KALOBIOS PHARMACEUTICALS, INC., a Delaware corporation (“**Borrower**”), hereby unconditionally promises to pay to the order of **BLACK HORSE CAPITAL LP**, a Delaware limited partnership (together with its successors and assigns, “**Lender**”) at the office of Lender at c/o Opus Equum, Inc., P.O. Box 788, Dolores, Colorado 81323, or at such other place as Lender may from time to time designate in writing to Borrower, in lawful money of the United States of America and in immediately available funds, the principal sum of Five Hundred Twelve Thousand Three Hundred Thirty Seven and No/100 Dollars (\$512,337) or, if less, the aggregate unpaid principal amount of the portion of the Term Loan made by Lender to Borrower under the terms of that certain Credit and Security Agreement, dated as of December 21, 2016 (as amended, restated, supplemented or otherwise modified from time to time, the “**Credit Agreement**”), by and among Borrower, Lender, various other lenders as are, or may from time to time become, parties thereto as “**Lenders**” (including without limitation, Lender) and Black Horse Capital Master Fund Ltd., individually as a Lender, and as administrative agent (in such capacity and together with its successors and assigns, “**Agent**”). All capitalized terms used herein (which are not otherwise specifically defined herein) shall be used in this Term Loan Note (this “**Note**”) as defined in the Credit Agreement.

1. The outstanding principal balance of the Term Loan evidenced by this Note shall be due and payable or otherwise satisfied in full on the Termination Date or the Maturity Date in accordance with the terms of the Credit Agreement.

2. This Note is issued in accordance with the provisions of the Credit Agreement and is entitled to the benefits and security of the Credit Agreement and the other Financing Documents, and reference is hereby made to the Credit Agreement for a statement of the terms and conditions under which the Term Loan evidenced hereby were made and are required to be repaid. In the event of any conflict between the terms of this Note and the terms of the Credit Agreement, the terms of the Credit Agreement shall prevail.

3. Borrower promises to pay interest from the date hereof until payment in full hereof on the unpaid principal balance of the Term Loan evidenced hereby at the per annum rate or rates set forth in the Credit Agreement. Interest on the unpaid principal balance of the Term Loan evidenced hereby shall be payable on the dates and in the manner set forth in the Credit Agreement. Interest as aforesaid shall be calculated in accordance with the terms of the Credit Agreement.

4. Upon and after the occurrence and during the continuation of an Event of Default, and as provided in the Credit Agreement, the Term Loan evidenced by this Note may be declared, and shall thereupon immediately become, due and payable without presentment, demand, protest, notice, or legal process of any kind whatsoever.

5. Payments received in respect of the Term Loan shall be applied as provided in the Credit Agreement.

6. Presentment, demand, protest and notice of presentment, demand, nonpayment and protest are each hereby waived by Borrower as provided in the Credit Agreement.

7. No waiver by Agent or any Lender of any one or more defaults by the undersigned in the performance of any of its obligations under this Note shall operate or be construed as a waiver of any future default or defaults, whether of a like or different nature, or as a waiver of any obligation of Borrower to any other Lender under the Credit Agreement.

8. No provision of this Note may be amended, waived or otherwise modified unless such amendment, waiver or other modification is in writing and is signed or otherwise approved by Borrower, the Required Lenders and any other Lender under the Credit Agreement to the extent required under Section 10.15 of the Credit Agreement. No failure or delay on the part of any Lender in exercising any right, power, or remedy under this Note (including, without limitation, the right to declare this Note due and payable) shall operate as a waiver of such right, power, or remedy.

9. **THIS NOTE SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES.**

10. Whenever possible each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable law, but in case any provision of or obligation under this Note shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

11. Whenever in this Note reference is made to Agent, Lenders or Borrower, such reference shall be deemed to include, as applicable, a reference to their respective successors and assigns. The provisions of this Note shall be binding upon Borrower and its successors and assigns *except that* Borrower may not assign any of its rights or delegate any of its obligations under this Note without the prior written consent of Lenders. This Note shall inure to the benefit of Lender and its successors and assigns.

12. In addition to and without limitation of any of the foregoing, this Note shall be deemed to be a Financing Document and shall otherwise be subject to all of the general terms and conditions contained in Article 11 of the Credit Agreement, *mutatis mutandis*.

[SIGNATURES APPEAR ON FOLLOWING PAGE(S)]

IN WITNESS WHEREOF, intending to be legally bound, and intending that this Note constitutes an agreement executed under seal, the undersigned has executed this Note under seal as of the day and year first hereinabove set forth.

BORROWER:

KALOBOS PHARMACEUTICALS, INC.

