

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended November 30, 2016

OR

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

Commission File Number: 000-28385

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**Protalex, Inc.**  
(Exact Name of Registrant as Specified in its Charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**91-2003490**  
(I.R.S. Employer  
Identification Number)

**131 Columbia Turnpike, Suite 1**  
**Florham Park, NJ 07932**  
(Address of Principal Executive Offices and Zip Code)

**215-862-9720**  
(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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 definition of large accelerated filer, "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Number of shares outstanding of the issuer's Common Stock, par value \$0.00001 per share, as of January 12, 2017: 28,767,582 shares.

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PROTALEX, INC.

Quarterly Report on Form 10-Q  
For the Period Ended November 30, 2016

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**FORWARD-LOOKING STATEMENTS**

Certain statements made in this Quarterly Report on Form 10-Q are “forward-looking statements” regarding the plans and objectives of management for future operations and market trends and expectations. Such statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Our plans and objectives are based, in part, on assumptions involving the continued expansion of our business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Although we believe that our assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Report will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives and plans will be achieved. We undertake no obligation to revise or update publicly any forward-looking statements for any reason. The terms “we”, “our”, “us”, or any derivative thereof, as used herein refer to Protalex, Inc., a Delaware corporation, and its predecessors.

**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**PROTALEX, INC.**

**CONDENSED BALANCE SHEETS**

	<b>November 30, 2016</b>	<b>May 31, 2016</b>
	<u>(Unaudited)</u>	<u></u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 713,550	\$ 444,179
Prepaid expenses	164,784	55,687
Total current assets	<u>878,334</u>	<u>499,866</u>
<b>OTHER ASSETS:</b>		
Intellectual technology property, net of accumulated amortization of \$16,638 and \$16,128 as of November 30, 2016 and May 31, 2016, respectively	2,897	3,407
Total other assets	<u>2,897</u>	<u>3,407</u>
Total Assets	<u>\$ 881,231</u>	<u>\$ 503,273</u>
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 553,446	\$ 561,683
Accrued expenses	45,235	45,572
Total current liabilities	<u>598,681</u>	<u>607,255</u>
<b>LONG TERM LIABILITIES:</b>		
Senior Secured Note – related party	18,449,366	16,319,366
Senior Secured Note Accrued Interest – related party	1,197,689	932,882
Total liabilities	<u>20,245,736</u>	<u>17,859,503</u>
<b>STOCKHOLDERS' (DEFICIT)</b>		
Preferred stock, par value \$0.00001, 1,000,000 shares authorized; none issued and outstanding	0	0
Common stock, par value \$0.00001, 100,000,000 shares authorized; 28,767,582 and 28,767,582 shares issued and outstanding, respectively	288	288
Additional paid in capital	77,446,343	77,266,010
Accumulated deficit	(96,811,136)	(94,622,528)
Total stockholders' deficit	<u>(19,364,505)</u>	<u>(17,356,230)</u>
Total liabilities and stockholders' deficit	<u>\$ 881,231</u>	<u>\$ 503,273</u>

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

**PROTALEX, INC.**

**CONDENSED STATEMENTS OF OPERATIONS**

	<b>Three Months Ended November 30, 2016</b>	<b>Three Months Ended November 30, 2015</b>	<b>Six Months Ended November 30, 2016</b>	<b>Six Months Ended November 30, 2015</b>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenues	\$ 0	\$ 0	\$ 0	\$ 0
Operating Expenses				
Research and development (including depreciation and amortization)	475,859	1,063,843	924,839	1,601,006
Administrative (including depreciation and amortization)	94,479	793,743	452,416	3,598,620
Professional fees	214,132	237,989	546,038	413,756
Depreciation and amortization	255	255	510	510
Operating loss	<u>(784,725)</u>	<u>(2,095,830)</u>	<u>(1,923,803)</u>	<u>(5,613,892)</u>
Other income (expense)				
Interest income	1	1	2	2
Interest expense	(135,467)	(103,852)	(264,807)	(201,473)
Loss before income taxes	(920,191)	(2,199,681)	(2,188,608)	(5,815,363)
Provision for income taxes	0	0	0	0
Net loss	<u>\$ (920,191)</u>	<u>\$ (2,199,681)</u>	<u>\$ (2,188,608)</u>	<u>\$ (5,815,363)</u>
Weighted average number of common shares outstanding	<u>28,767,582</u>	<u>28,767,582</u>	<u>28,767,582</u>	<u>28,767,582</u>
Loss per common share – basic and diluted	<u>\$ (0.03)</u>	<u>\$ (0.08)</u>	<u>\$ (0.08)</u>	<u>\$ (0.20)</u>

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

**PROTALEX, INC.**

**CONDENSED STATEMENTS OF CASH FLOWS**

	<b>Six Months Ended November 30, 2016</b>	<b>Six Months Ended November 30, 2015</b>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (2,188,608)	\$ (5,815,363)
Adjustments to reconcile net loss to net cash and cash equivalents used in operating activities:		
Depreciation and amortization	510	510
Equity based expense	180,333	3,357,336
(Increase)/decrease in:		
Prepaid expenses and deposits	(109,097)	(61,119)
Increase/(decrease) in:		
Accounts payable and accrued expenses	256,233	551,702
Net cash and cash equivalents used in operating activities	<u>(1,860,629)</u>	<u>(1,966,934)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
	<u>0</u>	<u>0</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of note payable to individuals	<u>2,130,000</u>	<u>1,725,000</u>
Net cash and cash equivalents provided by financing activities	<u>2,130,000</u>	<u>1,725,000</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		
	269,371	(241,934)
Cash and cash equivalents, beginning of period	<u>444,179</u>	<u>928,279</u>
Cash and cash equivalents, ending of period	<u>\$ 713,550</u>	<u>\$ 686,345</u>
<b>SUPPLEMENTAL SCHEDULE OF CASH FLOW INFORMATION:</b>		
Interest paid	<u>\$ 0</u>	<u>\$ 0</u>
Taxes paid	<u>\$ 0</u>	<u>\$ 0</u>
<b>NON-CASH FINANCING ACTIVITIES:</b>		
Conversion of debt for equity	<u>\$ 0</u>	<u>\$ 0</u>

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

## PROTALEX, INC.

### NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

#### NOTE 1. ORGANIZATION AND BUSINESS ACTIVITIES

The Company is focused on the development of a class of biopharmaceutical drugs for treating autoimmune and inflammatory diseases including rheumatoid arthritis (RA) and Immune Thrombocytopenia (ITP). Its lead product, PRTX-100, is a highly-purified form of Staphylococcal protein A, a bacterial protein known to modify aspects of the human immune system.

The Company maintains an administrative office in Florham Park, New Jersey and currently outsources all of its product development and regulatory activities, including clinical trial activities, manufacturing and laboratory operations, to third-party contract research organizations and facilities.

In April 2009, the Company ceased all operations and terminated all employees in light of insufficient funds to continue its clinical trials and related product development. The Company's business was dormant until new management took control of its operations in November 2009. Since then the Company has been actively pursuing the commercial development of PRTX-100 for the treatment of RA and ITP. In the United States, the Company has open Investigational New Drug (IND) applications for the treatment of RA and ITP and in Europe, an open Investigational Medicinal Products Dossier (IMPD) for ITP.

PRTX-100 has demonstrated effectiveness in animal models of autoimmune diseases as well as demonstrated activity on cultured human immune cells at very low concentrations, although the effectiveness of PRTX-100 shown in pre-clinical studies using animal models may not be predictive of the results of future human clinical trials. The safety, tolerability and pharmacokinetics of PRTX-100 in humans have been characterized in six clinical studies and PRTX-100 has been granted Orphan Drug Designation (ODD) in the United States and Europe for the treatment of ITP. The Company does not anticipate generating operating revenue for the foreseeable future and does not currently have any products that are marketable.

#### NOTE 2. GOING CONCERN

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The ability of the Company to continue as a going concern is dependent upon developing products that receive regulatory approval and market acceptance. There is no assurance that these benchmarks will be realized. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

There is substantial doubt about the Company's ability to continue as a going concern. From inception through November 30, 2016, the Company has incurred an accumulated deficit of \$96,811,136. For the years ended May 31, 2016 and 2015, the Company had net losses of \$9,415,450 and \$11,619,796, respectively, and for the six months ended November 30, 2016, the Company had a net loss of \$2,188,608. The Company utilized \$4,279,100 and \$3,991,479 of cash for operating activities for the years ended May 31, 2016 and 2015, respectively, and \$1,860,629 during the six months ended November 30, 2016. As of November 30, 2016, the Company had cash and cash equivalents of \$713,550 and net working capital of \$279,653. The Company has incurred negative cash flow from operating activities since its inception. The Company has spent, and subject to obtaining additional financing, expects to continue to spend, substantial amounts in connection with executing its business strategy, including continued development efforts relating to PRTX-100.

The Company has no significant payments due on long-term obligations. However, the Company anticipates entering into significant contracts to perform product manufacturing and to conduct clinical trials in the future and that it will need to raise additional capital to fund the ongoing FDA regulatory approval process. If the Company is unable to obtain approval of its future IND applications or otherwise advance the FDA approval process, its ability to sustain its operations would be significantly jeopardized.

The most likely sources of additional financing include the sale of the Company's equity or debt securities. On June 3, 2016, the Company filed amendment #1 to the Registration Statement on Form S-1 with the U.S. Securities and Exchange Commission (SEC) (SEC File No. 333-206008), originally filed on July 31, 2015, with respect to a proposed public offering of Company securities. There is no assurance that the Company will consummate a public offering of its securities, or any other offering. Accordingly, additional capital that is required by the Company may not be available on reasonable terms, or at all.

## PROTALEX, INC.

### NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

#### NOTE 3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim financial data contained in this Report is unaudited; however in the opinion of management, the interim data includes all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the interim period. The financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been omitted pursuant to such rules and regulations, although the Company believes that the disclosures included herein are adequate to make the information presented not misleading. The results of operations in interim periods are not necessarily indicative of the results that may be expected for the full year.

Information regarding the organization and business of the Company, accounting policies followed by the Company and other important information is contained in the notes to the Company's financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2016. This Report should be read in conjunction with the Company's Annual Report.

#### **Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions affecting the reported amounts of assets, liabilities, and expense, and the disclosure of contingent assets and liabilities. Estimated amounts could differ from actual results.

#### **Loss per Common Share**

The Financial Accounting Standards Board (FASB) has issued guidance for "Earnings Per Share" which provides for the calculation of "Basic" and "Diluted" earnings per share. Basic earnings per share includes no dilution and is computed by dividing net loss to common stockholders by the weighted average number of common shares outstanding for the period. All potentially dilutive securities consisting of employee stock options and warrants have been excluded from the computations since they would be antidilutive. However, these dilutive securities could potentially dilute earnings per share in the future. As of November 30, 2016 and November 30, 2015, the Company had potentially dilutive securities consisting of 3,982,543 and 4,605,543 stock options, respectively.

#### **Cash and Cash Equivalents**

For the purposes of reporting cash flows, the Company considers all cash accounts which are not subject to withdrawal restrictions or penalties, and highly liquid investments with original maturities of 90 days or less to be cash and cash equivalents. The cash and cash equivalent deposits are not insured by The Federal Deposit Insurance Corporation.

#### **Reclassifications**

Certain reclassifications have been made to the prior periods to conform to the current presentations in the financial statements.

#### **Research and Development**

Research and development costs are expensed as incurred.

**PROTALEX, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**Share Based Compensation**

Effective June 1, 2006, the Company adopted the FASB accounting guidance for fair value recognition provisions of the “Accounting for Share-Based Payment”. This standard requires the Company to measure the cost of employee services received in exchange for equity share options granted based on the grant-date fair value of the options. The cost is recognized as compensation expense over the vesting period of the options. The fair value of compensation costs attributed to equity rights issued was \$180,333 and \$3,357,336 and is included in operating expenses for the six months ended November 30, 2016 and November 30, 2015, respectively. These amounts included both the compensation cost of stock options granted prior to but not yet vested as of June 1, 2006 and compensation cost for all options granted subsequent to May 31, 2006. In accordance with the modified prospective application transition method, prior period results are not restated. Incremental compensation cost for a modification of the terms or conditions of an award is measured by comparing the fair value of the modified award with the fair value of the award immediately before the modification. No tax benefit was recorded as of November 30, 2016 in connection with these compensation costs due to the uncertainty regarding ultimate realization of certain net operating loss carryforwards. The Company has also implemented the SEC interpretations in Staff Accounting Bulletin (SAB) for “Share-Based Payments,” in connection with the adoption of FASB accounting guidance.

As of November 30, 2016, the Company had issued 4,607,943 stock options, of which 400 were exercised and 25,000 have expired. Stock options vest pursuant to the terms set forth in individual stock option agreements.

The accounting guidance requires the use of a valuation model to calculate the fair value of each stock-based award. The Company uses the Black-Scholes model to estimate the fair value of stock options granted based on the following assumptions:

*Expected Term or Life.* The expected term or life of stock options granted issued represents the expected weighted average period of time from the date of grant to the estimated date that the stock option would be fully exercised. The weighted average expected option term was determined using a combination of the “simplified method” for plain vanilla options as allowed by the accounting guidance. The “simplified method” calculates the expected term as the average of the vesting term and original contractual term of the options.

*Expected Volatility.* Expected volatility is a measure of the amount by which the Company’s stock price is expected to fluctuate. Expected volatility is based on the historical daily volatility of the price of our common shares. The Company estimated the expected volatility of the stock options at grant date.

*Risk-Free Interest Rate.* The risk-free interest rate is based on the implied yield on U.S. Treasury zero-coupon issues with remaining terms equivalent to the expected term of our stock-based awards.

At November 30, 2016, there were 4,582,543 stock options outstanding. At November 30, 2016, the aggregate unrecognized compensation cost of unvested options, as determined using a Black-Scholes option valuation model, was \$0. The remaining options will be valued once they vest upon the future events. The Company did not grant an options during the six months ended November 30, 2016, and no options expired.



**PROTALEX, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

The fair value of the options is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	Six Months Ended November 30, 2016	Six Months Ended November 30, 2015
Dividends per year	0	0
Volatility percentage	0.00%	606%
Risk free interest rate	0.00%	4.00%
Expected life (years)	0.00	5.00
Weighted Average Fair Value	\$ 0	\$ 5.41

**NOTE 4. RECENT ACCOUNTING PRONOUNCEMENTS**

Management does not believe that any recently issued, but not yet effective, accounting standards could have a material effect on the accompanying consolidated financial statements. As new accounting pronouncements are issued, the Company will adopt those that are applicable under the circumstances.

In August 2014, the FASB issued Accounting Standards Update “ASU” 2014-15 on “Presentation of Financial Statements Going Concern (Subtopic 205-40) – Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”. Currently, there is no guidance in U.S. GAAP about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern or to provide related footnote disclosures. The amendments in this ASU provide that guidance. In doing so, the amendments are intended to reduce diversity in the timing and content of footnote disclosures. The amendments require management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term *substantial doubt*, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management’s plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this ASU are effective for public and nonpublic entities for annual periods ending after December 15, 2016. Early adoption is permitted. The Company is currently reviewing the provisions of this ASU to determine if there will be any impact on its results of operations, cash flows or financial condition.

**NOTE 5. RELATED PARTIES**

Niobe Ventures, LLC, a Delaware limited liability company (“Niobe”), the majority stockholder of the Company and the holder of the Consolidated Note (defined in Note 6, below), is controlled by Arnold P. Kling, the Company’s president and director.

