

U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **March 31, 2017**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___ to ___.

Commission File Number 001-36860

LION BIOTECHNOLOGIES, INC.

(Exact name of small business issuer as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

75-3254381
(I.R.S. employer
identification number)

999 Skyway Road, Suite 150, San Carlos, CA 94070
(Address of principal executive offices and zip code)

(650) 260-7120
(Registrant's telephone number, including area code)

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

Yes No

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

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

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

At May 1, 2017, the issuer had 62,351,240 shares of common stock, par value \$0.000041666 per share, outstanding.

LION BIOTECHNOLOGIES, INC.
FORM 10-Q
For the Quarter Ended March 31, 2017

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LION BIOTECHNOLOGIES, INC.
Condensed Consolidated Balance Sheets
(in thousands, except share information)

	March 31, 2017 (unaudited)	December 31, 2016
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 107,099	\$ 106,717
Short-term investments	40,098	59,753
Prepaid expenses and other current assets	5,396	3,042
Total Current Assets	<u>152,593</u>	<u>169,512</u>
Property and equipment, net	2,796	2,374
Total Assets	<u>\$ 155,389</u>	<u>\$ 171,886</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 2,174	\$ 863
Accrued expenses	3,329	4,105
Total Current Liabilities	<u>5,503</u>	<u>4,968</u>
Commitments and contingencies (Note 9)		
Stockholders' Equity		
Series A Convertible Preferred stock, \$0.001 par value; 17,000 shares authorized, 1,694 shares issued and outstanding, as of March 31, 2017 and December 31, 2016, respectively (aggregate liquidation value of \$1,694)	-	-
Series B Convertible Preferred stock, \$0.001 par value; 11,500,000 shares authorized, 7,946,673 shares issued and outstanding as of March 31, 2017 and December 31, 2016, respectively (aggregate liquidation value of \$37,747)	8	8
Common stock, \$0.000041666 par value; 150,000,000 shares authorized, 62,350,149 and 62,248,074 shares issued and outstanding as of March 31, 2017 and December 31, 2016, respectively	3	3
Additional paid-in capital	327,673	323,994
Accumulated other comprehensive income	2	29
Accumulated deficit	(177,800)	(157,116)
Total Stockholders' Equity	<u>149,886</u>	<u>166,918</u>
Total Liabilities and Stockholders' Equity	<u>\$ 155,389</u>	<u>\$ 171,886</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

LION BIOTECHNOLOGIES, INC.
Condensed Consolidated Statements of Operations
(unaudited; in thousands, except per share information)

	Three Months Ended March 31,	
	2017	2016
Revenues	\$ -	\$ -
Costs and expenses		
Research and development	16,623	4,192
General and administrative	4,259	2,818
Total costs and expenses	20,882	7,010
Loss from operations	(20,882)	(7,010)
Other income		
Interest income	198	126
Net Loss	\$ (20,684)	\$ (6,884)
Net Loss Per Common Share, Basic and Diluted	\$ (0.33)	\$ (0.14)
Weighted-Average Common Shares Outstanding, Basic and Diluted	62,286	48,548

The accompanying notes are an integral part of these condensed consolidated financial statements.

LION BIOTECHNOLOGIES, INC.
Condensed Consolidated Statements of Comprehensive Loss
(unaudited; in thousands)

	Three Months Ended	
	March 31,	
	<u>2017</u>	<u>2016</u>
Net Loss	\$ (20,684)	\$ (6,884)
Other comprehensive income:		
Unrealized (loss) gain on short-term investments	(27)	20
Comprehensive Loss	<u>\$ (20,711)</u>	<u>\$ (6,864)</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

LION BIOTECHNOLOGIES, INC.
Condensed Consolidated Statements of Cash Flows
(unaudited; in thousands)

	Three Months Ended	
	March 31,	
	2017	2016
Cash Flows From Operating Activities		
Net loss	\$ (20,684)	\$ (6,884)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	221	269
Amortization of premium on investments	28	-
Stock-based compensation expense	3,296	1,779
Changes in assets and liabilities:		
Prepaid expenses and other current assets	(2,354)	84
Accounts payable	1,466	96
Accrued expenses	(776)	104
Net cash used in operating activities	(18,803)	(4,552)
Cash Flows From Investing Activities		
Purchase of short- term investments	-	(29,273)
Maturities of short- term investments	19,600	39,155
Purchase of property and equipment	(798)	(2)
Net cash provided by investing activities	18,802	9,880
Cash Flows From Financing Activities		
Tax payments related to shares withheld for vested restricted stock awards	(4)	-
Proceeds from the issuance of common stock upon exercise of warrants	156	-
Proceeds from the issuance of common stock upon exercise of options	231	-
Net cash provided by financing activities	383	-
Net increase in cash and cash equivalents	382	5,328
Cash and Cash Equivalents, Beginning of Period	106,717	33,587
Cash and Cash Equivalents, End of Period	\$ 107,099	\$ 38,915
Supplemental Disclosures of Cash Flow Information:		
Cash paid for income taxes	\$ -	\$ -
Interest paid	-	-
Supplemental disclosure of non-cash investing and financing activities:		
Unrealized (loss) gain on short-term investments	\$ (27)	\$ 20
Acquisitions of property and equipment under accounts payable	(155)	-

The accompanying notes are an integral part of these condensed consolidated financial statements.

LION BIOTECHNOLOGIES, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1. GENERAL ORGANIZATION AND BUSINESS

Lion Biotechnologies, Inc. (the “Company,” “we,” “us” or “our”) is a biotechnology company focused on developing and commercializing adoptive cell therapy (ACT) using autologous tumor infiltrating lymphocytes (TIL) for the treatment of metastatic melanoma and other solid tumor cancers. ACT utilizes T-cells harvested from a patient to treat cancer in that patient. TIL, tumor infiltrating lymphocytes, are naturally present in a patient’s tumors, are collected from individual patient tumor samples. The TIL are then extracted from the tumor tissue and expanded ex vivo and then infused back into the patient to fight their tumor. The Company was originally incorporated under the laws of the state of Nevada on September 17, 2007. Until March 2010, we were an inactive company known as Freight Management Corp. On March 15, 2010, we changed our name to Genesis Biopharma, Inc., and in 2011 we commenced our current business. On September 26, 2013, we changed our name to Lion Biotechnologies, Inc.

Basis of Presentation of Unaudited Condensed Consolidated Financial Information

The unaudited condensed consolidated financial statements of the Company for the three months ended March 31, 2017 and 2016 have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-K. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. However, such information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary for the fair presentation of the financial position and the results of operations. Results shown for interim periods are not necessarily indicative of the results to be obtained for a full fiscal year. The balance sheet information as of December 31, 2016 was derived from the audited financial statements included in the Company’s financial statements as of and for the year ended December 31, 2016 included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on March 8, 2017. These financial statements should be read in conjunction with that report.

Liquidity

The Company is currently engaged in the development of therapeutics to fight cancer. We do not have any commercial products and have not yet generated any revenues from our biopharmaceutical business. We currently do not anticipate that we will generate any revenues during 2017 from the sale or licensing of any products. As shown in the accompanying financial statements, we have incurred a net loss of \$20.7 million for the three months ended March 31, 2017 and used \$18.8 million of cash in our operating activities during the three months ended March 31, 2017. As of March 31, 2017, we had \$147.2 million of cash and cash equivalents and short-term investments.