By: /s/ Dr. Cameron Durrant

Name: Dr. Cameron Durrant

Title: Chairman and Chief Executive Officer

Address for Borrower:

1000 Marina Blvd #250

Brisbane, CA 94005-1878

Attn: Dr. Cameron Durrant

Facsimile:

E-Mail: camerondurrant@yahoo.com

TERM LOAN NOTE

\$1,281,141

March 21, 2017

FOR VALUE RECEIVED, KALOBIOS PHARMACEUTICALS, INC., a Delaware corporation (“**Borrower**”), hereby unconditionally promises to pay to the order of **CHEVAL HOLDINGS, LTD.**, an exempted company organized in the Cayman Islands (together with its successors and assigns, “**Lender**”) at the office of Lender at c/o Opus Equum, Inc., P.O. Box 788, Dolores, Colorado 81323, or at such other place as Lender may from time to time designate in writing to Borrower, in lawful money of the United States of America and in immediately available funds, the principal sum of One Million Two Hundred Eighty One Thousand One Hundred Forty One and No/100 Dollars (\$1,281,141) or, if less, the aggregate unpaid principal amount of the portion of the Term Loan made by Lender to Borrower under the terms of that certain Credit and Security Agreement, dated as of December 21, 2016 (as amended, restated, supplemented or otherwise modified from time to time, the “**Credit Agreement**”), by and among Borrower, Lender, various other lenders as are, or may from time to time become, parties thereto as “**Lenders**” (including without limitation, Lender) and Black Horse Capital Master Fund Ltd., individually as a Lender, and as administrative agent (in such capacity and together with its successors and assigns, “**Agent**”). All capitalized terms used herein (which are not otherwise specifically defined herein) shall be used in this Term Loan Note (this “**Note**”) as defined in the Credit Agreement.

1. The outstanding principal balance of the Term Loan evidenced by this Note shall be due and payable or otherwise satisfied in full on the Termination Date or the Maturity Date in accordance with the terms of the Credit Agreement.

2. This Note is issued in accordance with the provisions of the Credit Agreement and is entitled to the benefits and security of the Credit Agreement and the other Financing Documents, and reference is hereby made to the Credit Agreement for a statement of the terms and conditions under which the Term Loan evidenced hereby were made and are required to be repaid. In the event of any conflict between the terms of this Note and the terms of the Credit Agreement, the terms of the Credit Agreement shall prevail.

3. Borrower promises to pay interest from the date hereof until payment in full hereof on the unpaid principal balance of the Term Loan evidenced hereby at the per annum rate or rates set forth in the Credit Agreement. Interest on the unpaid principal balance of the Term Loan evidenced hereby shall be payable on the dates and in the manner set forth in the Credit Agreement. Interest as aforesaid shall be calculated in accordance with the terms of the Credit Agreement.

4. Upon and after the occurrence and during the continuation of an Event of Default, and as provided in the Credit Agreement, the Term Loan evidenced by this Note may be declared, and shall thereupon immediately become, due and payable without presentment, demand, protest, notice, or legal process of any kind whatsoever.

5. Payments received in respect of the Term Loan shall be applied as provided in the Credit Agreement.

6. Presentment, demand, protest and notice of presentment, demand, nonpayment and protest are each hereby waived by Borrower as provided in the Credit Agreement.

7. No waiver by Agent or any Lender of any one or more defaults by the undersigned in the performance of any of its obligations under this Note shall operate or be construed as a waiver of any future default or defaults, whether of a like or different nature, or as a waiver of any obligation of Borrower to any other Lender under the Credit Agreement.

8. No provision of this Note may be amended, waived or otherwise modified unless such amendment, waiver or other modification is in writing and is signed or otherwise approved by Borrower, the Required Lenders and any other Lender under the Credit Agreement to the extent required under Section 10.15 of the Credit Agreement. No failure or delay on the part of any Lender in exercising any right, power, or remedy under this Note (including, without limitation, the right to declare this Note due and payable) shall operate as a waiver of such right, power, or remedy.

9. **THIS NOTE SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES.**

10. Whenever possible each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable law, but in case any provision of or obligation under this Note shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

11. Whenever in this Note reference is made to Agent, Lenders or Borrower, such reference shall be deemed to include, as applicable, a reference to their respective successors and assigns. The provisions of this Note shall be binding upon Borrower and its successors and assigns *except that* Borrower may not assign any of its rights or delegate any of its obligations under this Note without the prior written consent of Lenders. This Note shall inure to the benefit of Lender and its successors and assigns.

12. In addition to and without limitation of any of the foregoing, this Note shall be deemed to be a Financing Document and shall otherwise be subject to all of the general terms and conditions contained in Article 11 of the Credit Agreement, *mutatis mutandis*.