During the fiscal year ended May 31, 2015, the Company issued an option for an aggregate of 100,000 shares of its common stock, with par value of \$0.00001 per share (“Common Stock”) to Marco Elser, a director of the Company. This option has a five year term, an exercise price of \$6.00 per share and fully vested on the date of issuance. This option has been valued at \$625,000 for which \$625,000 of compensation expense has been recorded.

During the fiscal year ended May 31, 2015, the Company issued an option for an aggregate of 100,000 shares of Common Stock to Kirk Warsaw, the CFO and a director of the Company. This option has a five year term, an exercise price of \$6.00 per share and fully vested on the date of issuance. This option has been valued at \$625,000 for which \$625,000 of compensation expense has been recorded.

During the fiscal year ended May 31, 2016, the Company issued an option for an aggregate of 250,000 shares of Common Stock to Kirk Warsaw, the CFO and a director of the Company. This option has a five year term, an exercise price of \$5.41 per share and vested 50% on the date of issuance and 50% on the one year anniversary. This option has been valued at \$1,352,500 of which \$1,352,500 of compensation expense has been recorded.

## PROTALEX, INC.

### NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

#### NOTE 6. SENIOR SECURED NOTES - RELATED PARTY

On October 11, 2013, the Company issued a Consolidated, Amended and Restated Promissory Note to Niobe in the principal amount of \$9,219,366 (the "Consolidated Note"). The face amount of the Consolidated Note reflects the \$9.0 million aggregate principal amount of outstanding secured notes then held by Niobe (the "Secured Notes") plus interest accrued at 3% per annum on each note from its respective date of issuance. The terms of the Consolidated Note were identical to the Secured Notes except that: (a) the maturity date was changed to September 1, 2015, which was after the latest maturity date of any of the Secured Notes; and (b) it provided for partial mandatory repayment in the event that the Company received aggregate gross proceeds in excess of \$7.5 million from a single or multiple "Liquidity Events" in an amount equal to twenty-five (25%) percent of such gross proceeds (the "Mandatory Prepayment Amount"). A "Liquidity Event" means (a) the sale of any of the Company's equity, or equity-linked, securities, and (b) the receipt of proceeds, directly or indirectly related to a development and/or commercialization relationship entered into with an unaffiliated third party. In the Secured Notes, the entire principal amount of each note was due, at Niobe's election, upon the consummation of an equity financing of \$7.5 million or greater. Consistent with the terms of the Secured Notes and related security agreements entered into, the Company's obligations under the Consolidated Note are secured by a first priority perfected security interest in all of the Company's assets pursuant to a Consolidated, Amended and Restated Security Agreement dated October 11, 2013.

On November 4, 2014, the Company entered into a new Credit Facility Agreement (the "2014 Credit Facility Agreement") pursuant to which the Company may borrow up to an additional \$5.0 Million from Niobe, in the form of secured loans, at any time prior to December 31, 2015 (the "2014 Credit Facility"). Each loan made to the Company by Niobe under the 2014 Credit Facility Agreement has been represented by a senior secured promissory note bearing interest at a rate of 3% per annum which matures on September 1, 2016 (each an "Original Note"). The obligations of the Company pursuant to each Original Note have been secured by a first priority perfected security interest in all of the assets of the Company pursuant to the Second Consolidated, Amended and Restated Security Agreement between the Company and Niobe, entered into at the same time as the 2014 Credit Facility Agreement (the "Security Agreement").

In addition, on November 4, 2014, the Company entered into a Note Modification Agreement (the "Note Modification Agreement") with Niobe pursuant to which the Consolidated Note was further amended to increase the threshold amount requiring a Mandatory Prepayment from \$7.5 Million to more than \$10 Million. As a result, partial prepayment will now be triggered in the event of a Liquidity Event in which the Company receives gross proceeds in excess of \$10 million. All other terms and provisions of the Consolidated Note remained unchanged and in full force and effect.

On December 1, 2015, the 2014 Credit Facility was amended to increase the funds available for loans to the Company to \$7.5 million and to extend the expiration date of such credit facility to December 31, 2016 pursuant to which the Company and Niobe entered into an Amended and Restated 2014 Credit Facility Agreement (the "Amended and Restated Agreement"). Each loan under the Amended and Restated Agreement has been and will be represented by a senior secured promissory note bearing interest at a rate of 3% per annum which matures on September 1, 2017 (each a "New Note"). In addition, the Security Agreement was also amended and restated to secure the Company's obligations under all the Original Notes and all the New Notes.

On June 30, 2016, the 2014 Credit Facility was amended to increase the funds available for loans to the Company to \$9.0 million (the "Second Amended and Restated Agreement"). Each loan under the Second Amended and Restated Agreement has been represented by a New Note. In addition, the Security Agreement was also amended and restated to secure the Company's obligations under all the notes issued and outstanding under the 2014 Credit Facility as of June 30, 2016 and all the New Notes issued pursuant to the Second Amended and Restated Agreement.

On July 15, 2016, the Company entered into an agreement with Niobe pursuant to which it agreed to exchange all Notes outstanding, which as of November 30, 2016 had an aggregate outstanding principal balance of \$17,414,366, for shares of Common Stock, at the price per share that Common Stock is sold to public investors in a qualified public offering. The agreement defines a "qualified public offering" to mean a public offering of Common Stock yielding gross proceeds to the Company of at least \$7.0 million which is consummated on or before October 31, 2016. The agreement further provided that 50% of accrued but unpaid interest would also be converted into Common Stock and 50% would be paid out of the proceeds of the qualified public offering. On November 1, 2016, the agreement expired pursuant to its own terms.

**PROTALEX, INC.**

**NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS**

**NOTE 6. SENIOR SECURED NOTES - RELATED PARTY (Continued):**

On August 31, 2016, the Company and Niobe agreed to extend the maturity date of the Consolidated Note and the maturity dates of all thirteen outstanding Original Notes with an aggregate principal amount of \$5,030,000, from September 1, 2016 to September 1, 2017. All other terms and provisions of the Consolidated Note and Original Notes remained unchanged and in full force and effect.

On October 31, 2016, the 2014 Credit Facility was amended to increase the funds available for loans to the Company to \$11.25 million and to extend the expiration date of such facility to June 15, 2017 (the "Third Amended and Restated Agreement"). Each loan under the Third Amended and Restated Agreement will be represented by a senior secured promissory note bearing interest at a rate of 3% per annum which matures on March 31, 2018 (each a "2018 Note"). The Security Agreement was also amended and restated to secure the Company's obligations under all the notes issued under the 2014 Credit Facility as of October 31, 2016 and all the 2018 Notes. In addition, the Company and Niobe also agreed to extend to March 31, 2018, the maturity dates of the Consolidated Note and all the notes issued and outstanding under the 2014 Credit Facility as of October 31, 2016.

As of November 30, 2016, the outstanding principal balance under the 2014 Credit Facility totaled \$9,230,000. During the six months ended November 30, 2016, the Company borrowed an aggregate of \$2,130,000; \$345,000 on June 1, 2016, \$375,000 on June 30, 2016, \$375,000 on August 1, 2016, \$345,000 on September 9, 2016, \$345,000 on October 3, 2016, and \$345,000 on November 1, 2016. Payment of the principal and accrued interest on all outstanding notes issued under the 2014 Credit Facility will, at Niobe's election, automatically become immediately due and payable if the Company undertakes certain Fundamental Transactions or upon an Event of Default, both as defined in such notes. The Company's obligations under all such notes are secured by the Security Agreement, as amended.

**NOTE 7. SUBSEQUENT EVENTS**

On each of December 9, 2016 and January 3, 2017, the Company borrowed an additional \$345,000 under the terms of the Third Amended and Restated Agreement and issued Niobe a 2018 Note for each loan in the same principal amount.

The Company has evaluated all other subsequent events and has determined that there were no other subsequent events to recognize or disclose in these financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

We are focused on the development of a class of biopharmaceutical drugs for treating autoimmune and inflammatory diseases including rheumatoid arthritis (RA) and Immune Thrombocytopenia (ITP). Our lead product candidate, PRTX-100, a new generation immunomodulatory therapy, is a highly-purified form of Staphylococcal protein A, which is a bacterial protein known to modify aspects of the human immune system. PRTX-100 has demonstrated effectiveness in animal models of autoimmune diseases and has demonstrated activity on cultured human immune cells at very low concentrations, although the effectiveness of PRTX-100 shown in pre-clinical studies using animal models may not be predictive of the results that we would see in future human clinical trials. The safety, tolerability and pharmacokinetics (PK) of PRTX-100 in humans have now been characterized in six clinical studies and was granted Orphan Drug Designation (ODD) in the United States and Europe for the treatment of ITP.

In March 2015, the FDA accepted our Investigational New Drug (IND) application for a Phase I/II open-label, dose-escalating study of PRTX-100 in adults with persistent/chronic ITP (the "PRTX-100-202 Study"). In June 2015, the U.S. Food and Drug Administration (FDA) granted ODD to PRTX-100 for the treatment of ITP. In July 2015, the European Medicines Agency (EMA) granted approval for a Phase 1b open-label, dose-escalating study of PRTX-100 in adult patients with persistent/chronic ITP (the "PRTX-100-203 Study"). In September 2015, the EMA Committee for Orphan Medicinal Products (COMP) issued a positive opinion recommending PRTX-100 for designation as an orphan medicinal product for the treatment of ITP. In November 2015, we enrolled our first patient in the PRTX-100-202 Study in the United States and in January 2016 we enrolled our first patient in the PRTX-100-203 Study in Europe. Enrollment is currently continuing in both studies. We do not anticipate generating operating revenue for the foreseeable future and do not currently have any products that are marketable.

In August 2010, we commenced a multi-center Phase 1b clinical trial of PRTX-100 in South Africa in adult patients with active RA on methotrexate or leflunomide (the "PRTX-100-103 Study"). In January 2012, we completed patient dosing in the PRTX-100-103 Study with a total of 37 patients enrolled in four cohorts ranging from 0.15 micrograms/kg to 1.50 micrograms/kg of PRTX-100 or placebo, administered weekly for four weeks. Measures of safety, PK and disease activity were evaluated over 16 weeks following the first dose. The PRTX-100-103 Study results demonstrated that PRTX-100 was generally safe and well-tolerated in patients with active RA at all tested dose levels.

In November 2012, we commenced enrollment in the United States for a new multicenter Phase 1b randomized, multiple-dose, dose-escalation study (the "PRTX-100-104 Study") of PRTX-100 in combination with methotrexate or leflunomide in adult patients with active RA. The sequential dose-escalation phase of this study was expected to enroll patients into five cohorts ranging from 1.50 micrograms/kg up to 18.0 micrograms/kg of PRTX-100 or placebo. At each dose, one quarter of patients would receive a placebo treatment. Similar to the PRTX-100-103 Study, the primary objective of the PRTX-100-104 Study was to assess the safety and tolerability of intravenous PRTX-100 administered weekly over five weeks in patients with active RA on methotrexate or leflunomide therapy. The secondary objectives included determining the effects of PRTX-100 on measures of disease activity, assessing the immunogenicity and evaluating the PK parameters after repeated doses, and determining possible relationships between the immunogenicity of PRTX-100 and safety and PK.

In August 2013, upon completion of the fourth cohort, we expanded the 3.0 microgram, 6.0 microgram, and 12.0 micrograms/kg dose cohorts of the PRTX-100-104 Study. An additional nine patients were enrolled in the expansion cohort that was completed in October 2013. In total, the first four dose-escalating cohorts of the PRTX-100-104 Study, which included these three expanded cohorts, enrolled 41 patients with doses ranging from 1.5 micrograms/kg up to 12.0 micrograms/kg.

In November 2013, we initiated enrollment of the fifth and final cohort (Cohort 5) in the PRTX 100-104 Study. The Cohort 5 sub-study enrolled 20 patients who received five weekly fixed-weight doses of PRTX-100 followed by up to four additional monthly maintenance doses of PRTX-100 in weeks 8, 12, 16, and 20. The primary objective of the Cohort 5 sub-study was to assess safety and tolerability of these doses administered on a modified schedule. In total, 11 out of 20 patients in Cohort 5 completed all study visits by August 2014 per protocol.

In the Cohort 5 sub-study, the amount of PRTX-100 administered and its dosing frequency were varied from Cohorts 1 through 4 to explore effects on safety, tolerability and measures of disease activity. The addition of four monthly maintenance doses after the five weekly doses did not increase the rate or type of Adverse Event (AE), even in those patients who developed anti-drug antibodies (ADAs), nor indicate any apparent correlation between the development of ADAs and effects on measures of RA disease activity. In addition, Cohort 5 patients showed improvement in measures of disease activity, including ACR20 scores, compared to Cohort 1 through 4 patients who did not receive any monthly maintenance doses, suggesting that the addition of monthly maintenance administration of PRTX-100 and weight-based dosing were an important aspect of the dosing protocol and should be considered in future trials of PRTX-100.

A total of 61 patients enrolled across five cohorts in the PRTX 100-104 Study at nine study sites in the United States. For patients in all five cohorts, PRTX-100 appeared safe and well tolerated in all individuals, including those who developed ADAs, and the AE profile was consistent with our prior clinical trial results.

In February 2015, we commenced enrollment, at a single U.S. site, of a Phase I/II open-label, multiple, fixed-dose study (the “PRTX-100-105 Study”) which was open only to PRTX-100-104 Study patients who indicated their desire for additional treatment. The PRTX-100-105 Study was an open-label, single group study with former participants from the 104 Study who were eligible to receive a fixed dose of PRTX-100 over a 6-month period. The primary study endpoint of the 105 Study was the safety and tolerability of a fixed dose of PRTX-100 administered over an extended period. The secondary endpoints included immunogenicity, effects on measures of RA disease activity, evaluation of anti-PRTX-100 antibody presence, and feasibility of joint evaluations with ultrasound and biomarkers as disease markers. A total of eight patients completed all 105 Study visits per protocol.

In the PRTX-100-105 Study, a preliminary interim analysis indicated that for patients who completed per protocol, PRTX-100 exhibited an acceptable safety profile and RA disease activity was improved in a majority of patients at the end of the study as compared to baseline. No serious adverse events (SAEs) were reported. At study day 196, one month after the final dose, patients who completed the study per protocol demonstrated a mean reduction of the DAS28CRP score from 5.25 to 2.52, suggesting a clinically meaningful improvement in disease activity. Additionally, clinical assessment by Ultrasound Power Doppler Joint Counts (UPD), also revealed a reduction in average disease severity by day 196, and the correlation between the UPD and the DAS28CRP was  $r=0.624$  ( $p<.0005$ ).

In November 2015, we commenced enrollment and enrolled our first patient in the PRTX-100-202 Study. The PRTX-100-202 Study may enroll up to 36 patients in as many as six cohorts. Each patient will receive four weekly intravenous doses of PRTX-100 and will be monitored for up to 48 weeks thereafter. The primary study endpoint of the PRTX-100-202 Study is a platelet response to PRTX-100. Secondary endpoints include safety, immunogenicity, and pharmacokinetics. One patient in the first cohort of the PRTX-100-202 Study had a platelet response per protocol. Enrollment is continuing for patients in the second cohort in the PRTX-100-202 Study at an increased dose.

In January 2016, we commenced enrollment of our first patient in the European based PRTX-100-203 Study. The PRTX-100-203 Study may enroll up to 30 patients in as many as five cohorts at sites in France. Each patient will receive four weekly intravenous doses of PRTX-100 and will be monitored for up to 48 weeks thereafter. The primary study endpoints of the PRTX-100-203 Study include safety, immunogenicity and pharmacokinetics. Secondary endpoints include platelet response and duration. One patient in the first cohort of the PRTX-100-203 Study had a platelet response per protocol. Enrollment is continuing for patients in the second cohort in the PRTX-100-203 Study at an increased dose.