The Company expects to further increase its research and development activities, which will increase the amount of cash used during 2017. Specifically, we expect increased spending on clinical trials, research and development activities, higher payroll expenses as we increase our professional and scientific staff and continued and expansion of manufacturing activities. Based on the funds we have available; we believe that we have sufficient capital to fund our anticipated operating expenses for at least 12 months from the date that these financial statements are issued.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

Short-term Investments

The Company’s short-term investments are classified as “available-for-sale”. The Company includes these investments in current assets and carries them at fair value. Unrealized gains and losses on available-for-sale securities are included in accumulated other comprehensive income. The amortized cost of debt securities is adjusted for the amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Gains and losses on securities sold are recorded based on the specific identification method and are included in interest income in the statement of operations. We have not incurred any realized gains or losses from sales of securities to date.

Loss per Share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed using the weighted average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued.

At March 31, 2017 and 2016, the following outstanding common stock equivalents have been excluded from the calculation of net loss per share because their impact would be anti-dilutive.

	March 31,	
	2017	2016
Stock options	6,748,302	3,367,129
Warrants	6,503,716	7,202,216
Series A Convertible Preferred*	847,000	847,000
Series B Convertible Preferred*	7,946,673	-
Restricted stock awards	5,000	248,126
Restricted stock units	550,000	-
	<u>22,600,691</u>	<u>11,664,471</u>

* on an as-converted basis

The dilutive effect of potentially dilutive securities is reflected in diluted earnings per common share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities.

Fair Value Measurements

Under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, fair value is defined as the price at which an asset could be exchanged or a liability transferred in a transaction between knowledgeable, willing parties in the principal or most advantageous market for the asset or liability. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or parameters are not available, valuation models are applied.

Assets and liabilities recorded at fair value in our financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1—Inputs are unadjusted, quoted prices in active markets for identical assets at the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2—Are inputs, other than quoted prices included in Level 1, that are either directly or indirectly observable for the asset or liability through correlation with market data at the reporting date and for the duration of the instrument's anticipated life.

The fair valued assets we hold that are generally assessed under Level 2 are corporate bonds and commercial paper. We utilize third party pricing services in developing fair value measurements where fair value is based on valuation methodologies such as models using observable market inputs, including benchmark yields, reported trades, broker/dealer quotes, bids, offers and other reference data. We use quotes from external pricing service providers and other on-line quotation systems to verify the fair value of investments provided by our third party pricing service providers. We review independent auditor's reports from our third party pricing service providers particularly regarding the controls over pricing and valuation of financial instruments and ensure that our internal controls address certain control deficiencies, if any, and complementary user entity controls are in place.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and which reflect management's best estimate of what market participants would use in pricing the asset or liability at the reporting date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

We do not have fair valued assets classified under Level 3.

Financial assets measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations (in thousands):

Assets at Fair Value as of March 31, 2017				
	Level 1	Level 2	Level 3	Total
Commercial paper	\$ -	\$ 21,699	\$ -	\$ 21,699
Corporate debt securities	-	15,901	-	15,901
US Government agency securities	-	2,498	-	2,498
Total	\$ -	\$ 40,098	\$ -	\$ 40,098

Assets at Fair Value as of December 31, 2016				
	Level 1	Level 2	Level 3	Total
Commercial paper	\$ -	\$ 29,178	\$ -	\$ 29,178
Corporate debt securities	-	26,578	-	26,578
US Government agency securities	-	3,997	-	3,997
Total	\$ -	\$ 59,753	\$ -	\$ 59,753

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include valuation of short-term investments, accounting for potential liabilities, the valuation allowance associated with the Company's deferred tax assets, and the assumptions made in valuing stock instruments issued for services.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Lion Biotechnologies, Inc. and its wholly-owned subsidiary, Lion Biotechnologies GmbH. All intercompany accounts and transactions have been eliminated. The U.S. dollar is the functional currency for all the Company's condensed consolidated operations.

Stock-Based Compensation

The Company periodically grants stock options and warrants to employees and non-employees in non-capital raising transactions as compensation for services rendered. The Company accounts for stock option grants to employees based on the authoritative guidance provided by the FASB where the value of the award is measured on the date of grant and recognized over the vesting period. The Company accounts for stock option grants to non-employees in accordance with the authoritative guidance of the FASB where the value of the stock compensation is determined based upon the measurement date at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

The fair value of the Company's common stock option grants is estimated using a Black-Scholes option pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life of the common stock options, and future dividends. Compensation expense is recorded based upon the value derived from the Black-Scholes option pricing model, and based on actual experience. The assumptions used in the Black-Scholes option pricing model could materially affect compensation expense recorded in future periods.

The Company has in the past issued restricted shares of its common stock for share-based compensation programs. The Company measures the compensation cost with respect to restricted shares issued to employees based upon the estimated fair value of the equity instruments at the date of the grant, and is recognized as expense over the period which an employee is required to provide services in exchange for the award.

The fair value of restricted stock units is based on the closing price of the Company's common stock on the grant date.

Total stock-based compensation expense related to all our stock-based awards was recorded on the statements of operations as follows (in thousands):

	Three Months Ended	
	March 31,	
	2017	2016
Research and development	\$ 1,387	\$ 585
General and administrative	1,909	1,194
Total stock-based compensation expense	\$ 3,296	\$ 1,779

Total stock-based compensation broken down based on each individual instrument was as follows (in thousands):

	Three Months Ended	
	March 31,	
	2017	2016
Stock option expense	\$ 2,654	\$ 1,483
Restricted stock award expense	13	296
Restricted stock unit expense	629	-
Total stock-based compensation expense	\$ 3,296	\$ 1,779

Preferred Stock

The Company applies the accounting standards for distinguishing liabilities from equity when determining the classification and measurement of its preferred stock. Preferred shares subject to mandatory redemption are classified as liability instruments and are measured at fair value. Conditionally redeemable preferred shares (including preferred shares that feature redemption rights that are either within the control of the holder or subject to redemption upon the occurrence of uncertain events not solely within the Company's control) are classified as temporary equity. At all other times, preferred shares are classified as stockholders' equity.

Convertible Instruments

The Company applies the accounting standards for derivatives and hedging and for distinguishing liabilities from equity when accounting for hybrid contracts that feature conversion options. The accounting standards require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments per certain criteria. The criteria includes circumstances in which (i) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (ii) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (iii) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. The derivative is subsequently marked to market at each reporting date based on current fair value, with the changes in fair value reported in results of operations.

Conversion options that contain variable settlement features such as provisions to adjust the conversion price upon subsequent issuances of equity or equity linked securities at exercise prices more favorable than that featured in the hybrid contract generally result in their bifurcation from the host instrument.

The Company also records, when necessary, deemed dividends for the intrinsic value of the conversion options embedded in preferred stock based upon the difference between the fair value of the underlying common stock at the commitment date of the transaction and the effective conversion price embedded in the preferred stock.

Recent Accounting Standards

Accounting standards that have been issued or proposed by Financial Accounting Standards Board ("FASB"), SEC and/or other standard-setting bodies that do not require adoption until a future date are not expected to have a material impact on the condensed consolidated financial statements upon adoption.

Subsequent Events

The Company evaluates events that have occurred after the balance sheet date but before the financial statements are issued. Based upon the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the condensed consolidated financial statements.

Reclassifications

Certain amounts within the statements of cash flows for the prior periods have been reclassified to conform with the current period presentation. These reclassifications had no impact on the Company's previously reported financial position or cash flows for any of the periods presented.