[SIGNATURES APPEAR ON FOLLOWING PAGE(S)]

IN WITNESS WHEREOF, intending to be legally bound, and intending that this Note constitutes an agreement executed under seal, the undersigned has executed this Note under seal as of the day and year first hereinabove set forth.

BORROWER:

KALOBIOS PHARMACEUTICALS, INC.

By: /s/ Dr. Cameron Durrant
Name: Dr. Cameron Durrant
Title: Chairman and Chief Executive Officer

Address for Borrower:

1000 Marina Blvd #250
Brisbane, CA 94005-1878
Attn: Dr. Cameron Durrant
Facsimile: _____
E-Mail: camerondurrant@yahoo.com

TERM LOAN NOTE

\$2,989,130

March 21, 2017

FOR VALUE RECEIVED, KALOBOS PHARMACEUTICALS, INC., a Delaware corporation ("**Borrower**"), hereby unconditionally promises to pay to the order of **NOMIS BAY LTD** (together with its successors and assigns, "**Lender**") at the office of Lender at Penboss Building, 50 Parliament Street, Hamilton HM12 Bermuda, or at such other place as Lender may from time to time designate in writing to Borrower, in lawful money of the United States of America and in immediately available funds, the principal sum of Two Million Nine Hundred Eighty Nine Thousand One Hundred Thirty and No/100 Dollars (\$2,989,130) or, if less, the aggregate unpaid principal amount of the portion of the Term Loan made by Lender to Borrower under the terms of that certain Credit and Security Agreement, dated as of December 21, 2016 (as amended, restated, supplemented or otherwise modified from time to time, the "**Credit Agreement**"), by and among Borrower, Lender, various other lenders as are, or may from time to time become, parties thereto as "**Lenders**" (including without limitation, Lender) and Black Horse Capital Master Fund Ltd., individually as a Lender, and as administrative agent (in such capacity and together with its successors and assigns, "**Agent**"). All capitalized terms used herein (which are not otherwise specifically defined herein) shall be used in this Term Loan Note (this "**Note**") as defined in the Credit Agreement.

1. The outstanding principal balance of the Term Loan evidenced by this Note shall be due and payable or otherwise satisfied in full on the Termination Date or the Maturity Date in accordance with the terms of the Credit Agreement.
 2. This Note is issued in accordance with the provisions of the Credit Agreement and is entitled to the benefits and security of the Credit Agreement and the other Financing Documents, and reference is hereby made to the Credit Agreement for a statement of the terms and conditions under which the Term Loan evidenced hereby were made and are required to be repaid. In the event of any conflict between the terms of this Note and the terms of the Credit Agreement, the terms of the Credit Agreement shall prevail.
 3. Borrower promises to pay interest from the date hereof until payment in full hereof on the unpaid principal balance of the Term Loan evidenced hereby at the per annum rate or rates set forth in the Credit Agreement. Interest on the unpaid principal balance of the Term Loan evidenced hereby shall be payable on the dates and in the manner set forth in the Credit Agreement. Interest as aforesaid shall be calculated in accordance with the terms of the Credit Agreement.
 4. Upon and after the occurrence and during the continuation of an Event of Default, and as provided in the Credit Agreement, the Term Loan evidenced by this Note may be declared, and shall thereupon immediately become, due and payable without presentment, demand, protest, notice, or legal process of any kind whatsoever.
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5. Payments received in respect of the Term Loan shall be applied as provided in the Credit Agreement.

6. Presentment, demand, protest and notice of presentment, demand, nonpayment and protest are each hereby waived by Borrower as provided in the Credit Agreement.

7. No waiver by Agent or any Lender of any one or more defaults by the undersigned in the performance of any of its obligations under this Note shall operate or be construed as a waiver of any future default or defaults, whether of a like or different nature, or as a waiver of any obligation of Borrower to any other Lender under the Credit Agreement.

8. No provision of this Note may be amended, waived or otherwise modified unless such amendment, waiver or other modification is in writing and is signed or otherwise approved by Borrower, the Required Lenders and any other Lender under the Credit Agreement to the extent required under Section 10.15 of the Credit Agreement. No failure or delay on the part of any Lender in exercising any right, power, or remedy under this Note (including, without limitation, the right to declare this Note due and payable) shall operate as a waiver of such right, power, or remedy.

9. **THIS NOTE SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE WITHOUT REGARD TO CONFLICTS OF LAW PRINCIPLES.**

10. Whenever possible each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable law, but in case any provision of or obligation under this Note shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

11. Whenever in this Note reference is made to Agent, Lenders or Borrower, such reference shall be deemed to include, as applicable, a reference to their respective successors and assigns. The provisions of this Note shall be binding upon Borrower and its successors and assigns *except that* Borrower may not assign any of its rights or delegate any of its obligations under this Note without the prior written consent of Lenders. This Note shall inure to the benefit of Lender and its successors and assigns.