We maintain an administrative office in Florham Park, New Jersey and currently outsource all of our product development and regulatory activities, including clinical trial activities, manufacturing and laboratory operations, to third-party contract research organizations, consultants and facilities.

In April 2009, under prior management, we ceased all operations and terminated all employees in light of insufficient funds to continue our clinical trials and related product development. Our business was dormant until current management took control of our operations in November 2009 following the change in control transaction more fully described below. We are currently actively pursuing the commercial development of PRTX-100 for the treatment of RA and ITP.

### **Change in Control and Incremental Financing Transactions**

On November 11, 2009 (the “Effective Date”), we consummated a financing transaction (the “Financing”) in which we raised \$3,000,000 of working capital pursuant to a Securities Purchase Agreement (the “Purchase Agreement”) with Niobe Ventures, LLC, a Delaware limited liability company (“Niobe”). Pursuant to the Purchase Agreement, we issued to Niobe (i) 8,695,652 restricted shares of our common stock at a purchase price of \$0.23 per share (or \$2 million in the aggregate) and (ii) a senior secured convertible promissory note in the principal amount of \$1 million convertible into shares of our common stock at an initial conversion price equal to \$0.23 per share (the “\$1 Million Secured Note”). On February 11, 2011, Niobe converted the \$1 Million Secured Note, including \$37,500 of accrued interest thereon, into 4,510,870 shares of common stock.

As contemplated by the Purchase Agreement, all of our executive officers and all of the members of our Board of Directors (the “Board”) prior to the closing of the Financing, with the exception of Frank M. Dougherty, resigned effective concurrently with the closing of the Financing. Mr. Dougherty resigned effective upon the expiration of the 10-day notice period required by Rule 14f-1 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In addition, effective upon the closing of the Financing, our Board appointed Arnold P. Kling as a director and then elected him as our president and elected Kirk M. Warshaw as our chief financial officer and secretary.

On February 11, 2011, for the purpose of providing us with additional working capital, pursuant to an existing Credit Facility Agreement dated as of December 2, 2009 (the “Facility”) with Niobe, we issued to Niobe a senior secured convertible promissory note in the principal amount of \$2 million (the “\$2 Million Secured Convertible Note”). The \$2 Million Secured Convertible Note provided for conversion into shares of our common stock at a conversion price of \$0.23 per share, for an aggregate of 8,695,652 shares of our common stock (net of accrued interest thereon), bore interest at a rate of 3% per annum and matured on December 31, 2013. The original maturity was December 31, 2012 but in December 2012 Niobe agreed, for no consideration, to extend the maturity date to December 31, 2013.

The \$2 Million Secured Convertible Note was convertible at any time, by the holder, subject only to the requirement that we have sufficient authorized shares of common stock after taking into account all outstanding shares of common stock and the maximum number of shares issuable under all issued and outstanding convertible securities. In addition, the \$2 Million Secured Convertible Note would automatically be converted if we undertake certain Fundamental Transactions, as defined in the \$2 Million Secured Convertible Note, (such as a merger, sale of all of our assets, exchange or tender offer, or reclassification of our stock or compulsory exchange). The \$2 Million Secured Convertible Note also provided for the adjustment of the conversion price in the event of stock dividends and stock splits, and provides for acceleration of maturity, at the holder's option, upon an event of default, as defined in the \$2 Million Secured Convertible Note. On August 27, 2013, Niobe elected to convert the principal and accrued interest of \$2,155,000 under the \$2 Million Secured Convertible Note into 9,369,565 shares of common stock.

On February 1, 2012, we raised \$1,000,000 of working capital pursuant to a loan from Niobe. We issued to Niobe a secured promissory note in the principal amount of \$1,000,000 (the "February 2012 Secured Note"). The February 2012 Secured Note bore interest at a rate of 3% per annum and had a maturity date of February 1, 2014.

On June 5, 2012, we raised an additional \$1,000,000 of working capital pursuant to an incremental loan from Niobe and issued to Niobe a secured promissory note in the principal amount of \$1,000,000, which bore interest at a rate of 3% per annum and had a maturity date of May 31, 2014 (the "June 2012 Secured Note").

On October 1, 2012, we raised \$800,000 of additional working capital pursuant to an incremental loan from Niobe and issued to Niobe a secured promissory note in the principal amount of \$800,000, which bore interest at a rate of 3% per annum and had a maturity date of October 1, 2014 (the "October 2012 Secured Note").

On December 3, 2012, we raised \$700,000 of additional working capital pursuant to an incremental loan from Niobe and issued to Niobe a secured promissory note in the principal amount of \$700,000, which bore interest at a rate of 3% per annum and had a maturity date of October 1, 2014 (the "December 2012 Secured Note").

Collectively, the February 2012 Secured Note, the June 2012 Secured Note, the October 2012 Secured Note and the December 2012 Secured Note are hereinafter referred to as the "2012 Secured Notes."

On January 18, 2013, we raised \$2,500,000 of additional working capital pursuant to an incremental loan from Niobe and issued to Niobe a secured promissory note in the principal amount of \$2,500,000, which bore interest at a rate of 3% per annum and had a maturity date of January 15, 2015 (the "January 2013 Secured Note").

On May 13, 2013, we raised \$2,000,000 of additional working capital pursuant to an incremental loan from Niobe and issued to Niobe a secured promissory note in the principal amount of \$2,000,000, which bore interest at a rate of 3% per annum and had a maturity date of May 13, 2015 (the "May 2013 Secured Note").

On August 27, 2013, we raised \$1,000,000 of additional working capital pursuant to an incremental loan from Niobe and issued to Niobe a secured promissory note in the principal amount of \$1,000,000, which bears interest at a rate of 3% per annum and matures on August 27, 2015 (the "August 2013 Secured Note").

Collectively, the January 2013 Secured Note, the May 2013 Secured Note, and the August 2013 Secured Note are hereinafter referred to as the "2013 Secured Notes."

Collectively, the 2012 Secured Notes and the 2013 Secured Notes represent a total of \$9,000,000 in principal amount of loans from Niobe and are hereinafter referred to as the "Secured Notes."

On October 11, 2013, we issued a Consolidated, Amended and Restated Promissory Note to Niobe in the principal amount of \$9,219,366 (the "Consolidated Note"). The face amount of the Consolidated Note reflects the \$9.0 million aggregate principal amount of the Secured Notes plus interest accrued at 3% per annum on each note from its respective date of issuance. The terms of the Consolidated Note were identical to the Secured Notes except that: (a) the maturity date was September 1, 2015, which is after the latest maturity date of any of the Secured Notes; and (b) it provided for partial mandatory repayment in the event that the Company received aggregate gross proceeds in excess of \$7.5 million from a single or multiple "Liquidity Events" in an amount equal to twenty-five (25%) percent of such gross proceeds (the "Mandatory Repayment"). A "Liquidity Event" means (a) the sale of any of our equity, or equity-linked, securities, and (b) the receipt of proceeds, directly or indirectly related to a development and/or commercialization relationship entered into with an unaffiliated third party. In the Secured Notes, the entire principal amount of each note was due, at Niobe's election, upon the consummation of an equity financing of \$7.5 million or greater. Consistent with the terms of the Secured Notes and related security agreements entered into, our obligations under the Consolidated Note are secured by a first priority perfected security interest in all of our assets pursuant to a Consolidated, Amended and Restated Security Agreement dated October 11, 2013.

On January 23, 2014, we consummated a private placement financing to accredited investors of 471,334 shares of common stock at \$6.00 per share, yielding gross proceeds of \$2,828,000. No commissions were payable in connection with the financing transaction. Proceeds of the financing have been, and will continue to be, used for working capital purposes, principally to fund ongoing clinical trials and studies and related activities. The investors in the offering were granted piggy-back registration rights in connection with certain registration statements filed by us, subject to certain exceptions, including a registration statement filed in connection with a primary offering.

On November 4, 2014, we entered into a new Credit Facility Agreement (the "2014 Credit Facility Agreement") pursuant to which we may borrow up to an additional \$5.0 Million from Niobe, in the form of secured loans, in accordance with the 2014 Credit Facility Agreement at any time prior to the December 31, 2015 expiration date (the "2014 Credit Facility"). Each loan made under the 2014 Credit Facility Agreement has been represented by a senior secured promissory note bearing interest at a rate of 3% per annum which matures on September 1, 2016 (each an "Original Note"). Our obligations under each Original Note have been secured by a first priority perfected security interest in all of our assets pursuant to the Second Consolidated, Amended and Restated Security Agreement between us and Niobe, entered into at the same time as the 2014 Credit Facility Agreement (the "Security Agreement").

In addition, on November 4, 2014, we entered into a Note Modification Agreement (the "Note Modification Agreement") with Niobe pursuant to which the Consolidated Note, as modified in October 2014, was further amended to increase the threshold amount requiring a Mandatory Prepayment from \$7.5 Million to more than \$10 Million. As a result, partial prepayment will now be triggered in the event of a Liquidity Event in which we receive gross proceeds in excess of \$10 million. All other terms and provisions of the Consolidated Note remained unchanged and in full force and effect.

On December 1, 2015, the 2014 Credit Facility was amended to increase the funds available for loans to us to \$7.5 million and to extend the expiration date of such credit facility to December 31, 2016 pursuant to which we entered into and an Amended and Restated 2014 Credit Facility Agreement (the "Amended and Restated Agreement"). Each loan under the Amended and Restated Agreement has been and will be represented by a senior secured promissory note bearing interest at a rate of 3% per annum which matures on September 1, 2017 (each a "New Note"). In addition, the Security Agreement was also amended and restated to secure our obligations under all the Original Notes and all the New Notes.

On June 30, 2016, the 2014 Credit Facility was amended to increase the funds available for loans to us to \$9.0 million (the "Second Amended and Restated Agreement"). Each loan under the Second Amended and Restated Agreement has been represented by a New Note. In addition, the Security Agreement was also amended and restated to secure our obligations under all the notes issued under the 2014 Credit Facility as of June 30, 2016 and all the New Notes issued pursuant to the Second Amended and Restated Agreement.

On July 15, 2016, we entered into an agreement with Niobe pursuant to which it agreed to exchange all Notes outstanding, which as of November 30, 2016 had an aggregate outstanding principal balance of \$17,414,366, for shares of common stock, at the price per share that common stock is sold to public investors in a qualified public offering. The agreement defines a "qualified public offering" to mean a public offering of common stock yielding gross proceeds to us of at least \$7.0 million which is consummated on or before October 31, 2016. The agreement further provided that 50% of accrued but unpaid interest would also be converted into common stock and 50% would be paid out of the proceeds of the qualified public offering. On November 1, 2016, the agreement expired pursuant its own terms.

On August 31, 2016, we and Niobe agreed to extend the maturity date of the Consolidated Note and the maturity dates of all thirteen outstanding Original Notes with an aggregate principal amount of \$5,030,000, from September 1, 2016 to September 1, 2017. All other terms and provisions of the Consolidated Note and Original Notes remained unchanged and in full force and effect.

On October 31, 2016, the 2014 Credit Facility was amended to increase the funds available for loans to us to \$11.25 million and to extend the expiration date of the facility to June 15, 2017 (the "Third Amended and Restated Agreement"). Each loan under the Third Amended and Restated Agreement will be represented by a senior secured promissory note bearing interest at a rate of 3% per annum which matures on March 31, 2018 (each a "2018 Note"). The Security Agreement was also amended and restated to secure our obligations under all the notes issued under the 2014 Credit Facility as of October 31, 2016 and all the 2018 Notes. In addition, we and Niobe also agreed to extend to March 31, 2018, the maturity dates of the Consolidated Note and all the notes issued and outstanding under the 2014 Credit Facility as of October 31, 2016.

As of November 30, 2016, the outstanding principal balance under the 2014 Credit Facility totaled \$9,230,000. During the six months ended November 30, 2016, we borrowed an aggregate of \$2,130,000; \$345,000 on June 1, 2016, \$375,000 on June 30, 2016, \$375,000 on August 1, 2016, \$345,000 on September 9, 2016, \$345,000 on October 3, 2016, and \$345,000 on November 1, 2016. Payment of the principal and accrued interest on all outstanding notes issued under the 2014 Credit Facility will, at Niobe's election, automatically become immediately due and payable if we undertake certain Fundamental Transactions or upon an Event of Default, both as defined in such notes. Our obligations under the Notes are secured by the Security Agreement, as amended

On each of December 9, 2016 and January 3, 2017, we borrowed an additional \$345,000 under the terms of the Third Amended and Restated Agreement and issued Niobe a 2018 Note for each loan in the same principal amount.

All of the securities issued in the aforementioned financings were issued in reliance upon the exemption from the registration requirements of the Securities Act of 1933, as amended (the "Act") pursuant to Section 4(a)(5) and Rule 506 of Regulation D thereof. The offer, sale and issuance of such securities were made without general solicitation or advertising. The securities were offered and issued only to "accredited investors" as such term is defined in Rule 501 under the Act.

## **About PRTX-100**

PRTX-100 is a proprietary, highly purified form of the Staphylococcal bacterial protein known as Protein A which is a bacterial protein known to modify aspects of the human immune system. PRTX-100 has the ability, at very low concentrations, to bind to human B-lymphocytes and macrophages and to modulate immune processes. Pre-clinical studies also demonstrate that low doses of PRTX-100 have potent therapeutic effects in certain models of immune-mediated inflammatory diseases. Both the PRTX-100-103 and the PRTX-100-104 studies demonstrated that PRTX-100 was generally safe and well tolerated at all dose levels, and at certain higher doses, more patients showed improvement in measures of disease activity than did patients at the lower dose or placebo cohorts.

## **Animal Studies**

Protalex's lead product candidate, PRTX-100, has demonstrated positive results in several standard mouse models of autoimmunity, including the following:

**Collagen-Induced Arthritis** - PRTX-100 has demonstrated reproducible efficacy in this well-established animal model of RA. Mice received two injections of collagen in order to stimulate an inflammatory response. One group was treated with various doses of PRTX-100, a second group received Enbrel®, a leading commercially available treatment for RA, and the control group was injected with vehicle saline solution. The mice were observed for clinical symptoms, joint size and loss of function. The results showed that low doses of PRTX-100 and standard doses of Enbrel® suppressed clinical symptoms including joint swelling over the first two to three weeks of treatment, and slowed disease progression as compared with the control group. Thereafter, the PRTX-100-treated mice continued to remain disease-free whereas the mice treated with Enbrel® showed a resumption of joint inflammation and tissue damage. This response to Enbrel® was expected because the mice developed immune response to it because it is a foreign protein. Overall, these results indicate that PRTX-100 is a potential treatment for RA in humans. The data from these studies has served as a rationale for conducting clinical trials in human patients.

**BXSB Mice** - These animals are genetically predisposed to autoimmune diseases. This model is used to evaluate drugs for autoimmune diseases such as Lupus and other autoimmune diseases. This genetic model more closely approximates the human condition in that it is complex, multi-factorial and usually treated by multiple drug regimens. In these studies, mice were treated with PRTX-100 and sacrificed at regular intervals. Their organs were weighed and sectioned for histological analysis and their spleens were used for immunological assays. Spleen enlargement, or splenomegaly, was significantly reduced in treated animals compared with the controls at almost every time point, demonstrating the ability of PRTX-100 to delay the onset and severity of this disease.