NOTE 3. CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash and cash equivalents and short-term investments consist of the following (in thousands):

	March 31 2017	December 31 2016
Cash - Demand deposits	\$ 56,787	\$ 76,071
Cash equivalents - money market funds	50,312	30,646
Cash and cash equivalents total	<u>\$ 107,099</u>	<u>\$ 106,717</u>

	March 31 2017	December 31 2016
Commercial paper	\$ 21,699	\$ 29,178
Corporate debt securities	15,901	26,578
US Government agency securities	2,498	3,997
Short-term investments total	<u>\$ 40,098</u>	<u>\$ 59,753</u>

Money market funds and short-term investments include the following securities with gross unrealized gains and losses (in thousands):

As of March 31, 2017	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	\$ 50,312	\$ -	\$ -	\$ 50,312
Commercial paper	21,682	17	-	21,699
Corporate debt securities	15,915	-	(14)	15,901
US Government agency securities	2,499	-	(1)	2,498
Total	<u>\$ 90,408</u>	<u>\$ 17</u>	<u>\$ (15)</u>	<u>\$ 90,410</u>

Unrealized gains and losses are included in Accumulated other comprehensive income.

As of December 31, 2016	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Money market funds	\$ 30,646	\$ -	\$ -	\$ 30,646
Commercial paper	29,118	60	-	29,178
Corporate debt securities	26,606	1	(29)	26,578
US Government agency securities	4,000	-	(3)	3,997
Total	<u>\$ 90,370</u>	<u>\$ 61</u>	<u>\$ (32)</u>	<u>\$ 90,399</u>

At March 31, 2017, the Company's short-term investments had the following remaining contractual maturities (in thousands):

	Amortized Cost	Estimated Fair Value
Less than one year	\$ 40,096	\$ 40,098

The Company's investment policy limits investments to certain types of instruments such as certificates of deposit, money market instruments, obligations issued by the U.S. government and U.S. government agencies as well as corporate debt securities, and places restrictions on maturities and concentration by type and issuer.

NOTE 4. BALANCE SHEET COMPONENTS

Property and equipment, net consists of the following (in thousands):

	March 31, 2017	December 31, 2016
Lab equipment	\$ 2,698	\$ 2,405
Leasehold improvements	1,704	1,381
Computer equipment	255	245
Office furniture and equipment	174	148
Construction in progress	267	276
Total Property and equipment, cost	5,098	4,455
Less: Accumulated depreciation and amortization	(2,302)	(2,081)
Property and equipment, net	<u>\$ 2,796</u>	<u>\$ 2,374</u>

Accrued liabilities consist of the following (in thousands):

	March 31, 2017	December 31, 2016
Accrued payroll and employee related expenses	\$ 1,054	\$ 1,581
Legal and related services	860	927
Clinical related	500	614
Manufacturing related	289	437
Deferred rent	512	422
Accrued other	114	124
Accrued expenses	<u>\$ 3,329</u>	<u>\$ 4,105</u>

NOTE 5. STOCKHOLDERS' EQUITY

Preferred stock

The Company's articles of incorporation authorize the issuance of up to 50,000,000 shares of "blank check" preferred stock. At March 31, 2017 and December 31, 2016, 17,000 shares have been designated as the Series A Convertible Preferred Stock and 11,500,000 designated as Series B Convertible Preferred Stock.

Series A Convertible Preferred Stock

A total of 17,000 shares of Series A Convertible Preferred Stock ("Series A Preferred Stock") have been authorized for issuance under the Certificate of Designation of Preferences and Rights of Series A Convertible Preferred Stock. The shares of Series A Preferred Stock have a stated value of \$1,000 per share and are initially convertible into shares of common stock at a price of \$2.00 per share, subject to adjustment.

The Series A Preferred Stock may, at the option of each investor, be converted into fully paid and non-assessable shares of common stock. The holders of shares of Series A Preferred Stock do not have the right to vote on matters that come before stockholders. In the event of any dissolution or winding up of the Company, proceeds shall be paid pari passu among the holders of the shares of common stock and preferred stock, pro rata based on the number of shares held by each holder. The Company may not declare, pay or set aside any dividends on shares of capital stock of the Company (other than dividends on shares of common stock payable in shares of common stock) unless the holders of the Series A Preferred Stock shall first receive an equal dividend on each outstanding share of Series A Preferred Stock. The common shares issued were determined on a formula basis of 500 common shares for each share of Series A Preferred Stock converted. During the three months ended March 31, 2017 and 2016, no Series A Preferred stock was converted into common stock, respectively.

Series B Preferred Stock

In June 2016, the Company created a new class of Preferred Stock designated as Series B Convertible Preferred Stock (the "Series B Preferred"). The rights of the Series B Preferred are set forth in the Certificate of Designation of Rights, Preferences and Privileges of Series B Preferred Stock (the "Series B Certificate of Designation"). A total of 11,500,000 shares of Series B Preferred are authorized for issuance under the Series B Certificate of Designation. The shares of Series B Preferred have a stated value of \$4.75 per share and are convertible into shares of common stock at an initial conversion price of \$4.75 per share.

Holders of the Series B Preferred are entitled to dividends on an as-if-converted basis in the same form as any dividends actually paid on shares of the Company's Series A Preferred Stock or the Company's common stock. So long as any Series B Preferred remains outstanding, the Company may not redeem, purchase or otherwise acquire any material amount of our Series A Preferred Stock or any junior securities.

During the three months ended March 31, 2017, no Series B Preferred was converted into common stock and 7,946,673 shares of Series B Preferred Stock remained outstanding at March 31, 2017.

Warrants

The following table summarizes the Company's stock warrant activity for the three months ended March 31, 2017:

	Shares Under Warrants	Weighted Average Exercise Price
Outstanding at January 1, 2017	6,566,216	\$ 2.51
Issued	-	-
Exercised	(62,500)	2.50
Expired/Cancelled	-	-
Outstanding at March 31, 2017	<u>6,503,716</u>	<u>\$ 2.51</u>

The warrants have a weighted average remaining life of 1.6 years at March 31, 2017.

NOTE 6. STOCK BASED COMPENSATION

Stock Plans

On September 19, 2014, the Company's Board of Directors adopted the Lion Biotechnologies, Inc. 2014 Equity Incentive Plan (the "2014 Plan"). The 2014 Plan was approved by our stockholders at the annual meeting of stockholders held in November 2014. The 2014 Plan as approved by the stockholders authorized the issuance up to an aggregate of 2,350,000 shares of common stock. On April 10, 2015, the Board amended the 2014 Plan to increase the total number of shares that can be issued under the 2014 Plan by 1,650,000 from 2,350,000 shares to 4,000,000 shares. The increase in shares available for issuance under the 2014 Plan was approved by stockholders on June 12, 2015.

On August 16, 2016, the stockholders approved the increase the total number of shares that can be issued under the 2014 Plan by 5,000,000 from 4,000,000 shares to 9,000,000 shares. At March 31, 2017, 2,656,835 shares were available for grant under the Company's 2014 plan.