12. In addition to and without limitation of any of the foregoing, this Note shall be deemed to be a Financing Document and shall otherwise be subject to all of the general terms and conditions contained in Article 11 of the Credit Agreement, *mutatis mutandis*.

[SIGNATURES APPEAR ON FOLLOWING PAGE(S)]

IN WITNESS WHEREOF, intending to be legally bound, and intending that this Note constitutes an agreement executed under seal, the undersigned has executed this Note under seal as of the day and year first hereinabove set forth.

BORROWER:

KALOBIOS PHARMACEUTICALS, INC.

By: /s/ Dr. Cameron Durrant

Name: Dr. Cameron Durrant

Title: Chairman and Chief Executive Officer

Address for Borrower:

1000 Marina Blvd #250

Brisbane, CA 94005-1878

Attn: Dr. Cameron Durrant

Facsimile: _____

E-Mail: camerondurrant@yahoo.com



KaloBios Receives \$5.5M in New Financing From Existing Investors

BRISBANE, Calif. – March 23, 2017 – KaloBios Pharmaceuticals, Inc. (OTC: KBIO), a biopharmaceutical company focused on advancing medicines for patients with neglected and rare diseases, today announced that it has received additional proceeds of approximately \$5.5 million from existing investors through an amendment to its term loan facility. Aside from the increase in the amount extended, the term loan facility remains unchanged.

The amendment brings the total principal amount of the loan from the lenders to \$9.2 million. The proceeds will provide additional working capital to the company and support the ongoing development of benznidazole for potential U.S. approval to treat Chagas disease, a neglected tropical disease, and lenzilumab for chronic myelomonocytic leukemia (CMML), a rare pediatric disease, as well as current partnering efforts with ifabotuzumab.

“We appreciate the continued support of our key investors as we remain on track in our development of benznidazole and lenzilumab,” said Cameron Durrant, MD, KaloBios chairman and CEO. “We will continue to execute on our strategic priorities to generate value for all of our stakeholders.”

About KaloBios Pharmaceuticals, Inc.

KaloBios Pharmaceuticals, Inc. (OTC: KBIO) is an emerging biopharmaceutical company focused on advancing medicines for patients with neglected and rare diseases through innovative and responsible business models. Lead compounds in the KaloBios portfolio are benznidazole for the potential treatment of Chagas disease in the U.S., and the proprietary monoclonal antibodies, lenzilumab and ifabotuzumab (formerly KB004), for the potential treatment of various solid and hematologic cancers such as CMML and potentially juvenile myelomonocytic leukemia, or JMML. For more information, visit www.kalobios.com.

Forward-Looking Statements

This release contains forward-looking statements that are intended to be subject to protection afforded by the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements reflect management's current knowledge, assumptions, judgment and expectations regarding future performance or events. Although management believes that the expectations reflected in such statements are reasonable, they give no assurance that such expectations will prove to be correct and you should be aware that actual events or results may differ materially from those contained in the forward-looking statements. Words such as "will," "expect," "intend," "plan," "potential," "possible," "goals," "accelerate," "continue," and similar expressions identify forward-looking statements, including, without limitation, statements related to expectations regarding benznidazole and lenzilumab and the Company's efforts to pursue partnering opportunities for ifabotuzumab. Forward-looking statements are subject to a number of risks and uncertainties including, but not limited to, our lack of profitability and the need for additional capital to operate our business as a going concern; the uncertainties inherent in the development and launch of any new pharmaceutical product; our ability to successfully and timely complete clinical trials for our drug candidates in clinical development; our ability to obtain the necessary U.S. and international regulatory approvals for our drug candidates and to qualify for or benefit from various regulatory incentives; the scope and validity of intellectual property and other competitive protection for our drug candidates; our ability to identify, in-license and acquire additional product candidates or to form partnerships for the sale, licensing, collaborative development or marketing of our existing product candidates; our ability to maintain or engage third-party manufacturers to manufacture, supply, store and distribute supplies of our drug candidates for our clinical trials; the success of any product; and the various risks and uncertainties described in the "Risk Factors" and elsewhere in the Company's periodic and other filings with the Securities and Exchange Commission.

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. You should not place undue reliance on any forward-looking statements, which speak only as of the date of this release. We undertake no obligation to revise or update any forward-looking statements made in this press release to reflect events or circumstances after the date hereof or to reflect new information or the occurrence of unanticipated events, except as required by law.

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