Completed pre-clinical safety studies in animals showed no drug-related toxicity at doses up to 5-fold the highest currently planned clinical trial dose. These studies were conducted on New Zealand white rabbits and on cynomolgus monkeys. No differences were observed in body weight gain or food consumption, nor in hematology, clinical chemistry, urinalysis, or organ weight data in animals treated with PRTX-100 compared with controls treated with vehicle. These study results represent a necessary component of our IND application with the FDA.

Additional studies in monkeys have further characterized the PK, toxicity, and pharmacodynamics of PRTX-100 with up to 12 weekly doses.

## **Clinical Trials**

Favorable pre-clinical safety and efficacy studies for our lead compound, PRTX-100, laid the foundation for the IND for treating RA. We submitted the IND to the FDA in March 2005 and later in March 2005 the FDA verbally disclosed to us that it had placed our IND on clinical hold, pending additional product characterization. In August 2005, we formally replied to the FDA and in September 2005, the FDA notified us that it had lifted the clinical hold on our IND and that our proposed study could proceed. We have completed five clinical trials under this IND. Our first Phase I single-dose clinical trial commenced in December 2005 and was completed in March 2006. This trial was performed in healthy volunteers and was designed primarily to assess the safety and tolerability of a single intravenous dose of PRTX-100. This study demonstrated that PRTX-100 appears safe and well-tolerated at the doses administered. There were no deaths or serious adverse events. The PK profile was determined and found consistent with that projected from pre-clinical models.



In May 2007, we filed an amendment to the IND with the FDA. This amendment included the final Phase I safety study report from the 2006 trial, changes to our techniques for purification and characterization of PRTX-100, a Chemistry, Manufacturing and Controls update, and a protocol for a second single-dose Phase I clinical trial. In July and August 2007 a second Phase I study was performed under the IND, to further characterize the safety, PK, and pharmacodynamic profile of a single-dose of PRTX-100 in healthy volunteers at doses in the projected therapeutic range. Final results indicated that the drug appears safe and well-tolerated. In August 2009, a Phase 1b randomized, double-blind, placebo-controlled, multiple dose, dose-escalation and tolerability study of PRTX-100 in combination with methotrexate or leflunomide in patients with active RA, (the “PRTX 100-103 Study”) was approved by the South African Medicines Control Agency. The PRTX-100-103 Study commenced in August 2010 at three sites in South Africa and was completed in January 2012 as detailed below.

In November 2012, we commenced enrollment and dosing of patients at a total of nine sites in the United States for the PRTX-100-104 Study, a second multicenter Phase 1b randomized, multiple-dose, dose-escalation study of PRTX-100 in combination with methotrexate or leflunomide in adults with active RA which is still in progress as detailed below. The PRTX-100-104 Study sequentially escalated the weekly dose of PRTX-100 from 1.5 micrograms/kg, the highest dose in the prior RA patient study, to doses of 3.0, 6.0, and 12.0 micrograms/kg. of PRTX-100. In July 2014, the last patient in the PRTX-100-104 Study received their last dose in the fifth and final cohort.

In February 2015, we commenced enrollment, at a single U.S. site, of a Phase I/II open-label, multiple, fixed-dose study (the “PRTX-100-105 Study”) which was open only to PRTX-100-104 Study patients who indicated their desire for additional treatment. The PRTX-100-105 Study was an open-label, single group study with former participants from the 104 Study who were eligible to receive a fixed dose of PRTX-100 over a 6-month period. The primary study endpoint of the 105 Study was the safety and tolerability of a fixed dose of PRTX-100 administered over an extended period. The secondary endpoints included immunogenicity, effects on measures of RA disease activity, evaluation of anti-PRTX-100 antibody presence, and feasibility of joint evaluations with ultrasound and biomarkers as disease markers. A total of eight patients completed all 105 Study visits per protocol.

**Immune Thrombocytopenia (ITP)** - ITP is an uncommon autoimmune bleeding disorder characterized by insufficient platelets in the blood. The affected individuals make antibodies against their own platelets leading to the platelets' destruction, which in turn leads to the abnormal bleeding. A small clinical trial in adult patients with chronic ITP was designed to provide safety data on repeated weekly dosing with PRTX-100 (the “PRTX-100b-103 Study”). This clinical study was to be conducted under the Australian and New Zealand Clinical Trial Notification procedure, not under a U.S. IND, and was initiated, but not completed. A leading Australian clinical research organization was contracted to manage and monitor this clinical trial. After the approval of the clinical protocol by ethics committees at six sites in Australia and one in New Zealand, the PRTX-100b-103 Study began enrolling patients in the second quarter of 2008. The PRTX-100b-103 Study was designed to evaluate the safety and PK of up to four doses of PRTX-100, starting at the lowest dose, and escalating upwards after safety review of the prior dose.

The PRTX-100b-103 Study proved difficult to enroll due to other on-going ITP Phase III studies and subsequent availability of two new and effective medicines for ITP. Nine patients were dosed at the first two dose levels by the end of the first quarter of 2009. At this point further recruitment of patients was suspended. No side effects or toxicities were noted with repeated weekly doses of PRTX-100 at doses of 0.075 and 0.15 micrograms per kg that were not seen with single doses in healthy volunteer trials. This repeated-dose safety data from the PRTX-100b-103 Study was included in the clinical trial application to evaluate PRTX-100 in patients with RA.

In March 2015, the FDA accepted our IND application for a Phase I/II open-label, dose-escalating study of PRTX-100 in adults with persistent/chronic ITP (the “PRTX-100-202 Study”). In June 2015, the FDA granted ODD to PRTX-100 for the treatment of ITP. In July 2015, the EMA granted approval for a Phase 1b open-label, dose-escalating study of PRTX-100 in adult patients with persistent/chronic ITP (the “PRTX-100-203 Study”). In September 2015, COMP issued a positive opinion recommending PRTX-100 for designation as an orphan medicinal product for the treatment of ITP. In November 2015, we enrolled our first patient in the PRTX-100-202 Study in the United States and in January 2016 enrolled our first patient in the PRTX 100-203 Study in Europe. Enrollment is continuing in both studies at an increased dose.

**Rheumatoid arthritis** - RA is a highly inflammatory polyarthritis often leading to joint destruction, deformity and loss of function. In addition to characteristic symmetric swelling of peripheral joints, systemic symptoms related to chronic inflammation can commonly occur. Chronic pain, disability and excess mortality are unfortunate sequelae. RA is the most common autoimmune disease, affecting 1% to 2% of the world's population, with prevalence rising with age to about 5% in women over 55.

PRTX-100 shows measurable activity in a standard mouse model of autoimmune arthritis. A substantial body of published literature and proprietary data delineate the immunomodulatory activities of PRTX-100, which are distinct from those of current major biologic treatments for rheumatoid arthritis. Accordingly, we believe that RA represents a potentially important clinical indication for treatment with PRTX-100. While recent advances in biologic treatments for RA have improved the prognosis for many patients, many others continue to live with debilitating RA disease activity due either to the cost, side-effects, or limited effectiveness of these newer therapies.

## The PRTX-100-103 Study

In August 2010, we commenced a multi-center Phase 1b clinical trial of PRTX-100 in South Africa on adult patients with active RA on methotrexate or leflunomide. The PRTX-100-103 Study served to evaluate safety and potential efficacy of PRTX-100 in patients with active RA and was approved to enroll up to 40 patients in four dose-escalating cohorts. In January 2012, we completed patient dosing in the fourth cohort of the PRTX-100-103 Study. A total of 37 patients were enrolled in four cohorts ranging from 0.15 micrograms/kg to 1.50 micrograms/kg of PRTX-100 or placebo, administered weekly for four weeks. Measures of safety, PK, and disease activity were evaluated over 16 weeks following the first dose. The PRTX-100-103 Study results demonstrated that PRTX-100 was generally safe and well-tolerated in patients with active RA at all tested dose levels and at the higher doses, decreased RA activity as scored by the CDAI.

The number of patients with a DAS28-CRP < 3.2 (Disease Activity Score) at six weeks was the predefined disease activity endpoint of the study. The results showed that the patients receiving PRTX-100 were more likely to respond than those receiving placebo at all times, the number of responders increased over time during the 16 week study evaluation period, and that the maximum tolerated dose was not reached at the highest dose level.

Additionally, the results indicate that PRTX-100 did not change CRP (C-Reactive Protein) levels, even in those patients whose swollen and tender joint count and global VAS (Visual Analogue Scale) scores had decreased to low levels after treatment. Because of the influence of the CRP component on the DAS28-CRP score, a post-hoc analysis was performed examining changes in the CDAI scores in all patients. The CDAI score does not evaluate CRP as a component, but instead comprises physician and patient-assessed chemical markers of disease activity. In the placebo, 0.15 micrograms/kg, and 0.45 micrograms/kg dose groups, one out of eight patients in each group attained low disease activity (CDAI  $\leq$  10) on two or more consecutive visits. In the 0.90 micrograms/kg and 1.50 micrograms/kg dose groups, two of eight and two of five patients, respectively, attained this same endpoint, and maintained a CDAI < 10 until the week 16 final visit. Of the four apparent responders in the 1.50 micrograms/kg group, two attained a CDAI  $\leq$  6 (remission), one attained a CDAI  $\leq$  10 (low activity), and one achieved a CDAI of 10.1 at one or more visits. The mean time to peak response in this group occurred six weeks after their last dose.

The disease activity results from the PRTX-100-103 Study demonstrated an acceptable safety profile, and suggested treatment with PRTX-100 could affect disease activity, although these effects were not statistically significant. In November 2012 we commenced the PRTX-100-104 Study to provide a better understanding of safety and potential treatment effect on RA disease activity measurements as well as to help define the optimal dose.

## The PRTX-100-104 Study

In November 2012, we commenced enrollment in the United States for a new multicenter Phase 1b randomized, multiple-dose, dose-escalation study (the "PRTX-100-104 Study") of PRTX-100 in combination with methotrexate or leflunomide in adult patients with active RA. The sequential dose-escalation phase of this study was expected to enroll up to 40 patients into five cohorts ranging from 1.50 micrograms/kg up to 18.0 micrograms/kg of PRTX-100 or placebo. At each dose, one quarter of patients would receive a placebo treatment. Similar to the PRTX-100-103 Study, the primary objective of the PRTX-100-104 Study was to assess the safety and tolerability of intravenous PRTX-100 administered weekly over five weeks in patients with active RA on methotrexate or leflunomide therapy. The secondary objectives included determining the effects of PRTX-100 on measures of disease activity, assessing the immunogenicity and evaluating the PK parameters after repeated doses, and determining possible relationships between the immunogenicity of PRTX-100 and safety and PK.

In August 2013, following a planned interim safety review by our Independent Data Safety Monitoring Committee and upon completion of the fourth cohort, we expanded the 3.0 microgram, 6.0 microgram, and 12.0 micrograms/kg dose cohorts of the PRTX-100-104 Study. An additional nine patients were enrolled in the expansion cohort that was completed in October 2013. In total, the first four dose-escalating cohorts of the PRTX-100-104 Study, which included these three expanded cohorts, enrolled 41 patients at five U.S. clinical centers with doses ranging from 1.5 micrograms/kg up to 12.0 micrograms/kg. Five patients withdrew from the study prior to their day 85 visit.

In November 2013, following completion of the Cohort 4 expansion cohorts, we initiated enrollment of the fifth and final cohort (Cohort 5) in the PRTX 100-104 Study. The Cohort 5 sub-study enrolled 20 patients who received five weekly fixed-weight doses of PRTX-100 followed by up to four additional monthly maintenance doses of PRTX-100 in weeks 8, 12, 16, and 20. The primary objective of the Cohort 5 sub-study was to assess safety and tolerability of these doses administered on a modified schedule. Secondary objectives included determining the effects of PRTX-100 on measures of disease activity, assessing the immunogenicity and evaluating the PK parameters after repeated doses, and determining possible relationships between the immunogenicity of PRTX-100 and safety, PK and efficacy parameters. In total, 11 out of 20 patients in Cohort 5 completed all study visits by August 2014 per protocol.

In November 2014, we announced final data from Cohorts 1 through 4 and an interim analysis of pooled data from Cohort 5 of the 104 Study. For patients in all five cohorts of the 104 Study, PRTX-100 appeared safe and well tolerated in all individuals, including those who developed ADAs, and the AE profile was consistent with our prior clinical trial results.

In the Cohort 5 sub-study, the amount of PRTX-100 administered and its dosing frequency were varied from Cohorts 1 through 4 to explore effects on safety, tolerability and measures of disease activity. In total, twenty patients were randomized to 420 µg PRTX-100 (12 patients), 240 µg PRTX-100 (3 patients) or placebo (5 patients). The addition of four monthly maintenance doses after the five weekly doses did not increase the rate or type of AEs, even in those patients who developed ADAs nor indicate any apparent correlation between the development of ADAs and effects on measures of RA disease activity.

In addition, Cohort 5 patients showed improvement in measures of disease activity, including ACR20 scores, compared to Cohort 1 through 4 patients who did not receive any monthly maintenance doses, suggesting that the addition of monthly maintenance administration of PRTX-100 and weight-based dosing were an important aspect of the dosing protocol and should be considered in future trials of PRTX-100. A total of 61 patients enrolled across the five cohorts in the PRTX 100-104 Study at nine study sites in the United States

### **The PRTX-100-105 Study**

In February 2015, we commenced enrollment, at a single U.S. site, of a Phase I/II open-label, multiple, fixed-dose study (the “PRTX-100-105 Study”) which was open only to PRTX-100-104 Study patients who indicated their desire for additional treatment. The PRTX-100-105 Study was an open-label, single group study with former participants from the 104 Study who were eligible to receive a fixed dose of PRTX-100 over a 6-month period. The primary study endpoint of the 105 Study was the safety and tolerability of a fixed dose of PRTX-100 administered over an extended period. The secondary endpoints included immunogenicity, effects on measures of RA disease activity, evaluation of anti-PRTX-100 antibody presence, and feasibility of joint evaluations with ultrasound and biomarkers as disease markers. A total of eight patients completed all 105 Study visits per protocol.

In the PRTX-100-105 Study, a preliminary interim analysis indicated that for patients who completed per protocol, PRTX-100 exhibited an acceptable safety profile and RA disease activity was improved in a majority of patients at the end of the study as compared to baseline. No SAEs were reported. At study day 196, one month after the final dose, patients who completed the study per protocol demonstrated a mean reduction of the DAS28CRP score from 5.25 to 2.52, suggesting a clinically meaningful improvement in disease activity. Additionally, clinical assessment by UPD, also revealed a reduction in average disease severity by day 196, and the correlation between the UPD and the DAS28CRP was  $r=0.624$  ( $p<.0005$ ).

### **The PRTX-100-202 Study**

In November 2015, we commenced enrollment and enrolled our first patient in the PRTX-100-202 Study. The PRTX-100-202 Study may enroll up to 36 patients in as many as six cohorts. Each patient will receive four weekly intravenous doses of PRTX-100 and will be monitored for up to 48 weeks thereafter. The primary study endpoint of the PRTX-100-202 Study is a platelet response to PRTX-100. Secondary endpoints include safety, immunogenicity, and pharmacokinetics. One patient in the first cohort of the PRTX-100-202 Study had a platelet response per protocol. Enrollment is continuing for patients in the second cohort in the PRTX-100-202 Study at an increased dose.