Restricted Stock Units

On June 1, 2016, the Company entered into a restricted stock unit agreement with the Company's new Chief Executive Officer (Maria Fardis, Ph.D.) pursuant to which the Company granted Dr. Fardis 550,000 non-transferrable restricted stock units at fair market value of \$5.87 per share as an inducement of employment pursuant to the exception to The NASDAQ Global Market rules that generally require stockholder approval of equity incentive plans. The 550,000 restricted stock units will vest in installments as follows: (i) 137,500 restricted stock units will vest upon the first anniversary of the effective date of Dr. Fardis' employment agreement; (ii) 275,000 restricted stock units will vest upon the satisfaction of certain clinical trial milestones; and (iii) 137,500 restricted stock units will vest in equal monthly installments over the 36-month period following the first anniversary of the effective date of Dr. Fardis' employment, provided that Dr. Fardis has been continuously employed with the Company as of such vesting dates. On April 3, 2017, 137,500 restricted stock units with performance criteria vested based on the performance criteria having been met.

Stock-based compensation expense for restricted stock units is measured based on the closing fair market value of the Company's common stock on the date of grant. For the three months ended March 31, 2017, the Company recognized \$0.6 million of expense.

As of March 31, 2017, there is \$1.1 million of total unrecognized compensation expense related to the restricted stock units to be recognized over a weighted average period of 2.4 years.

Stock Options

The following table summarizes the Company's stock options activity for the three months ended March 31, 2017:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2017	6,233,150	\$ 7.24
Granted	851,000	7.47
Exercised	(40,257)	5.75
Expired/Forfeited	(295,591)	5.46
Outstanding at March 31, 2017	<u>6,748,302</u>	<u>\$ 7.34</u>

During the three months ended March 31, 2017 and 2016, the Company recorded compensation costs of \$2.7 million and \$1.5 million, respectively, and is recognized as expense in the accompanying condensed consolidated statements of operations. As of March 31, 2017, there was \$25.6 million of total unrecognized compensation expense related to the options to be recognized over a weighted average period of 2.0 years.

Restricted Common Stock Awards

The following table summarizes the Company's restricted common stock awards activity for the three months ended March 31, 2017:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested shares, January 1, 2017	7,084	\$ 6.48
Granted	-	-
Vested	(2,084)	6.53
Forfeited	-	-
Non-vested shares, March 31, 2017	<u>5,000</u>	<u>\$ 6.46</u>

During the three months ended March 31, 2017 and 2016, the Company recorded compensation costs of \$0.0 million and \$0.3 million, respectively, and is recognized as expense in the accompanying consolidated statements of operations. As of March 31, 2017, the amount of unvested compensation related to the unvested outstanding shares of restricted common stock was \$34,000 which will be recorded as expense in over a weighted average life of 0.40 years.

NOTE 7. AGREEMENTS

National Institutes of Health (NIH) and the National Cancer Institute (NCI)

Cooperative Research and Development Agreement (CRADA)

In August 2011, the Company signed a five-year CRADA with the NCI to work with Dr. Steven Rosenberg on developing adoptive cell immunotherapies that are designed to destroy metastatic melanoma cells using a patient's tumor infiltrating lymphocytes.

In January 2015, the Company executed an amendment (the "Amendment") to the CRADA to include four new indications. As amended, in addition to metastatic melanoma, the CRADA included the development of TIL therapy for the treatment of patients with bladder, lung, triple-negative breast, and HPV-associated cancers.

In August 2016, the NCI and the Company entered into a second amendment to the CRADA. The principal changes effected by the second amendment included (i) extending the term of the CRADA by another five years to August 2021, and (ii) modifying the focus on the development of unmodified TIL as a stand-alone therapy or in combination with FDA-licensed products and commercially available reagents routinely used for adoptive cell therapy. The parties will continue the development of improved methods for the generation and selection of TIL with anti-tumor reactivity in metastatic melanoma, bladder, lung, breast, and HPV-associated cancers.

Pursuant to the terms of the CRADA, we are currently required to make quarterly payments of \$0.5 million to the NCI for support of research activities. To the extent we license patent rights relating to a TIL-based product candidate, we will be responsible for all patent-related expenses and fees, past and future, relating to the TIL-based product candidate. In addition, we will be required to supply certain test articles, including TIL, grown and processed under cGMP conditions, suitable for use in clinical trials, where we hold the IND for such clinical trial. The extended CRADA has a five-year term expiring in August 2021. The Company or the NCI may unilaterally terminate the CRADA for any reason or for no reason at any time by providing written notice at least 60 days before the desired termination date. During the three months ended March 31, 2017 and 2016, the Company recorded costs associated with the CRADA of \$0.5 million and \$0.5 million, respectively, as research and development expenses.

Patent License Agreement Related to the Development and Manufacture of TIL

Effective October 5, 2011, the Company entered into a Patent License Agreement with the National Institutes of Health, an agency of the United States Public Health Service within the Department of Health and Human Services (NIH), which Patent License Agreement was subsequently amended on February 9, 2015 and October 2, 2015. Pursuant to the License Agreement as amended, the NIH granted the Company licenses, including exclusive, co-exclusive, and non-exclusive licenses, to certain technologies relating to autologous tumor infiltrating lymphocyte adoptive cell therapy products for the treatment of metastatic melanoma, lung, breast, bladder and HPV-positive cancers. The Patent License Agreement requires the Company to pay royalties based on a percentage of net sales (which percentage is in the mid-single digits), a percentage of revenues from sublicensing arrangements, and lump sum benchmark royalty payments on the achievement of certain clinical and regulatory milestones for each of the various indications and other direct costs incurred by the NIH pursuant to the agreement.

Exclusive Patent License Agreement Related to TIL Selection

On February 10, 2015, the Company entered into an Exclusive Patent License Agreement with the NIH under which the Company received an exclusive license to the NIH's rights to patent-pending technologies related to methods for improving adoptive cell therapy through more potent and efficient production of TIL from melanoma tumors by selecting for T-cell populations that express various inhibitory receptors. Unless terminated sooner, the license shall remain in effect until the last licensed patent right expires.

In consideration for the exclusive rights granted under the Exclusive Patent License Agreement, the Company agreed to pay the NIH a non-refundable upfront licensing fee in the amount of \$0.8 million. The Company also agreed to pay customary royalties based on a percentage of net sales of a licensed product (which percentage is in the mid-single digits), a percentage of revenues from sublicensing arrangements, and lump sum benchmark payments upon the successful completion of clinical studies involving licensed technologies, the receipt of the first FDA approval or foreign equivalent for a licensed product or process resulting from the licensed technologies, the first commercial sale of a licensed product or process in the United States, and the first commercial sale of a licensed product or process in any foreign country. The Company will also be responsible for all costs associated with the preparation, filing, maintenance and prosecution of the patent applications and patents covered by the License. During the three months ended March 31, 2017 and 2016, the Company recorded costs of \$0.0 million and \$0.0 million, respectively, as research and development expenses.

H. Lee Moffitt Cancer Center

Research Collaboration Agreement with Moffitt

In September 2014, we entered into a research collaboration agreement with Moffitt to jointly engage in transitional research and development of adoptive tumor-infiltrating lymphocyte cell therapy with improved anti-tumor properties and process.

In December 2016, we entered into a new three-year Sponsored Research Agreement with Moffitt. At the same time, we entered into a Clinical Grant Agreement with Moffitt to support an ongoing clinical trial at Moffitt that combines TIL therapy with Opdivo® (nivolumab) for the treatment of patients with metastatic melanoma.

Exclusive License Agreement with Moffitt

The Company entered into a license agreement with Moffitt (the "Moffitt License Agreement"), effective as of June 28, 2014, under which the Company received a world-wide license to Moffitt's rights to patent-pending technologies related to methods for improving tumor-infiltrating lymphocytes for adoptive cell therapy. Unless earlier terminated, the term of the license extends until the earlier of the expiration of the last patent related to the licensed technology or 20 years after the effective date of the license agreement.