### **The PRTX-100-203 Study**

In January 2016, we commenced enrollment of our first patient in the European based PRTX-100-203 Study. The PRTX-100-203 Study may enroll up to 30 patients in as many as five cohorts at sites in France. Each patient will receive four weekly intravenous doses of PRTX-100 and will be monitored for up to 48 weeks thereafter. The primary study endpoints of the PRTX-100-203 Study include safety, immunogenicity and pharmacokinetics. Secondary endpoints include platelet response and duration. One patient in the first cohort of the PRTX-100-203 Study had a platelet response per protocol. Enrollment is continuing for patients in the second cohort in the PRTX-100-203 Study at an increased dose.

## Manufacturing

We currently contract the manufacturing of our lead drug substance PRTX-100 to Eurogentec S.A. in Belgium where it is produced under Current Good Manufacturing Practice, or cGMP, conditions. In July 2014, we contracted with Eurogentec for the manufacture of additional bulk drug substance (our “active pharmaceutical ingredients”) (“API”), which we believe will be sufficient supply for completion of our current clinical studies. The stability testing and packaging of the final drug product for clinical supplies is performed by Eurogentec. The packaging of the final drug product is conducted at separate FDA-approved facilities. These companies, in the aggregate, have provided the drug product for both toxicological testing and clinical supplies. We believe that this entire process is scalable to commercial production but will require additional manufacturing resources. The original three clinical trials of PRTX-100 were conducted with a liquid formulation and all subsequent studies have utilized a newer lyophilized formulation designed to achieve better stability and longer product shelf-life. Compared to therapeutic doses of other biologic products used to treat RA and ITP, we believe the overall costs for these proposed therapeutic doses of PRTX-100 are significantly less due to the low dose and the simplicity of drug substance manufacture.

## Markets

RA is our most advanced primary indication. RA is a serious autoimmune disorder that causes the body’s immune system to produce antibodies that attack the lining of the joints, resulting in inflammation and pain. RA can lead to joint deformity or destruction, organ damage, disability and premature death. According to both the Arthritis Foundation and the American College of Rheumatology websites, approximately 1.5 million people in the United States have RA, which is approximately 1% of the nation’s adult population. There are nearly three times as many women as men with the disease. The disease occurs in all ethnic groups and in every part of the world.

RA was chosen as a target disease because it represents a well-defined, rapidly growing market for which there is no current uniformly effective treatment. Sixty percent of people with inadequately treated RA are unable to work 10 years after onset. It is estimated that despite treatment with current approved RA therapeutics, at least one-third of patients continue to have significant disability and limitations due to their disease. Current treatments are costly, some are associated with increased risk of cancer and opportunistic infections, and in most cases must be continued for decades. The market for the existing biologic RA drugs is primarily limited to those countries that have a high per capita income because treatment can cost tens of thousands of dollars per patient per year. Thus, a large portion of the world’s patient population cannot afford the existing biologic RA drugs. In contrast, we believe that PRTX-100 could potentially provide patients with a therapy that is efficacious, cost-effective, and has a highly favorable benefit-risk ratio.

Once further developed and approved, we believe that PRTX-100 could be used to treat patients with moderate to severe cases of RA, and particularly those individuals for whom other treatments failed. Given the differences in the regulatory approval process in different parts of the world, it is reasonable to believe that PRTX-100 might first be used in the developing world and then in Europe and North America.

In addition, we believe ITP also represents a potential indication for PRTX-100. ITP or Immune thrombocytopenia is a bleeding disorder in which the immune system destroys platelets, which are necessary for normal blood clotting. Persons with the disease have too few platelets in the blood. ITP affects women more often than men, and it is more common in children than in adults. In children, the disease usually resolves without treatment. Adults are usually treated with an anti-inflammatory steroid medicine (prednisone). In some cases, surgery to remove the spleen (splenectomy) is recommended which increases the platelet count in about half of patients.

ITP has no known cure, and relapses may occur years after seemingly successful medical or surgical management. If the patient’s condition does not improve with the use of prednisone, a corticosteroid drug that is the first line therapy for ITP, other treatments may include: danazol (Danocrine), a drug taken by mouth; infusions of high-dose gamma globulin (an immune factor); drugs that suppress the immune system; anti-RhD therapy for people with certain blood types; and newer agents like romiplostim (Nplate) and eltrombopag (Promacta) that stimulate the bone marrow to make more platelets. Global sales of Nplate and Promacta were approximately \$525 million and \$400 million, respectively, in 2015. Neither romiplostim nor eltrombopag impact the principal pathological mechanism of ITP, namely immune-mediated platelet destruction, and we believe that PRTX-100 may have a more direct impact on ITP disease processes. Thus, we believe that PRTX-100 may complement or reduce the use of thrombopoietic agents in adult patients with ITP.

Preliminary information gained in the laboratory on the mechanism of action of PRTX-100 also suggests potential efficacy in a range of autoimmune and inflammatory diseases, including, but not limited to psoriasis, myasthenia gravis, chronic idiopathic demyelinating polyneuropathy, and pemphigus.

Our long-term strategy contemplates the pursuit of FDA approval of PRTX-100 to treat other autoimmune and inflammatory diseases in addition to RA and ITP.

## Competition

We believe, based on the pre-clinical trials and the results to date of our five Phase I RA clinical studies, that PRTX-100 has a potential competitive advantage as it may be safer and more efficacious than existing RA therapies, and may cost less to manufacture than competing biologic-based therapies. Current RA treatments are characterized by complex manufacturing methods and, in 2015, resulted in an average annual retail cost of approximately \$13,000 to \$30,000 per patient, if the newer disease-modifying anti-rheumatic drugs approved in the last 20 years were used. The cost can increase according to the size/weight of a patient and the number of doses required. Additionally, patients are faced with the cost of the infusion itself and blood tests which are often not included in those cost estimates. A number of pharmaceutical agents are currently being used, with varying degrees of success, to control the signs and symptoms of RA and slow its progression. Available treatment options include:

- Analgesic/anti-inflammatory preparations, ranging from simple aspirin to the COX-2 inhibitors;
- Immunosuppressive/antineoplastic drugs, including azathioprine and methotrexate;
- TNF (Tumor Necrosis Factor) inhibitors, also known as anti-TNF therapy, currently represented by etanercept (Enbrel®), infliximab (Remicade®), and adalimumab (Humira®) and the newer entries, certolizumab (Cimzia®) and golimumab (Simponi®);
- Soluble Interleukin-1 (IL-1) Receptor Therapy, Anakinra (Kineret®) and (IL-6) tocilizumab (Actemra®);
- Costimulatory molecule inhibitor abatacept (Orencia®);
- Anti CD20 B-cell-directed therapy, rituximab (Rituxan®); and
- Janus Kinase (JAK) inhibitor, tofacitinib citrate (Xeljanz).

Many large and small pharmaceutical companies are active in this market, with Amgen Corporation (with Pfizer), Johnson & Johnson, Inc. (with Merck) and Abbott Laboratories dominating the market for biologic therapies with their respective products, Enbrel®, Remicade® and Humira®. According to each company's 2015 annual reports, Enbrel generated revenues of approximately \$8.7 billion combined for Amgen and Pfizer, Remicade generated revenues of more than \$9.3 billion combined for Johnson & Johnson and Merck, and AbbVie reported generated revenues of \$14 billion for Humira. For other TNF inhibitors, Cimzia generated revenues of \$1.2 billion for UCB; Simponi generated revenues of \$2 billion for Johnson & Johnson and Merck; and Orencia generated revenues of \$1.9 billion for Bristol Myers Squibb. Kineret generated revenues of \$94 million in sales for SOBI, which acquired from Amgen the rights to develop and commercialize Kineret in 2014. Actemra generated revenues of \$1.5 billion and Rituxan \$5.6 billion, respectively, for Roche. Xeljanz earned \$523 million for Pfizer in 2015. Revenue figures above reflect the use of these drugs for RA, other indications and off label uses.

Post-marketing experience has indicated that current and newly-marketed disease modifying anti-rheumatic drugs (DMARDs) subject patients to an increased risk of certain SAEs. Products which inhibit the action of TNF-alpha, being the longest on the market and the most studied, have demonstrated an increased incidence of certain SAEs. Due to suppression of the immune system by these products, these SAEs include serious and opportunistic infections such as tuberculosis, fungal infections, and listeria infection, and increased risk of lymphomas. Transient neutropenia and other blood dyscrasias have been reported. TNF inhibitors are also not recommended in patients with demyelinating disease or with congestive heart failure. Rituxan (anti-CD20) use increases the potential for Hep B reactivation and multifocal leukoencephalopathy, a fatal viral disease. Kineret (IL-1) also shows an increased the risk of infection. Actemra (IL-6) use has led to increased liver enzyme levels, hypertension, transient neutropenia, and an increase in cholesterol levels. Orencia (T cell inhibition) also works by weakening the immune system, therefore can increase the risk of infections. Patients using Orencia have developed lymphoma and lung cancer. Xeljanz (JAK) is the newest RA treatment to enter the market. It has demonstrated similar side effects to TNF inhibitors, including invasive and opportunistic infections and the reactivation of tuberculosis. Lymphomas and other malignancies have been observed in patients treated with Xeljanz. In a study by a Swedish research group published in November 2012 by the American College of Rheumatology entitled, "Mortality Rates in Patients with Rheumatoid Arthritis Treated with Tumor Necrosis Factor Inhibitors", following treatment of RA with either of the TNF inhibitors Enbrel, Humira or Remicade, mortality rates were on average approximately one death per 30 patients treated in the first three years of treatment. Findings such as these and the long list of serious adverse events for all of the currently marketed treatments indicate that new and safer treatments for autoimmune diseases such as RA are needed.

## Government Regulation and Product Approval

The FDA and comparable regulatory agencies in state and local jurisdictions and in foreign countries impose substantial requirements upon the testing (preclinical and clinical), manufacturing, labeling, storage, recordkeeping, advertising, promotion, import, export, marketing and distribution, among other things, of drugs and drug product candidates. If we do not comply with applicable requirements, we may be fined, the government may refuse to approve our marketing applications or allow us to manufacture or market our products, and we may be criminally prosecuted. We and our manufacturers may also be subject to regulations under other U.S. federal, state, local and foreign laws.

In the United States, the FDA regulates drugs under the Food Drug and Cosmetic Act, or FDCA, and implementing regulations. The process required by the FDA before our drug candidates may be marketed in the United States generally involves the following (although the FDA is given wide discretion to impose different or more stringent requirements on a case-by-case basis):

- completion of extensive preclinical laboratory tests, preclinical animal studies and formulation studies, all performed in accordance with the FDA's Good Laboratory Practice or GLP regulations and other regulations;
- submission to the FDA of an IND application which must become effective before clinical trials may begin;
- performance of multiple adequate and well-controlled clinical trials meeting FDA requirements to establish the safety and efficacy of the product candidate for each proposed indication;
- submission of a Biological License Application or BLA to the FDA;
- satisfactory completion of an FDA pre-approval inspection of the manufacturing facilities at which the product candidate is produced, and potentially other involved facilities as well, to assess compliance with cGMP, regulations and other applicable regulations; and
- the FDA review and approval of the BLA prior to any commercial marketing, sale or shipment of the drug.

The testing and approval process requires substantial time, effort and financial resources, and we cannot be certain that any approvals for our drug candidates will be granted on a timely basis, if at all. Risks to us related to these regulations are described in the Risk Factors in Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2016.

A separate submission to the FDA, under an existing IND must also be made for each successive clinical trial conducted during product development. The FDA must also approve changes to an existing IND. Further, an independent institutional review board, or IRB, for each medical center proposing to conduct the clinical trial must review and approve the plan for any clinical trial before it commences at that center and it must monitor the study until completed. The FDA, the IRB or the sponsor may suspend a clinical trial at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk. Clinical testing also must satisfy extensive Good Clinical Practice or GCP requirements and regulations for informed consent.

### ***Clinical Trials***

For purposes of BLA submission and approval, clinical trials are typically conducted in the following three sequential phases, which may overlap (although additional or different trials may be required by the FDA as well):

- *Phase I clinical trials* are initially conducted in a limited population to test the drug candidate for safety, dose tolerance, absorption, metabolism, distribution and excretion in healthy humans or, on occasion, in patients, such as cancer patients. In some cases, particularly in cancer trials, a sponsor may decide to conduct what is referred to as a "Phase 1b" evaluation, which is a second safety-focused Phase I clinical trial typically designed to evaluate the impact of the drug candidate in combination with currently FDA-approved drugs.
- *Phase II clinical trials* are generally conducted in a limited patient population to identify possible adverse effects and safety risks, to determine the efficacy of the drug candidate for specific targeted indications and to determine an optimal dosage. Multiple Phase II clinical trials may be conducted by the sponsor to obtain information prior to beginning larger and more expensive Phase III clinical trials. In some cases, a sponsor may decide to conduct what is referred to as a "Phase IIb" evaluation, which is a second, confirmatory Phase II clinical trial that could, if positive and accepted by the FDA, serve as a pivotal clinical trial in the approval of a drug candidate.
- *Phase III clinical trials* are commonly referred to as pivotal trials. When Phase II clinical trials demonstrate that a dose range of the drug candidate is effective and has an acceptable safety profile, Phase III clinical trials are undertaken in large patient populations to further evaluate dosage, to provide substantial evidence of clinical efficacy and to further test for safety in an expanded and diverse patient population at multiple, geographically dispersed clinical trial sites.

In some cases, the FDA may condition continued approval of a BLA on the sponsor's agreement to conduct additional clinical trials with due diligence. In other cases, the sponsor and the FDA may agree that additional safety and/or efficacy data should be provided; however, continued approval of the BLA may not always depend on timely submission of such information. Such post-approval studies are typically referred to as Phase IV studies.

### ***Biological License Application***

The results of drug candidate development, preclinical testing and clinical trials, together with, among other things, detailed information on the manufacture and composition of the product and proposed labeling, and the payment of a user fee, are submitted to the FDA as part of a BLA. The FDA reviews all BLAs submitted before it accepts them for filing and may request additional information rather than accepting a BLA for filing. Once a BLA is accepted for filing, the FDA begins an in-depth review of the application.

During its review of a BLA, the FDA may refer the application to an advisory committee for review, evaluation and recommendation as to whether the application should be approved. The FDA may refuse to approve a BLA and issue a not approvable letter if the applicable regulatory criteria are not satisfied, or it may require additional clinical or other data, including one or more additional pivotal Phase III clinical trials. Even if such data are submitted, the FDA may ultimately decide that the BLA does not satisfy the criteria for approval. Data from clinical trials are not always conclusive and the FDA may interpret data differently than we or our collaboration partners interpret data. If the FDA's evaluations of the BLA and the clinical and manufacturing procedures and facilities are favorable, the FDA may issue either an approval letter or an approvable letter, which contains the conditions that must be met in order to secure final approval of the BLA. If and when those conditions have been met to the FDA's satisfaction, the FDA will issue an approval letter, authorizing commercial marketing of the drug for certain indications. The FDA may withdraw drug approval if ongoing regulatory requirements are not met or if safety problems occur after the drug reaches the market. In addition, the FDA may require testing, including Phase IV clinical trials, and surveillance programs to monitor the effect of approved products that have been commercialized, and the FDA has the power to prevent or limit further marketing of a drug based on the results of these post-marketing programs. Drugs may be marketed only for the FDA-approved indications and in accordance with the FDA-approved label. Further, if there are any modifications to the drug, including changes in indications, other labeling changes, or manufacturing processes or facilities, we may be required to submit and obtain FDA approval of a new BLA or BLA supplement, which may require us to develop additional data or conduct additional preclinical studies and clinical trials.

### ***Fast Track Designation***

The FDA's fast track program is intended to facilitate the development and to expedite the review of drugs that are intended for the treatment of a serious or life-threatening condition and that demonstrate the potential to address unmet medical needs. Under the fast track program, applicants may seek traditional approval for a product based on data demonstrating an effect on a clinically meaningful endpoint, or approval based on a well-established surrogate endpoint. The sponsor of a new drug candidate may request the FDA to designate the drug candidate for a specific indication as a fast track drug at the time of original submission of its IND, or at any time thereafter prior to receiving marketing approval of a marketing application. The FDA will determine if the drug candidate qualifies for fast track designation within 60 days of receipt of the sponsor's request.

If the FDA grants fast track designation, it may initiate review of sections of a BLA before the application is complete. This so-called "rolling review" is available if the applicant provides and the FDA approves a schedule for the submission of the remaining information and the applicant has paid applicable user fees. The FDA's Prescription Drug User Fee Act or PDUFA review clock for both a standard and priority BLA for a fast track product does not begin until the complete application is submitted. Additionally, fast track designation may be withdrawn by the FDA if it believes that the designation is no longer supported by emerging data, or if the designated drug development program is no longer being pursued.

In some cases, a fast track designated drug candidate may also qualify for one or more of the following programs:

- *Priority Review.* As explained above, a drug candidate may be eligible for a six-month priority review. The FDA assigns priority review status to an application if the drug candidate provides a significant improvement compared to marketed drugs in the treatment, diagnosis or prevention of a disease. A fast track drug would ordinarily meet the FDA's criteria for priority review, but may also be assigned a standard review. We do not know whether any of our drug candidates will be assigned priority review status or, if priority review status is assigned, whether that review or approval will be faster than conventional FDA procedures, or that the FDA will ultimately approve the drug.
- *Accelerated Approval.* Under the FDA's accelerated approval regulations, the FDA is authorized to approve drug candidates that have been studied for their safety and efficacy in treating serious or life-threatening illnesses and that provide meaningful therapeutic benefit to patients over existing treatments based upon either a surrogate endpoint that is reasonably likely to predict clinical benefit or on the basis of an effect on a clinical endpoint other than patient survival or irreversible morbidity. In clinical trials, surrogate endpoints are alternative measurements of the symptoms of a disease or condition that are substituted for measurements of observable clinical symptoms. A drug candidate approved on this basis is subject to rigorous post-marketing compliance requirements, including the completion of Phase IV or post-approval clinical trials to validate the surrogate endpoint or confirm the effect on the clinical endpoint. Failure to conduct required post-approval studies with due diligence, or to validate a surrogate endpoint or confirm a clinical benefit during post-marketing studies, may cause the FDA to seek to withdraw the drug from the market on an expedited basis. All promotional materials for drug candidates approved under accelerated regulations are subject to prior review by the FDA.

When appropriate, we intend to seek fast track designation, accelerated approval or priority review for our drug candidates. We cannot predict whether any of our drug candidates will obtain fast track, accelerated approval, or priority review designation, or the ultimate impact, if any, of these expedited review mechanisms on the timing or likelihood of the FDA approval of any of our drug candidates.

Satisfaction of the FDA regulations and approval requirements or similar requirements of foreign regulatory agencies typically takes several years, and the actual time required may vary substantially based upon the type, complexity and novelty of the product or disease. Typically, if a drug candidate is intended to treat a chronic disease, as is the case with the drug candidate we are developing, safety and efficacy data must be gathered over an extended period of time. Government regulation may delay or prevent marketing of drug candidates for a considerable period of time and impose costly procedures upon our activities. The FDA or any other regulatory agency may not grant approvals for changes in dosage form or new indications for our drug candidates on a timely basis, or at all. Even if a drug candidate receives regulatory approval, the approval may be significantly limited to specific disease states, patient populations and dosages. Further, even after regulatory approval is obtained, later discovery of previously unknown problems with a drug may result in restrictions on the drug or even complete withdrawal of the drug from the market. Delays in obtaining, or failures to obtain, regulatory approvals for our drug candidate would harm our business. In addition, we cannot predict what adverse governmental regulations may arise from future U.S. or foreign governmental action.

### ***Regulatory Requirements***

Any drugs manufactured or distributed by us or any potential collaboration partners pursuant to future FDA approvals are subject to continuing regulation by the FDA, including recordkeeping requirements and reporting of adverse experiences associated with the drug. Drug manufacturers and their subcontractors are required to register with the FDA and certain state agencies, and are subject to periodic unannounced inspections by the FDA and certain state agencies for compliance with ongoing regulatory requirements, including cGMP, which impose certain procedural and documentation requirements upon us and our third-party manufacturers. Failure to comply with the statutory and regulatory requirements can subject a manufacturer to possible legal or regulatory action, such as warning letters, suspension of manufacturing, sales or use, seizure of product, injunctive action or possible civil penalties. We cannot be certain that we or our present or future third-party manufacturers or suppliers will be able to comply with the cGMP regulations and other ongoing FDA regulatory requirements. If our present or future third-party manufacturers or suppliers are not able to comply with these requirements, the FDA may halt our clinical trials, require us to recall a drug from distribution, or withdraw approval of the BLA for that drug.

The FDA closely regulates the post-approval marketing and promotion of drugs, including standards and regulations for direct-to-consumer advertising, off-label promotion, industry-sponsored scientific and educational activities and promotional activities involving the Internet. A company can make only those claims relating to safety and efficacy that are approved by the FDA. Failure to comply with these requirements can result in adverse publicity, warning and/or untitled letters, corrective advertising and potential civil and criminal penalties.

### ***Orphan Drug Designation in the United States, the European Union and other foreign jurisdictions***

In June 2015, the FDA granted Orphan Drug Designation to PRTX-100 in the treatment for ITP. In September 2015, COMP issued a positive opinion recommending PRTX-100 for designation as an orphan medicinal product for ITP. Based upon study data to date, we believe that PRTX-100 may be effective in the treatment of ITP, as well as other orphan immunological diseases.

Under the U.S. Orphan Drug Act, Orphan Drug Designation is granted by the FDA to drugs intended to treat a rare disease or condition, which for this program is defined as having a prevalence of fewer than 200,000 individuals in the United States. Orphan Drug Designation must be requested before submitting a marketing application. After the FDA grants an Orphan Drug Designation, the generic identity of the therapeutic agent and its potential orphan use are disclosed publicly by the FDA.

Orphan Drug Designation does not shorten the regulatory review and approval process, nor does it provide any advantage in the regulatory review and approval process. However, if a product which has an Orphan Drug Designation subsequently receives the first FDA approval for the indication for which it has such designation, the product is entitled to an orphan exclusivity period, in which the FDA may not approve any other applications to market the same drug for the same indication for seven years in the United States, except in limited circumstances.

In addition, outside of the U.S. medicinal products used to treat life-threatening or chronically debilitating conditions that affect no more than five in 10,000 people in European Union and medicinal products which, for economic reasons, would be unlikely to be developed without incentives may be granted orphan designation in the European Union. The application for orphan designation is submitted to the EMA before an application is made for marketing authorization. Once authorized, orphan medicinal products are entitled to ten years of market exclusivity. During this ten-year period, with a limited number of exceptions, neither the competent authorities of the European Union member states nor the EMA are permitted to accept applications or grant marketing authorization for other similar medicinal products with the same orphan indication. However, marketing authorization may be granted to a similar medicinal product with the same orphan indication during the ten-year period with the consent of the marketing authorization holder for the original orphan medicinal product or if the manufacturer of the original orphan medicinal product is unable to supply sufficient quantities. Marketing authorization may also be granted to a similar medicinal product with the same orphan indication if this product is safer, more effective or otherwise clinically superior to the original orphan medicinal product.

We retained the consulting services of Coté Orphan Consulting, LLC (Coté) to submit the application for Orphan Drug Designation in the EU for PRTX-100 as Protalex, Inc. does not maintain a European subsidiary. On October 9, 2015, PRTX-100 was granted Orphan Drug Designation in EU as EU/3/15/1562 (EMA/OD/111/15) for the treatment of Immune Thrombocytopenia. Coté Orphan Consulting UK Limited, a subsidiary of Coté Orphan Consulting, LLC, is identified as the sponsor of the designation for PRTX-100 in the EU. Under our agreement with Coté, we retain all ownership in the Orphan Drug Designation for PRTX-100 in the EU.



## **Foreign Regulation**

In addition to regulations in the United States, we will be subject to a variety of foreign regulations governing clinical trials and commercial sales and distribution of our future products. Whether or not we obtain FDA approval for a product, we must obtain approval of a product by the comparable regulatory authorities of foreign countries before we can commence clinical trials or marketing of the product in those countries. The approval process varies from country to country, and the time may be longer or shorter than that required for FDA approval. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary greatly from country to country.

Under European Union regulatory systems, marketing authorizations may be submitted either under a centralized or mutual recognition procedure. The centralized procedure provides for the grant of a single marketing authorization that is valid for all European Union member states. The mutual recognition procedure provides for mutual recognition of national approval decisions. Under this procedure, the holder of a national marketing authorization may submit an application to the remaining member states. Within 90 days of receiving the applications and assessment report, each member state must decide whether to recognize approval.

In addition to regulations in Europe and the United States, we will be subject to a variety of foreign regulations governing clinical trials and commercial distribution of our future products.

## **Patents, Trademarks, and Proprietary Technology**

Patents and other proprietary rights are important to our business. Our practice is to file patent applications to protect technology, inventions and improvements to our technologies that are considered important to the development of our business. We have filed several U.S. patent applications and international counterparts of certain of these applications. We also rely upon our trade secrets, know-how, and continuing technological innovations, as well as patents that we may license from other parties, to develop and maintain our competitive position.

Our success will depend on our ability to maintain our trade secrets and proprietary technology in the United States and in other countries.

The table below provides a list of our issued patents:

<u>Patent Title</u>	<u>Number</u>	<u>Expiration Date</u>
Protein A Compositions and Methods of Use	U.S. Patent No. 7,211,258	Nov. 6, 2022
Protein A Methods of Use	U.S. Patent No. 7,425,331	Nov. 6, 2022
Protein A Compositions and Methods of Use	U.S. Patent No. 7,807,170	April 10, 2022
Protein A Compositions and Methods of Use	U.S. Patent No. 8,168,189	June 16, 2022
Protein A Compositions and Methods of Use	U.S. Patent No. 8,603,486	April 10, 2022
Protein A Compositions and Methods of Use	European Patent No. 2570136	March 6, 2023
Protein A Composition and Method of Use	Japanese Patent No. 5523796	March 6, 2023
Protein A Compositions and Methods of Use	U.S. Patent No. 9,370,552	April 10, 2022
Protein A Compositions and Methods of Use	European Patent No. 2,206,511	September 13, 2025
Protein A Compositions and Methods of Use	Canadian Patent No. 2,894,098	March 6, 2023
Protein A Compositions and Methods of Use	Canadian Patent No. 2,481,282	March 6, 2023

We have also received Notice of Allowances for additional patents to be issued in Europe and Canada in the near term as well as having several patent applications pending in Europe, Canada, Hong Kong and Japan. It is our policy to require our employees, consultants, and parties to collaborative agreements to execute confidentiality agreements upon the commencement of employment or consulting relationships or collaborations with us. These agreements generally provide that all confidential information developed or made known during the course of the relationship with us is to be kept confidential and not to be disclosed to third parties except in specific circumstances.

## **Employees**

In addition to our president and our chief financial officer we have one part-time employee. We also have a Scientific Advisory Board which is staffed by highly qualified consultants with the background and scientific expertise we need to carry out our long-term business objectives. We believe that our relationship with all of our employees and our Scientific Advisory Board is generally good.

## **Critical Accounting Policies**

Our financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. Note 3 to the financial statements describes the significant accounting policies and methods used in the preparation of our financial statements.

We have identified the policies below as some of the more critical to our business and the understanding of our financial position and results of operations. These policies may involve a high degree of judgment and complexity in their application and represent the critical accounting policies used in the preparation of our financial statements. Although we believe our judgments and estimates are appropriate and correct, actual future results may differ from estimates. If different assumptions or conditions were to prevail, the results could be materially different from these reported results. The impact and any associated risks related to these policies on our business operations are discussed throughout this Report where such policies affect our reported and expected financial results.

The preparation of our financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and equity and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. These estimates have a material impact on our financial statements and are discussed in detail throughout this Report.

As part of the process of preparing our financial statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating actual current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and to the extent we believe that recovery is not likely, we must establish a valuation allowance. In the event that we determine that we would be able to realize deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax asset valuation allowance would increase income in the period such determination was made.

We account for our stock option grants under the provisions of the accounting guidance for Share-Based Payments. Such guidance requires the recognition of the fair value of share-based compensation in the statements of operations. The fair value of our stock option awards was estimated using a Black-Scholes option valuation model. This model requires the input of highly subjective assumptions and elections in adopting and implementing this guidance, including expected stock price volatility and the estimated life of each award. The fair value of share-based awards is amortized over the vesting period of the award and we have elected to use the straight-line method for awards granted after the adoption of this guidance.

## Results of Operations

### For the Three Months Ended November 30, 2016 and November 30, 2015

*Research and Development Expenses* - Research and Development expenses (“R&D Expenses”) were \$475,859 and \$1,063,843 for the three months ended November 30, 2016 and November 30, 2015, respectively. The decrease in R&D Expenses for the three month period ended November 30, 2016 compared to the three month period ended November 30, 2015 was primarily the result of a decrease in the activities associated with the manufacturing of PRTX-100 as well as clinical activities associated with our ITP studies.

There are significant risks and uncertainties inherent in the preclinical and clinical studies associated with our research and development program. These studies may yield varying results that could delay, limit or prevent a program’s advancement through the various stages of product development and significantly impact the costs to be incurred, and time involved, in bringing a program to completion. As a result, the costs to complete such programs, as well as the period in which net cash outflows from such programs are expected to be incurred, are not reasonably estimable.

*Administrative Expenses* - Administrative expenses were \$94,479 and \$793,743 for the three months ended November 30, 2016 and November 30, 2015, respectively. The decrease in administrative expenses for the three month period ended November 30, 2016 compared to the same prior year period was due to a decrease in stock compensation expense.

*Professional Fees* - Professional expenses were \$214,132 and \$237,989 for the three months ended November 30, 2016 and November 30, 2015, respectively. The decrease for the three month period ended November 30, 2016 was principally due to a decrease in legal fees.

### For the Six Months Ended November 30, 2016 and November 30, 2015

*Research and Development Expenses* - R&D Expenses were \$924,839 and \$1,601,006 for the six months ended November 30, 2016 and November 30, 2015, respectively. The decrease in R&D Expenses for the six month period ended November 30, 2016 compared to the six month period ended November 30, 2015 was primarily the result of a decrease in the activities associated with the manufacturing of PRTX-100 as well as clinical activities associated with our ITP studies.

There are significant risks and uncertainties inherent in the preclinical and clinical studies associated with our research and development program. These studies may yield varying results that could delay, limit or prevent a program’s advancement through the various stages of product development and significantly impact the costs to be incurred, and time involved, in bringing a program to completion. As a result, the costs to complete such programs, as well as the period in which net cash outflows from such programs are expected to be incurred, are not reasonably estimable.

*Administrative Expenses* - Administrative expenses were \$452,416 and \$3,598,620 for the six months ended November 30, 2016 and November 30, 2015, respectively. The decrease in administrative expenses for the six month period ended November 30, 2016 compared to the same prior year period was due to a decrease in stock compensation expense.