Pursuant to the Moffitt License Agreement, the Company paid an upfront licensing fee in the amount of \$0.1 million. A patent issuance fee will also be payable under the Moffitt License Agreement, upon the issuance of the first U.S. patent covering the subject technology. In addition, the Company agreed to pay milestone license fees upon completion of specified milestones, customary royalties based on a specified percentage of net sales (which percentage is in the low single digits) and sublicensing payments, as applicable, and annual minimum royalties beginning with the first sale of products based on the licensed technologies, which minimum royalties will be credited against the percentage royalty payments otherwise payable in that year. The Company will also be responsible for all costs associated with the preparation, filing, maintenance and prosecution of the patent applications and patents covered by the Moffitt License Agreement related to the treatment of any cancers in the United States, Europe and Japan and in other countries selected that the Company and Moffitt agreed to. During the three months ended March 31, 2017 and 2016, the Company recorded costs of \$0.6 million and \$0.4 million, respectively, as research and development expenses related to the agreements the Company has with Moffitt.

PolyBioCept, AB and Karolinska University Hospital

PolyBioCept, AB - Exclusive and Co-Exclusive License Agreement

On September 14, 2016, the Company entered into an Exclusive and Co-Exclusive License Agreement (the “PolyBioCept Agreement”) with PolyBioCept AB, a corporation organized under the laws of Sweden (“PolyBioCept”). PolyBioCept has filed two patent applications with claims related to a cytokine cocktail for use in expansion of lymphocytes. Under the PolyBioCept Agreement, the Company received the exclusive right and license to PolyBioCept’s intellectual property to develop, manufacture, market and genetically engineer tumor infiltrating lymphocytes (TIL) produced by expansion, selection and enrichment using a cytokine cocktail. The Company also received a co-exclusive license (with PolyBioCept) to develop, manufacture and market genetically engineered TIL under the same intellectual property. The licenses are for the use in all cancers and are worldwide in scope, with the exception that the uses in melanoma are not included for certain countries of the former Soviet Union.

The Company paid PolyBioCept a total of \$2.5 million as an up-front exclusive license payment. The Company will also have to make additional milestone payments to PolyBioCept under the PolyBioCept Agreement if, and when, (i) certain product development milestones are achieved, (ii) certain regulatory approvals have been obtained from the U.S. Food and Drug Administration (FDA) and/or the European Medicines Agency (EMA), and (iii) certain product sales targets are achieved. The milestone payments will be payable both in cash (U.S. dollars) and in shares of the Company’s common stock. If all of the foregoing product development, regulatory approval and sales milestone payments are met, the Company will have to pay PolyBioCept an additional \$8.7 million and will have to issue to PolyBioCept a total 2,219,376 shares of unregistered common stock. In addition to these potential payments, the Company will reimburse PolyBioCept up to \$0.2 million in expenses related to the transfer of know-how and will pay PolyBioCept \$0.1 million as a clinical trials management fee. The Company also separately engaged PolyBioCept as a consultant to provide certain product development and research related services in a one-year agreement for up to \$0.2 million, subject to the consent of the Karolinska Institute to the services to be performed by its employees thereunder. The PolyBioCept Agreement has an initial term of 30 years, and may be extended for additional five-year periods. During the three months ended March 31, 2017 and 2016, the Company recorded costs of \$0.2 million and \$0.0 million, respectively, as research and development expenses.

Karolinska University Hospital - Clinical Trials Agreement

In connection with the execution of the PolyBioCept Agreement, the Company also (i) entered into a clinical trials agreement with the Karolinska University Hospital to conduct clinical trials in glioblastoma and pancreatic cancer at the Karolinska University Hospital, and (ii) agreed to enter into a sponsored research agreement with the Karolinska Institute for the research of the cytokine cocktail in additional indications. The Company agreed to enter into the sponsored research agreement within 90 days after the date of the PolyBioCept Agreement. Failure to do so will give PolyBioCept the right to terminate the PolyBioCept Agreement (and to return \$2.2 million of the payments it received). The Company will pay the Karolinska an additional \$2.6 million in connection with these other related agreements. In 2016 the Company paid Karolinska University Hospital \$1.6 million under this agreement to conduct the clinical trials, the \$1.6 million payment has been capitalized and will be expensed in accordance with the Company’s Research and Development Expense significant accounting practices. During the three months ended March 31, 2017, the Company recorded costs of \$0.2 million, as research and development expenses.

Medimmune

In December 2015, the Company entered into a collaboration to conduct clinical and preclinical research in immuno-oncology with MedImmune, the global biologics research and development arm of AstraZeneca. Under the terms of the agreement, the Company will fund and conduct two Phase 2a clinical trials combining MedImmune’s investigational PD-L1 inhibitor durvalumab with TIL for the treatment of patients with metastatic melanoma, and head and neck cancer. MedImmune will supply durvalumab for the clinical trials. The purpose of the studies is to establish a dosing regimen for this combination therapy and assess its safety and efficacy.

Preclinical research under the agreement will focus on identifying and evaluating therapeutically effective combinations of MedImmune’s checkpoint antibodies, using TIL as an in vitro model of the tumor microenvironment. The research will be funded by MedImmune and conducted by the Company.

NOTE 8. LEGAL PROCEEDINGS

SEC Settlement/Class Action Lawsuits. We previously disclosed that the Securities and Exchange Commission (“SEC”) was conducting an investigation (initially designated as “*In the Matter of Galena Biopharma, Inc.*” File No. HO 12346 and later known as “*In the Matter of Certain Stock Promotions*”) and that we were a part of that investigation. The SEC’s investigation, in part, involved the conduct of our former Chief Executive Officer, Manish Singh, during the period between September 2013 and April 2014, and the failure by authors of certain articles about this company to disclose that they were compensated by one of our former investor relations firms.

On April 10, 2017, the SEC announced settlements with us and with other public companies and unrelated parties in the *In the Matter of Certain Stock Promotion* investigation. Our settlement with the SEC is consistent with our previous disclosures (including in our Form 10-K that we filed with the SEC on March 9, 2017), and consisted of the following: (i) We agreed, without admitting or denying the findings by the SEC, to the entry of an administrative order that requires us to cease and desist from committing or causing any violations and any future violations of Sections 5(b), 17(a), and 17(b) of the Securities Act of 1933, and of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, and (ii) we agreed to pay \$100,000 as a civil money penalty. We also agreed to adopt certain internal controls with respect to our investor relations/public relations activities.

On April 14 2017, a purported shareholder filed a class action complaint in the United States District Court, Northern District of California for violation of Federal securities laws (*Leonard DeSilvio v. Lion Biotechnologies, Inc. Manish Singh, Michael Handelman and Elma Hawkins, case no: 3:17cv2086*) against our company and three of our former officers and directors. On April 19, 2017, a second class action complaint (*Amra Kuc vs. Lion Biotechnologies, Inc. Manish Singh, Michael Handelman and Elma Hawkins, case no: 3:17cv2086*) was filed in the same court. Both complaints allege, among other things, that the defendants violated the federal securities laws by making materially false and misleading statements, or failed to make disclosures, in certain of our Form 10-K and Form 10-Q periodic filings regarding the actions taken by Manish Singh and our former investor relations firm.

We intend to vigorously defend against the foregoing complaints. Based on the very early stage of the litigation, it is not possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of these matters.

Solomon Capital, LLC. On April 8, 2016, a lawsuit titled *Solomon Capital, LLC, Solomon Capital 401(K) Trust, Solomon Sharbat and Shelhav Raff against Lion Biotechnologies, Inc.* was filed by Solomon Capital, LLC, Solomon Capital 401(k) Trust, Solomon Sharbat and Shelhav Raff against the Company in the Supreme Court of the State of New York County of New York (index no. 651881/2016). The plaintiffs allege that, between June and November 2012 they provided to the Company \$0.1 million and that they advanced and paid on our behalf an additional \$0.2 million. The complaint further alleges that the Company agreed to (i) provide them with promissory notes totaling \$0.2 million, plus interest, (ii) issue a total of 111,425 shares to the plaintiffs (before the 1-for-100 reverse split of our common stock effected in September 2013), and (iii) allow the plaintiffs to convert the foregoing funds into our securities in the next transaction. The plaintiffs allege that they should have been able to convert their advances and payments into shares of the Company's common stock in the restructuring that was effected in May 2013. Based on the foregoing, the plaintiffs allege causes for breach of contract and unjust enrichment and demand judgment against the Company in an unspecified amount exceeding \$1.5 million, plus interest and attorneys' fees.

On June 3, 2016, the Company filed an answer and counterclaims in the lawsuit. In its counterclaims, the Company alleges that the plaintiffs misrepresented their qualifications to assist it in fundraising and that they failed to disclose that they were under investigation for securities laws violations. The Company is seeking damages in an amount exceeding \$0.5 million and an order rescinding any and all agreements that the plaintiffs contend entitled them to obtain stock in the Company. The Company's investigation of the allegations made by the plaintiffs is ongoing and it intends to vigorously defend the complaint and pursue its counterclaims.

On April 19, 2017, the Court granted plaintiffs' counsel's motion to withdraw from the case. The Court stayed the case for 45 days to give plaintiffs an opportunity to find new attorneys. The Court's order further stated that, should the plaintiffs fail to obtain new counsel, the Company may seek a dismissal of the claims of the corporate plaintiff, Solomon Capital LLC, and the remaining individual plaintiffs will be deemed to represent themselves in the action.

Other Matters. During the second quarter of 2016, warrants representing 128,500 shares were exercised. The 128,500 shares of common stock had previously been registered for re-sale. However, we believe that these 128,500 warrant shares were sold by the holders in open market transactions in May 2016 at a time when the registration statement was ineffective. Accordingly, those sales were not made in accordance with Sections 5 and 10(a)(3) of the Securities Act, and the purchasers of those shares may have rescission rights (if they still own the shares) or claims for damages (if they no longer own the shares). The amount of any such liability is uncertain and as such, an accrual for any potential loss has not been made. The Company believes that any claims brought against it would not result in a material impact to the Company's financial position or results of operations. The Company has not accrued a loss for a potential claim associated with this matter as it is unable to estimate any at this time.

The Company may be involved, from time to time, in legal proceedings and claims arising in the ordinary course of its business. Such matters are subject to many uncertainties and outcomes are not predictable with assurance. The Company accrues amounts, to the extent they can be reasonably estimated, that it believes are adequate to address any liabilities related to legal proceedings and other loss contingencies that the Company believes will result in a probable loss. While there can be no assurances as to the ultimate outcome of any legal proceeding or other loss contingency involving the Company, management does not believe any pending matter will be resolved in a manner that would have a material adverse effect on the Company's financial position, results of operations or cash flows.

NOTE 9. COMMITMENTS AND CONTINENGIES

Facilities Leases

Tampa Lease

In December 2014, the Company commenced a five-year non-cancellable operating lease with the University of South Florida Research Foundation for a 5,115 square foot facility located in Tampa, Florida. The facility is part of the University of South Florida research park and is used as the Company's research and development facilities. The Company has the option to extend the lease term of this facility for an additional five-year period on the same terms and conditions, except that the base rent for the renewal term will be increased in accordance with the applicable consumer price index.

In April 2015, the Company amended the original lease agreement to increase the rentable space to 6,043 square feet. In September 2016, the Company further increased the rentable space to 8,673 square feet. The per square foot cost and term of the lease were unchanged.

San Carlos Lease

On August 4, 2016, the Company entered into an agreement to lease 8,733 square feet in San Carlos, California. The term of the lease is 54 months subsequent to the commencement date, and total expected rental payments under the lease are expected to be \$2.1 million.

New York Lease

The Company leases office space in New York for a monthly rental of approximately \$18,000 a month through July 2017.

The Company recognizes rental expense on the facilities on a straight-line basis over the lease term. Differences between the straight-line rent expense and rent payments are classified as deferred rent liability on the balance sheet. As of March 31, 2017, the Company's future minimum lease payments under non-cancelable operating leases are as follows (in thousands):

Year	Operating Lease Commitments
2017 (remaining nine months)	\$ 581
2018	699
2019	700
2020	495
2021	169
	<u>\$ 2,644</u>

Rent expense for the three months ended March 31, 2017 and 2016 was \$0.2 million and \$0.1 million, respectively.

NOTE 10. RELATED PARTY TRANSACTIONS

Sanford J. Hillsberg, one of the Company's directors, is an attorney at TroyGould PC. TroyGould PC rendered and continues to render legal services to the Company. The Company paid TroyGould PC \$0.2 million, and \$0.1 million during three months ended March 31, 2017 and 2016, respectively. Mr. Hillsberg did not directly provide any legal services to the Company during the periods noted. As of March 31, 2017, the Company had \$0.1 million in liabilities owing to TroyGould PC related to legal services.

NOTE 11. SUBSEQUENT EVENTS

Strategic Alliance Agreement

On April 17, 2017, the Company entered into a Strategic Alliance Agreement (the "SAA") with M.D. Anderson Cancer Center ("M.D. Anderson") under which the Company and M.D. Anderson agreed to conduct clinical and preclinical research studies. The Company agreed in the SAA to provide total funding not to exceed approximately \$14.2 million for the performance of the multi-year studies under the SAA. In return, we will acquire all rights to inventions resulting from the studies and have been granted a non-exclusive, sub-licensable, royalty-free, and perpetual license to specified background intellectual property of M.D. Anderson reasonably necessary to exploit, including the commercialization of, any invention. We have also been granted certain rights in clinical data generated by M.D. Anderson outside of the clinical trials to be performed under the SAA. The SAA's term shall continue in effect until the later of the fourth anniversary of the SAA or the completion or termination of the research and receipt by us of all deliverables due from M.D. Anderson thereunder.

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

In this section, "we," "our," "ours" and "us" refer to Lion Biotechnologies, Inc.

This management's discussion and analysis of financial condition as of March 31, 2017 and results of operations for the three months ended March 31, 2017 and 2016, should be read in conjunction with management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended December 31, 2016 which was filed with the SEC on March 8, 2017.

Forward-Looking Statements

The discussion below includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors. We use words such as "anticipate," "estimate," "plan," "project," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," and similar expressions to identify forward-looking statements. All forward-looking statements included in this Quarterly Report are based on information available to us on the date hereof and, except as required by law, we assume no obligation to update any such forward-looking statements. For a discussion of some of the factors that may cause actual results to differ materially from those suggested by the forward-looking statements, please read carefully the information in the "Risk Factors" section in our Form 10-K for the year ended December 31, 2016. The identification in this Quarterly Report of factors that may affect future performance and the accuracy of forward-looking statements is meant to be illustrative and by no means exhaustive. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty.