*Professional Fees* - Professional expenses were \$546,038 and \$413,756 for the six months ended November 30, 2016 and November 30, 2015, respectively. The increase for the six month period ended November 30, 2016 was principally due to an increase in legal and banking fees related to our filing of Amendment #1 to the Registration Statement on Form S-1 in June 2016.

## Net Loss Outlook

We have not generated any product sales revenues, have incurred operating losses since inception and have not achieved profitable operations. Our accumulated deficit from inception through November 30, 2016 was \$96,811,136 and we expect to continue to incur substantial losses in future periods. We expect that our operating losses in future periods will be the result of continued research and development expenses relating to PRTX-100, as well as costs incurred in preparation for the potential commercialization of PRTX-100.

In addition to additional financing, we are highly dependent on the success of our research and development efforts and, ultimately, upon regulatory approval and market acceptance of our products under development, particularly our lead product candidate, PRTX-100. We may never receive regulatory approval for any of our product candidates, generate product sales revenues, achieve profitable operations or generate positive cash flows from operations, and even if profitable operations are achieved, they may not be sustained on a continuing basis.

## Liquidity and Capital Resources

Since 1999, we have incurred significant losses and we expect to experience operating losses and negative operating cash flow for the foreseeable future. Historically, our primary source of cash to meet short-term and long-term liquidity needs has been the sale of shares of our Common Stock and loans from our majority stockholder. We have issued shares in private placements at discounts to then current market price.

On December 2, 2009, we entered into the Facility with Niobe to provide us with up to \$2,000,000 of additional working capital in the form of secured loans at any time prior to June 30, 2012 subject to our achievement of certain predetermined benchmarks. On February 11, 2011 we received \$2,000,000 of additional working capital from Niobe under the Facility, and issued to Niobe the \$2 million Secured Convertible Note. On the same date, Niobe converted the \$1 Million Secured Note and accrued interest thereon, into 4,510,870 shares of our Common Stock.

On August 27, 2013, Niobe elected to convert the principal and accrued interest of \$2,155,000 under the \$2 Million Secured Convertible Note into 9,369,565 shares of Common Stock.

From February 1, 2012 through August 27, 2013 we raised an aggregate of \$9,000,000 of working capital pursuant to seven loans from Niobe, in varying principal amounts and issued to Niobe the Secured Notes.

As described above, on October 11, 2013 we issued the Consolidated Note to Niobe. The face amount of the Consolidated Note reflects the \$9.0 million aggregate principal amount of the Secured Notes plus interest accrued at 3% per annum on each note from its respective date of issuance. Our obligations under the Consolidated Note are secured by a first priority perfected security interest in all of our assets pursuant to a Consolidated, Amended and Restated Security Agreement dated October 11, 2013.

On January 23, 2014, we consummated a private placement financing to accredited investors of 471,334 shares of Common Stock at \$6.00 per share, yielding gross proceeds of \$2,828,000.

On November 4, 2014, we entered into the 2014 Credit Facility Agreement pursuant to which we may borrow up to an additional \$5 million from Niobe, in the form of secured loans, in accordance with the 2014 Credit Facility Agreement at any time prior to the December 31, 2015 expiration date. Each loan made under the 2014 Credit Facility Agreement is represented by an Original Note and secured by a first priority perfected security interest in all of our assets.

In addition, on November 4, 2014, the Consolidated Note was further amended to increase the threshold amount requiring a Mandatory Prepayment from \$7.5 million to more than \$10 million. As a result, partial prepayment will now be triggered in the event of a Liquidity Event in which we receive gross proceeds in excess of \$10 million. All other terms and provisions of the Consolidated Note remained unchanged and in full force and effect.

On December 1, 2015, the 2014 Credit Facility was amended to increase the funds available for loans to us to \$7.5 million and to extend the expiration date of such credit facility to December 31, 2016 pursuant to which we entered into the Amended and Restated Agreement. Each loan under the Amended and Restated Agreement has been and will be represented by a New Note. In addition, the Security Agreement was also amended and restated to secure our obligations under all the Original Notes and all the New Notes.

On June 3, 2016, we filed amendment #1 to the Registration Statement on Form S-1 with the U.S. Securities and Exchange Commission (SEC) (SEC File No. 333-206008), originally filed on July 31, 2015, with respect to a proposed public offering of our securities. We are actively seeking sources of financing to fund our continuing operations and development programs. To raise additional capital, we may sell equity or debt securities. There can be no assurance that we will be able to complete any future financing transaction in a timely manner or on acceptable terms or otherwise. If we are not able to raise additional cash, we may be forced to delay, curtail, or cease our operations.

On June 30, 2016, the 2014 Credit Facility was amended to increase the funds available for loans to us to \$9.0 million pursuant to the Second Amended and Restated Agreement. Each loan under the Second Amended and Restated Agreement has been represented by a New Note. In addition, the Security Agreement was also amended and restated to secure our obligations under all the notes issued under the 2014 Credit Facility as of June 30, 2016 and all the New Notes issued pursuant to the Second Amended and Restated Agreement.

On July 15, 2016, we entered into an agreement with Niobe pursuant to which it agreed to exchange all Notes outstanding, which as of November 30, 2016 had an aggregate outstanding principal balance of \$17,414,366, for shares of common stock, at the price per share that common stock is sold to public investors in a qualified public offering. The agreement defines a “qualified public offering” to mean a public offering of common stock yielding gross proceeds to us of at least \$7.0 million which is consummated on or before October 31, 2016. The agreement further provided that 50% of accrued but unpaid interest would also be converted into common stock and 50% would be paid out of the proceeds of the qualified public offering. On November 1, 2016, the agreement expired pursuant its own terms.

On August 31, 2016, we and Niobe agreed to extend the maturity date of the Consolidated Note and the maturity dates of all thirteen outstanding Original Notes with an aggregate principal amount of \$5,030,000, from September 1, 2016 to September 1, 2017. All other terms and provisions of the Consolidated Note and Original Notes remained unchanged and in full force and effect.

On October 31, 2016, the funds available for loans to us under the 2014 Credit Facility was increased to \$11.25 million and the expiration date was extended to June 15, 2017 pursuant to the Third Amended and Restated Agreement. Each loan under the Third Amended and Restated Agreement will be represented by a 2018 Note. The Security Agreement was also amended and restated to secure our obligations under all the notes issued under the 2014 Credit Facility as of October 31, 2016 and all the 2018 Notes. In addition, we and Niobe also agreed to extend to March 31, 2018, the maturity dates of the Consolidated Note and all the notes issued and outstanding under the 2014 Credit Facility as of October 31, 2016.

As of November 30, 2016, the outstanding principal balance under the 2014 Credit Facility totaled \$9,230,000. During the six months ended November 30, 2016, we borrowed an aggregate of \$2,130,000; \$345,000 on June 1, 2016, \$375,000 on June 30, 2016, \$375,000 on August 1, 2016, \$345,000 on September 9, 2016, \$345,000 on October 3, 2016, and \$345,000 on November 1, 2016. Payment of the principal and accrued interest on all outstanding notes issued under the 2014 Credit Facility will, at Niobe’s election, automatically become immediately due and payable if we undertake certain Fundamental Transactions or upon an Event of Default, both as defined in such notes. Our obligations under the Notes are secured by the Security Agreement, as amended.

#### **Subsequent Events**

On each of December 9, 2016 and January 3, 2017, we borrowed an additional \$345,000 under the terms of the Third Amended and Restated Agreement and issued Niobe a 2018 Note for each loan in the same principal amount.

#### **Net Cash Used in Operating Activities and Operating Cash Flow Requirements Outlook**

Our operating cash outflows for the six months ended November 30, 2016 and November 30, 2015 have resulted primarily from research and development expenditures associated for PRTX-100 and administrative purposes. We expect to continue to use cash resources to fund operating losses and expect to continue to incur operating losses in this fiscal year and beyond due to continuing research and development activities.

#### **Net Cash Used in Investing Activities and Investing Requirements Outlook**

We do not expect to be required to make any significant investments in information technology and laboratory equipment to support our future research and development activities.

We may never receive regulatory approval for any of our product candidates, generate product sales revenues, achieve profitable operations or generate positive cash flows from operations, and even if profitable operations are achieved, these may not be sustained on a continuing basis. We have invested a significant portion of our time and financial resources since our inception in the development of PRTX-100, and our potential to achieve revenues from product sales in the foreseeable future is dependent largely upon obtaining regulatory approval for and successfully commercializing PRTX-100, especially in the United States. We expect to continue to use our cash and investments resources to fund operating and investing activities.

#### **Off-Balance Sheet Arrangements**

As of November 30, 2016, we had no off-balance sheet arrangements such as guarantees, retained or contingent interest in assets transferred, obligation under a derivative instrument and obligation arising out of or a variable interest in an unconsolidated entity.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As a smaller reporting company we are not required to provide the information required by this Item.

## ITEM 4. CONTROLS AND PROCEDURES

### (a) Evaluation of Disclosure Controls and Procedures

Our management, with the participation of both of our president and chief financial officer, carried out an evaluation of the effectiveness of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934, as amended (the “Exchange Act”), Rules 13a-15(e) and 15-d-15(e)) as of the end of the period covered by this Report (the “Evaluation Date”). Based upon that evaluation, both of our president and chief financial officer concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (ii) is accumulated and communicated to our management, including our president and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

### (b) Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the quarter covered by this Report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

## ITEM 6. EXHIBITS

<b>Exhibit No.</b>	<b>Description</b>	
4.1	Final Form of Secured Promissory Note issued to Niobe pursuant to the Third Amended and Restated 2014 Credit Facility Agreement between the Company and Niobe dated as of October 31, 2016.	Included in Exhibit 10.1.
10.1	Final Form of the Third Amended and Restated 2014 Credit Facility Agreement between the Company and Niobe dated as of October 31, 2016.	Filed herewith.
10.2	Final Form of the Fifth Consolidated, Amended and Restated Security Agreement between the Company and Niobe dated as of October 31, 2016.	Filed herewith.
10.3	Consolidated and Secured Note Modification Agreement, dated October 31, 2016, between the Company and Niobe	Filed herewith.
31.1	Certification of Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act	Filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act	Filed herewith.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act	Furnished herewith in accordance with Item 601 (32) (ii) of Regulation S-K.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act	Furnished herewith in accordance with Item 601 (32) (ii) of Regulation S-K.
101.INS	XBRL Instance Document.	Filed herewith.
101.SCH	XBRL Taxonomy Extension Schema Document.	Filed herewith.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	Filed herewith.

## SIGNATURES

In accordance with 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.

Date: January 12, 2017

PROTALEX, INC.

By: /s/ Arnold P. Kling

Arnold P. Kling, President  
(Principal Executive Officer)

Date: January 12, 2017

By: /s/ Kirk M. Warshaw

Kirk M. Warshaw, Chief Financial Officer  
(Principal Financial Officer)

**THIRD AMENDED AND RESTATED  
2014 CREDIT FACILITY AGREEMENT**

**THIRD AMENDED AND RESTATED 2014 CREDIT FACILITY AGREEMENT** (the "Agreement") by and between Protalex, Inc., a Delaware corporation (the "Company") and Niobe Ventures, LLC, a Delaware limited liability company ("Niobe"), dated as of October 31, 2016.

**WHEREAS**, the Company and Niobe are currently parties to the Seconded Amended and Restated 2014 Credit Facility Agreement, dated as of June 30, 2016, covering up to \$9.0 million of loans from Niobe to the Company (the "Credit Facility"), of which an aggregate of \$8.885 million in loans have been funded to date (the "Current Credit Facility Balance"); and

**WHEREAS**, incremental to the Credit Facility and the Current Credit Facility Balance, Niobe is the holder of a Consolidated, Amended and Restated Promissory Note in the principal amount of \$9,219,366 issued by the Company on October 11, 2013 (the "Outstanding Note"); and

**WHEREAS**, Niobe and the Company desire to increase the maximum amount of the Credit Facility to \$11.25 million and to provide for further loans thereunder by the Company.

**NOW THEREFORE**, the parties hereby agree as follows:

1. Credit Facility.

(a) Niobe hereby agrees that it will make available to the Company up to \$11.25 million (including the Current Credit Facility Balance) in the form of secured loans at the request of the Company made at any time prior to June 15, 2017 (the "Expiration Date") in increments of up to \$400,000 in any calendar month; provided, however, that there shall have been no material adverse development in the Company's clinical testing of PRTX-100 (a "Material Adverse Event") prior to any proposed funding date.

(b) Niobe shall only be obligated to make loans to the Company hereunder to the extent that the conditions set forth herein are satisfied.

(c) Notwithstanding anything to the contrary that may be contained herein, in no event shall Niobe be required to loan the Company more than \$11.25 million hereunder, or to make any loan at any time after the Expiration Date.

2. Request for Loans.

At any time prior to the Expiration Date, the Company may request that Niobe make a loan to the Company by submitting to Niobe a written request therefor (a "Loan Request"), which Loan Request must contain: (i) the amount of the loan requested to be made; (ii) a certification that no Material Adverse Event has occurred; and (iii) the aggregate principal amount of all loans made to the Company by Niobe pursuant to the 2014 Credit Facility Agreement, as amended, prior to such request. Such Loan Request must be accompanied by a written certification signed by an executive officer of the Company certifying that no Event of Default has occurred and is continuing under any outstanding note of the Company.

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3. Loans.

(a) Within ten (10) days of the receipt of a Loan Request which satisfies the terms and conditions hereunder, Niobe shall make a loan to the Company in an amount equal to the lesser of (i) the amount sought in such Loan Request, or (ii) \$11.25 million less the aggregate amount of all loans previously made to the Company by Niobe pursuant to the 2014 Credit Facility Agreement, as amended (the "Available Amount");

(b) If the amount sought in a Loan Request is in excess of the Available Amount, Niobe, in its sole and absolute discretion, may (but shall not be obligated to) make a loan to the Company for all or any portion of such excess.

(c) Each loan made to the Company by Niobe shall be represented by a Senior Secured Promissory Note in the form of Exhibit A annexed hereto (a "Note").

(d) The obligations of the Company pursuant to each Note shall be secured by a first priority perfected security interest in all of the assets of the Company pursuant to the Fourth Consolidated, Amended and Restated Security Agreement in the form of Exhibit B annexed hereto.

4. Notices.

All notices or other communications which are required or permitted hereunder shall be in writing and sufficient if delivered personally or sent by nationally-recognized overnight courier or by registered or certified mail, postage prepaid, return receipt requested or by facsimile, with confirmation as provided above addressed as follows:

If to Company:

Protalex, Inc.  
131 Columbia Turnpike, Suite 1  
Florham Park, NJ 07932  
Attention: Chief Financial Officer

With copies to

Morse, Zelnick, Rose & Lander LLP  
825 Third Avenue, 16<sup>th</sup> Floor  
New York, NY 10022  
Attention: Kenneth S. Rose, Esq.  
Fax: 212-208-6809

If to Niobe:

Niobe Ventures, LLC  
c/o Arnold P. Kling  
410 Park Avenue, 17<sup>th</sup> Floor  
New York, NY 10022  
Attention: Arnold P. Kling, Manager  
Fax: 212-713-1818

5. Governing Law.

All questions concerning the construction, validity, enforcement and interpretation of this Agreement, and any claim, controversy or dispute arising under or related to this Agreement, the relationship of the parties, and/or the interpretation and enforcement of the rights and duties of the parties hereunder shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees or agents) shall be commenced in the state or federal courts sitting in the City of New York, Borough of Manhattan (the "New York Courts"). Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the New York Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, or such New York Courts are improper or inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. If either party shall commence an action or proceeding to enforce any provisions of this Agreement, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its attorney's fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

6. Waiver.

Any waiver by the Company or Niobe of a breach of any provision of this Agreement shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Agreement.