Background on the Company and Recent Events Affecting our Financial Condition and Operations

We are a clinical-stage biopharmaceutical company focused on the development and commercialization of novel cancer immunotherapy products designed to harness the power of a patient's own immune system to eradicate cancer cells. Our lead program is an adoptive cell therapy utilizing tumor-infiltrating lymphocytes (TIL), which are T cells derived from patients' tumors, for the treatment of metastatic melanoma.

We have an on-going Phase 2 clinical trial of our lead product candidate, LN-144, TIL for the treatment of metastatic melanoma. This three-arm study is enrolling patients with melanoma whose disease has progressed following treatment with at least one systemic therapy. The trial opened for enrollment in 2015 and is being conducted at ten sites.

On April 17, 2017, we entered into a Strategic Alliance Agreement (the "SAA") with M.D. Anderson Cancer Center ("M.D. Anderson") under which we and M.D. Anderson agreed to conduct clinical and preclinical research studies. Initially, we plan to conduct multi-arm clinical trials to evaluate tumor-infiltrating lymphocyte, or TIL, technology in several different cancers using two different TIL manufacturing processes. We have agreed in the SAA to provide total funding not to exceed approximately \$14.2 million for the performance of the multi-year studies under the SAA.

On April 25, 2017, we entered into a new three-year Manufacturing Services Agreement and related statements of work with PharmaCell B.V., a contract manufacturing services company based in the Netherlands, to manufacture our autologous cell therapy products for us in PharmaCell's clinical and commercial facility in Geleen, the Netherlands. This collaboration will result in an increase in our worldwide TIL manufacturing capacity and will assist us in our plans to expand our clinical trial program in Europe.

Results of Operations

Revenues

As a development stage company that is currently engaged in the development of novel cancer immunotherapy products, we have not yet generated any revenues from our biotechnology business or otherwise since our formation. We currently do not anticipate that we will generate any revenues during 2017 from the sale or licensing of our products. Our ability to generate revenues in the future will depend on our ability to complete the development of our product candidates and to obtain regulatory approval for them.

Research and Development (in thousands)

	Three months ended		Increase (Decrease)	
	March 31,		\$	%
	2017	2016		
Research and development	\$ 16,623	\$ 4,192	12,431	297%
Stock-based compensation expense included in research and development expense	1,387	585	802	137%

Research and development expense for the three months ended March 31, 2017 increased by \$12.4 million, or 297%, compared to the three months ended March 31, 2016, inclusive of stock-based compensation. The increase was primarily attributable to a \$2.4 million increase in payroll and related expenses primarily due to an increase in headcount, a \$5.6 million increase in drug manufacturing costs, a \$1.7 million increase in costs related to our clinical trials, \$2.0 million related to consultants and outside services contracted with, and \$0.8 million increase in stock-based compensation expense.

Research and development activities are central to our business model. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect our research and development expenses to increase over the next several years as we continue to conduct our clinical trial for our products and as we increase our research and development efforts in other cancer indications. However, it is difficult to determine with certainty the duration and completion costs of our current or future preclinical programs and clinical trials of our product candidates.

The duration, costs and timing of our clinical trials and development of our product candidates will depend on a number of factors that include, but are not limited to, the number of patients that enroll in the trial, per patient trial costs, number of sites included in the trial, discontinuation rates of patients, duration of patient follow-up, efficacy and safety profile of the product candidate, and the length of time required to enroll eligible patients. Additionally, the probability of success for our product candidate will depend on a number of factors, including competition, manufacturing capability and cost efficiency, and commercial viability.

General and Administrative (in thousands)

	Three months ended		Increase (Decrease)	
	March 31,		\$	%
	2017	2016		
General and administrative	\$ 4,259	\$ 2,818	1,441	51%
Stock-based compensation expense included in general and administrative	1,909	1,194	715	60%

General and Administrative expense for the three months ended March 31, 2017 increased by \$1.4 million, or 51%, compared to the months ended March 31, 2016, inclusive of stock-based compensation. The increase was primarily attributable to a \$0.6 million increase in stock-based compensation expense, driven by the increase in the number of our employees and awards, a \$0.1 million increase in payroll, and a \$0.7 million increase in consulting and legal related expenses.

General and administrative expenses include personnel costs for our employees engaged in general and administrative activities, legal fees, audit and tax fees, consultants and professional services, and general corporate expenses.

Interest Income (in thousands)

	Three months ended		Increase (Decrease)	
	March 31,		\$	%
	2017	2016		
Interest Income	\$ 198	\$ 126	72	57%

Interest income results from our interest-bearing cash and investment balances. Interest income for the three months ended March 31, 2017 increased due to the higher cash balances in 2016 as a result of the proceeds received from our equity financings in June 2016.

Net Loss

We had a net loss of \$20.7 million and \$6.9 million for the three months ended March 31, 2017 and 2016, respectively. The increase in our net loss during 2017 is due to the continued expansion of our research and development activities, increased clinical trials and manufacturing activities, and the overall growth of our corporate infrastructure. We anticipate that we will continue to incur net losses in the future as we further invest in our research and development activities, including our clinical development.

Liquidity and Capital Resources

Corporate Capitalization . As of March 31, 2017, we had outstanding 62,350,149 shares of our \$0.000041666 par value common stock, 1,694 shares of our \$0.0001 par value Series A Convertible Preferred Stock, and 7,946,673 shares of our \$0.0001 par value Series B Convertible Preferred Stock. The outstanding shares of Series A Convertible Preferred Stock are currently convertible into 847,000 shares of our common stock, and the outstanding shares of Series B Convertible Preferred Stock are currently convertible into 7,946,673 shares of our common stock. The shares of Series A Convertible Preferred Stock and Series B Convertible Preferred Stock do not have voting rights or accrue dividends.

Our major sources of funding have been proceeds from various public and private offerings of our equity securities (both common stock and preferred stock), option and warrant exercises, and interest income.

We are currently engaged in the development of therapeutics to fight cancer. We do not have any commercial products and have not yet generated any revenues from our biopharmaceutical business. We currently do not anticipate that we will generate any revenues during 2017 from the sale or licensing of any products. We have incurred a net loss of \$20.7 million for the three months ended March 31, 2017 and used \$18.8 million of cash in our operating activities during the three months ended March 31, 2017. As of March 31, 2017, we had \$147.2 million of cash and cash equivalents and short-term investments, stockholders' equity of \$149.9 million and had working capital of \$147.1 million.

We expect to further increase our research and development activities, which will increase the amount of cash we will use during 2017. Specifically, we expect increased spending on clinical trials, research and development activities, higher payroll expenses as we increase our professional and scientific staff and continued and expansion of manufacturing activities. However, based on the funds we have available; we believe that we have sufficient capital to fund our anticipated operating expenses for at least 12 months from the date of filing this quarterly report.

Off-Balance Sheet Arrangements

At March 31, 2017, we had no obligations that would require disclosure as off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our condensed financial statements and accompanying notes, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. When making these estimates and assumptions, we consider our historical experience, our knowledge of economic and market factors and various other factors that we believe to be reasonable under the circumstances. Actual results may differ under different estimates and assumptions.

The accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to an understanding of our financial statements because they inherently involve significant judgments and uncertainties. There were no significant changes to our critical accounting policies from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Inflation

Inflation and changing prices have had no effect on our continuing operations over our two most recent fiscal years.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk is limited primarily to interest income sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because a significant portion of our investments are in short-term debt securities issued by the U.S. government, corporations and institutional money market funds. The primary objective of our investment activities is to preserve principal. Due to the nature of our marketable securities, we believe that we are not exposed to any material market risk. We do not have any derivative financial instruments or foreign currency instruments. If interest rates had varied by 10% in the three months ended March 31, 2017, it would not have had a material effect on our results of operations or cash flows for that period.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report.

Changes in Internal Controls Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Class Action Lawsuits. On April 10, 2017, the SEC announced settlements with us and with other public companies and unrelated parties in the *In the Matter of Certain Stock Promotion* investigation. Our settlement with the SEC is consistent with our previous disclosures (including in our Form 10-K that we filed with the SEC on March 9, 2017). On April 14 2017, a purported shareholder filed a class action complaint in the United States District Court, Northern District of California for violation of Federal securities laws (*Leonard DeSilvio v. Lion Biotechnologies, Inc. Manish Singh, Michael Handelman and Elma Hawkins, case no: 3:17cv2086*) against our company and three of our former officers and directors. On April 19, 2017, a second class action complaint (*Amra Kuc vs. Lion Biotechnologies, Inc. Manish Singh, Michael Handelman and Elma Hawkins, case no: 3:17cv2086*) was filed in the same court. Both complaints allege, among other things, that the defendants violated the federal securities laws by making materially false and misleading statements, or failed to make disclosures, in certain of our Form 10-K and Form 10-Q periodic filings regarding the actions taken by Manish Singh and our former investor relations firm.

We intend to vigorously defend against the foregoing complaints. Based on the very early stage of the litigation, it is not possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of these matters.

Solomon Capital, LLC. On April 8, 2016, a lawsuit titled *Solomon Capital, LLC, Solomon Capital 401(K) Trust, Solomon Sharbat and Shelhav Raff against Lion Biotechnologies, Inc.* was filed by Solomon Capital, LLC, Solomon Capital 401(k) Trust, Solomon Sharbat and Shelhav Raff against the Company in the Supreme Court of the State of New York County of New York (index no. 651881/2016). The plaintiffs allege that, between June and November 2012 they provided to the Company \$0.1 million and that they advanced and paid on our behalf an additional \$0.2 million. The complaint further alleges that the Company agreed to (i) provide them with promissory notes totaling \$0.2 million, plus interest, (ii) issue a total of 111,425 shares to the plaintiffs (before the 1-for-100 reverse split of our common stock effected in September 2013), and (iii) allow the plaintiffs to convert the foregoing funds into our securities in the next transaction. The plaintiffs allege causes for breach of contract and unjust enrichment and demand judgment against the Company in an unspecified amount exceeding \$1.5 million, plus interest and attorneys' fees. The Company intends to vigorously defend the complaint and pursue its counterclaims.

On April 19, 2017, the Court granted plaintiffs' counsel's motion to withdraw from the case. The Court stayed the case for 45 days to give plaintiffs an opportunity to find new attorneys. The Court's order further stated that, should the plaintiffs fail to obtain new counsel, the Company may seek a dismissal of the claims of the corporate plaintiff, Solomon Capital LLC, and the remaining individual plaintiffs will be deemed to represent themselves in the action.

Item 1A. Risk Factors

Information regarding risk factors appears under "Risk Factors" included in Item 1A, Part I, and under Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the year ended December 31, 2016. Except as follows, there have been no material changes from the risk factors previously disclosed in the above-mentioned periodic report.

The SEC has issued an administrative order against us that may make it more difficult for us to raise capital in the future.

On April 10, 2017, the SEC issued an administrative order that requires us to cease and desist from committing or causing any violations and any future violations of Sections 5(b), 17(a), and 17(b) of the Securities Act of 1933, and of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. The order was entered into as part of our settlement with the SEC in the investigation titled *In the Matter of Certain Stock Promotion*. The SEC's investigation, in part, involved the conduct of our former Chief Executive Officer, Manish Singh, during the period between September 2013 and April 2014, and the failure by authors of certain articles about this company to disclose that they were compensated by one of our former investor relations firms. The foregoing order may negatively impact our reputation with current and future investors, will disqualify us from effecting private placement transactions in reliance upon any of the exemptions from Securities Act registration afforded by Regulation D, and will limit our ability to make certain communications in future public offerings. As a result, the SEC's order will make it more difficult for us to raise capital in future private and public offerings. We currently anticipate that we will have to raise additional capital in the future to fund our future research, development and commercialization efforts.

We are, and in the future may be, subject to Federal securities legal actions that could adversely affect our results of operations and our business.

Shortly after the SEC announced settlements with us, with other public companies, and with unrelated parties in the *In the Matter of Certain Stock Promotion* investigation, in April 2017 two securities class action complaints were filed in the U.S. District Court for the Northern District of California against our company, Manish Singh, and two of our other former officers. The complaints allege that the defendants violated the federal securities laws by making materially false and misleading statements, or failing to make disclosures, in certain of our Form 10-K and Form 10-Q periodic filings regarding the actions taken by Manish Singh and our former investor relations firm. We intend to vigorously defend against the class action cases. However, based on the very early stage of the aforementioned litigation, it is not possible to estimate the amount or range of possible loss that might result from an adverse judgment or a settlement of these matters. Furthermore, litigation is inherently uncertain, and there is no assurance as to the outcome of these two, or other future cases. We could incur substantial unreimbursed legal fees, settlements, judgments and other expenses in connection with these or other legal and regulatory proceedings that may not qualify for coverage under, or may exceed the limits of, our applicable directors and officers liability insurance policies and could have a material adverse effect on our financial condition, liquidity and results of operations. These cases also may distract the time and attention of our officers and directors or divert our other resources away from our ongoing commercial and development programs. An unfavorable outcome in any of these matters could damage our business and reputation or result in additional claims or proceedings against us.

Item 2. Unregistered Sales of Securities and Use of Proceeds.

Nothing to report.

Item 3. Defaults Upon Senior Securities.

Nothing to report.

Item 4. Mine Safety Disclosures

Nothing to report.

Item 5. Other Information.

Nothing to report.

Item 6. Exhibits

**Exhibit
Number**

Description of Exhibit

31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer).
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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 thereunto duly authorized.

Lion Biotechnologies, Inc.

May 3, 2017

By: /s/ Maria Fardis
Maria Fardis
Chief Executive Officer (Principal Executive Officer)

May 3, 2017

By: /s/ Greg Schiffman
Greg Schiffman
Chief Financial Officer (Principal Financial Officer)

CERTIFICATION

I, Maria Fardis, Chief Executive Officer of Lion Biotechnologies, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lion Biotechnologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 3, 2017

By: /s/ Maria Fardis
Maria Fardis
Chief Executive Officer

CERTIFICATION

I, Greg Schiffman, Chief Financial Officer of Lion Biotechnologies, Inc., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Lion Biotechnologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 3, 2017

By: /s/ Greg Schiffman
Greg Schiffman
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Lion Biotechnologies, Inc. (the "Company") for the quarter ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Maria Fardis, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 3, 2017

By: /s/ Maria Fardis
Maria Fardis
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Lion Biotechnologies, Inc. (the "Company") for the quarter ended March 31, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Greg Schiffman, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 3, 2017

By: /s/ Greg Schiffman
Greg Schiffman
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