7. Severability.

If any provision of this Agreement is invalid, illegal or unenforceable, the balance of this Agreement shall remain in effect, and if any provision is inapplicable to any person or circumstance, it shall nevertheless remain applicable to all other persons and circumstances.

**PROTALEX, INC.**

By: \_\_\_\_\_

**Kirk M. Warshaw**  
**Chief Financial Officer**

**NIOBE VENTURES, LLC**

By: \_\_\_\_\_

**Arnold P. Kling**  
**Manager**

**EXHIBIT A**

**SECURED PROMISSORY NOTE**

\$ \_\_\_\_\_

\_\_\_\_\_, 2016  
New York, New York

FOR VALUE RECEIVED, PROTALEX, INC., a Delaware corporation (“Protalex”), having an address at 131 Columbia Turnpike, Suite 1, Florham Park, NJ 07932 (the “Company”), unconditionally promise to pay to the order of NIOBE VENTURES, LLC, a Delaware limited liability company (hereinafter referred to as the “Holder”), at the offices of Morse, Zelnick, Rose & Lander LLP, 825 Third Avenue, 16th floor, New York, New York 10022, or at such other place as Holder may designate in writing, the principal sum of \_\_\_\_\_ and 00/100 Dollars (\$ \_\_\_\_\_ .00) (the “Principal Sum”), with interest thereon computed from the date hereof until maturity, whether on the Maturity Date (as hereinafter defined), by acceleration, or otherwise, at the rate of three percent (3.00%) per annum (the “Interest Rate”), and thereafter, in accordance with the terms of this Note, at the Default Rate (as hereinafter defined and governed), together with any costs, expenses and attorneys’ fees incurred by Holder pursuant to the provisions hereof. Any amounts that remain unpaid after the Maturity Date shall thereafter bear interest at the rate of twelve percent (12%) per annum (the “Default Rate”). Interest as aforesaid shall be calculated on the basis of actual number of days elapsed over a year of 360 days.

The Principal Sum and all accrued interest on this Note shall be due on March 31, 2018 or such earlier date as provided for in Section 5 hereof (the “Maturity Date”). The Maturity Date is subject to acceleration in accordance with Section 4 hereof.

**Section 1. Promissory Note.** This Note is a direct debt obligation of the Company and, pursuant to the Fifth Consolidated, Amended and Restated Security Agreement dated as of October 31, 2016 (the “A/R Security Agreement”) all of the Company’s obligations hereunder are secured by a first priority perfected security interest in all of the assets of the Company (the “Security”) for the benefit of the Holder.

**Section 2. Definitions.** For the purposes hereof, in addition to the terms defined elsewhere in this Note the following terms shall have the following meanings:

“**Business Day**” means any day except Saturday, Sunday and any day which shall be a federal legal holiday in the United States or a day on which banking institutions in the State of New York are authorized or required by law or other government action to close.

“**Event of Default**” shall have the meaning set forth in Section 6.

“**Fundamental Transaction**” shall have the meaning set forth in Section 4.

“**Liquidity Event**” shall have the meaning set forth in Section 5.

“**Original Issue Date**” means the date of the first issuance of this Note regardless of the number of transfers of any Note and regardless of the number of instruments which may be issued to evidence such Note.

“**Person**” means a corporation, an association, a partnership, organization, a business, an individual, a government or political subdivision thereof or a governmental agency.

“Subsidiary” means any Person in which the Company owns more than 50% of the outstanding equity.

Section 3. Registration of Transfers and Exchanges.

a ) Different Denominations. This Note is exchangeable for an equal aggregate principal amount of Notes of different authorized denominations as requested by the Holder surrendering the same, no service charge will be made for such registration of transfer or exchange.

b ) Reliance on Note Register. Prior to due presentment to the Company for transfer of this Note, the Company and any agent of the Company may treat the Person in whose name this Note is duly registered on the Company’s books and records as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Note is overdue, and neither the Company nor any such agent shall be affected by notice to the contrary.

Section 4. Acceleration of Maturity Date. If, at any time while this Note is outstanding: (A) the Company effects any merger or consolidation of the Company with or into another Person, (B) the Company effects any sale of all or substantially all of its assets in one or a series of related transactions, (C) any tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (D) the Company effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a “Fundamental Transaction”), then, immediately prior to the occurrence of such Fundamental Transaction the Principal Sum and all accrued but unpaid interest payable hereunder shall automatically become, at the Holder’s election, immediately due and payable in cash.

Section 5. Mandatory Prepayment, Partial Prepayment. If, at any time while this Note is outstanding, the Company receives in the aggregate, from a single or multiple “Liquidity Events” (as defined below), gross proceeds in excess of \$10,000,000 (“Gross Proceeds”), then, in such event, a payment, in the aggregate (each, a “Mandatory Prepayment Amount”), in reduction of the amount then outstanding under this Note and any other note from the Company to the Holder shall immediately be due and payable in an amount equal to twenty-five (25%) percent of the Gross Proceeds received (each, a “Mandatory Prepayment Event”). The Mandatory Prepayment Amount shall be allocated pro rata to reduce the amount then outstanding under this Note and any other note from the Company to the Holder. A “Liquidity Event” shall mean each of (a) the sale of any of the Company’s equity, or equity-linked, securities, and (b) the receipt of proceeds, directly or indirectly related to a development and/or commercialization relationship entered into with an unaffiliated third party.

Section 6. Events of Default.

a) Event of Default. Wherever used herein, means any one of the following events (whatever the reason and whether it shall be voluntary or involuntary or effected by operation of law or pursuant to any judgment, decree or order of any court, or any order, rule or regulation of any administrative or governmental body):

i. any default in the payment of (A) the principal, or (B) interest on this Note or any other note issued by the Company to the Holder as and when the same shall become due and payable (whether on the Maturity Date, upon a Mandatory Prepayment Event or by acceleration or otherwise) which default is not cured within ten (10) Business Days after written notice from the Holder;

ii. (A) there is commenced against the Company or any Subsidiary thereof a case under any applicable bankruptcy or insolvency laws as now or hereafter in effect or any successor thereto, or any other proceeding under any reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction whether now or hereafter in effect relating to the Company or any Subsidiary thereof which remains undismissed for a period of 60 days; or (B) the Company or any Subsidiary thereof is adjudicated by a court of competent jurisdiction insolvent or bankrupt; or any order of relief or other order approving any such case or proceeding is entered; or (C) the Company or any Subsidiary thereof suffers any appointment of any custodian or the like for it or any substantial part of its property which continues undischarged or unstayed for a period of 60 days.

b ) Remedies Upon Event of Default. If any Event of Default occurs, the full principal amount of this Note, together with interest and other amounts owing in respect thereof, to the date of acceleration shall become, at the Holder's election, immediately due and payable in cash. The Holder need not provide and the Company hereby waives any presentment, demand, protest or other notice of any kind, and the Holder may immediately and without expiration of any grace period enforce any and all of its rights and remedies hereunder and all other remedies available to it under applicable law. Such declaration may be rescinded and annulled by Holder at any time prior to payment hereunder and the Holder shall have all rights as a Note holder until such time, if any, as the full payment under this Section shall have been received by it. No such rescission or annulment shall affect any subsequent Event of Default or impair any right consequent thereon.

Section 7. Miscellaneous.

a ) Priority of Payment. Payments under this Note shall be applied first to accrued and unpaid interest and then to the Principal Sum outstanding. All amounts due under this Note shall be payable without setoff, counterclaim or any other deduction whatsoever.

b Notices. Any and all notices or other communications or deliveries to be provided by the Holder hereunder shall be in writing and delivered personally, by facsimile, sent by a nationally recognized overnight courier service, addressed to the Company, at 131 Columbia Turnpike, Suite 1, Florham Park, NJ 07932, attention: Chief Financial Officer, or such other address or facsimile number as the Company may specify for such purposes by notice to the Holder delivered in accordance with this Section. Any and all notices or other communications or deliveries to be provided by the Company hereunder shall be in writing and delivered personally, by facsimile, sent by a nationally recognized overnight courier service addressed to the Holder at the facsimile, telephone number or address of such Holder appearing on the books of the Company, or if no such facsimile telephone number or address appears, at the principal place of business of the Holder. Any notice or other communication or deliveries hereunder shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section prior to 5:30 p.m. (New York City time), (ii) the date after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section later than 5:30 p.m. (New York City time) on any date and earlier than 11:59 p.m. (New York City time) on such date, (iii) the second Business Day following the date of mailing, if sent by nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given.

c) Absolute Obligation. Except as expressly provided herein, no provision of this Note shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of, interest and liquidated damages (if any) on, this Note at the time, place, and rate, and in the coin or currency, herein prescribed. This Note is a direct debt obligation of the Company.

d ) Lost or Mutilated Note. If this Note shall be mutilated, lost, stolen or destroyed, the Company shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated Note, or in lieu of or in substitution for a lost, stolen or destroyed Note, a new Note for the principal amount of this Note so mutilated, lost, stolen or destroyed but only upon receipt of evidence of such loss, theft or destruction of such Note, and of the ownership hereof; and indemnity, if requested, all reasonably satisfactory to the Company.

e) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Note, and any claim, controversy or dispute arising under or related to this Note, the relationship of the parties, and/or the interpretation and enforcement of the rights and duties of the parties hereunder shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations or enforcement of this Note (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, employees or agents) shall be commenced in the state or federal courts sitting in the City of New York, Borough of Manhattan (the "New York Courts"). Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the New York Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, or such New York Courts are improper or inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Note and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Note or the transactions contemplated hereby. If either party shall commence an action or proceeding to enforce any provisions of this Note, then the prevailing party in such action or proceeding shall be reimbursed by the other party for its attorney's fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

f ) Waiver. Any waiver by the Company or the Holder of a breach of any provision of this Note shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Note. The failure of the Company or the Holder to insist upon strict adherence to any term of this Note on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Note. Any waiver must be in writing.

g ) Severability. If any provision of this Note is invalid, illegal or unenforceable, the balance of this Note shall remain in effect, and if any provision is inapplicable to any person or circumstance, it shall nevertheless remain applicable to all other persons and circumstances. If it shall be found that any interest or other amount deemed interest due hereunder violates applicable laws governing usury, the applicable rate of interest due hereunder shall automatically be lowered to equal the maximum permitted rate of interest. The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law which would prohibit or forgive the Company from paying all or any portion of the principal of or interest on this Note as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this indenture, and due Company (to the extent it may lawfully do so) hereby expressly waives all benefits or advantage of any such law, and covenants that it will not, by resort to any such law, binder, delay or impeded the execution of any power herein granted to the Holder, but will suffer and permit the execution of every such as though no such law has been enacted.

h ) Next Business Day. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

i ) Headings. The headings contained herein are for convenience only, do not constitute a part of this Note and shall not be deemed to limit or affect any of the provisions hereof.

**IN WITNESS WHEREOF**, the Company has caused this Note to be duly executed by a duly authorized officer as of the date first above indicated.

**PROTALEX, INC.**

**By:**

\_\_\_\_\_  
**Kirk M. Warshaw, Chief Financial Officer**

## FIFTH CONSOLIDATED, AMENDED AND RESTATED SECURITY AGREEMENT

THIS FIFTH CONSOLIDATED, AMENDED AND RESTATED SECURITY AGREEMENT (this “**Agreement**”), dated as of October 31, 2016, is made by and between Protalex, Inc., a Delaware corporation (the “**Grantor**”), and Niobe Ventures, LLC (the “**Secured Party**”) and amends and restates the Security Agreements by and between Grantor and Secured Party described on Exhibit B hereto.

**WHEREAS**, the Grantor has issued to the Secured Party a Consolidated, Amended and Restated Promissory Note in the principal amount of Nine Million Two Hundred Nineteen Thousand Three Hundred Sixty Six and 67/100 Dollars (\$9,219,366.67) (the “**Consolidated Note**”); and

**WHEREAS**, the Grantor and the Secured Party have entered into a Third Amended and Restated 2014 Credit Facility Agreement, dated of even date hereof, pursuant to which the Secured Party may loan to the Grantor up to an incremental \$2.25 million for an aggregate of \$11.25 million (the “**Credit Facility Agreement**”); and

**WHEREAS**, the Grantor and the Secured Party have agreed to execute and deliver this Agreement, among other things, to continue to secure the obligations of the Grantor to the Secured Party under the Consolidated Note and any incremental notes issued pursuant to the Credit Facility Agreement.

**NOW, THEREFORE**, The Grantor and the Secured Party hereby agree as follows:

SECTION 1. Definitions; Interpretation.

(a) As used in this Agreement, the following terms shall have the following meanings:

“**Collateral**” means the property described on Exhibit A attached hereto and all Negotiable Collateral and Intellectual Property to the extent not described on Exhibit A, except (i) to the extent any such property is nonassignable by its terms without the consent of the licensor thereof or another party (but only to the extent such prohibition on transfer is enforceable under applicable law, including, without limitation, applicable provisions of the New York Uniform Commercial Code as amended or supplemented from time to time.), or (ii) the granting of a security interest in such property is contrary to applicable law, provided that upon the cessation of any such restriction or prohibition, such property shall automatically become part of the Collateral.

“**Copyrights**” means any and all copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret, now or hereafter existing, created, acquired or held.

“**Event of Default**” has the meaning set forth in the Note.

“**Intellectual Property**” means all of Grantor’s right, title, and interest in and to the following, except to the extent any security interest hereunder would cause any application for a Trademark to be deemed invalidated, canceled or abandoned due to the grant and/or enforcement of such security interest, including, without limitation, all U.S. trademark applications that are based on an intent-to-use, unless and until such time that the grant and/or enforcement of the security interest will not affect the status or validity of such trademark:

(a) Copyrights, Trademarks and Patents;



- (b) and all trade secrets, and any and all intellectual property rights in computer software and computer software products now or hereafter existing, created, acquired or held;
- (c) and all design rights which may be available to Grantor now or hereafter existing, created, acquired or held;
- (d) and all claims for damages by way of past, present and future infringement of any of the rights included above, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above;
- (e) licenses or other rights to use any of the Copyrights, Patents or Trademarks, and all license fees and royalties arising from such use to the extent permitted by such license or rights;
- (f) amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents; and
- (g) proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

**“Lien”** means any mortgage, deed of trust, pledge, security interest, assignment, deposit arrangement, charge or encumbrance, lien, or other type of preferential arrangement.

**“Obligations”** means the indebtedness, liabilities and other obligations of the Grantor to the Secured Party under the Consolidated Note including without limitation, the unpaid principal of the Consolidated Note and all interest accrued thereon payable by the Grantor to the Secured Party thereunder or in connection therewith.

**“Patents”** means all patents, patent applications and like protections, including, without limitation, improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

**“Permitted Liens”** mean: (i) Liens in favor of the Secured Party in respect of the Obligations hereunder; (ii) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings and which are adequately reserved for in accordance with GAAP; (iii) Liens of materialmen, mechanics, warehousemen, carriers or employees or other like Liens arising in the ordinary course of business and securing obligations either not delinquent or being contested in good faith by appropriate proceedings; (iv) Liens consisting of deposits or pledges to secure the payment of worker’s compensation, unemployment insurance or other social security benefits or obligations, or to secure the performance of bids, trade contracts, leases, public or statutory obligations, surety or appeal bonds or other obligations of a like nature incurred in the ordinary course of business; (v) easements, rights of way, servitudes or zoning or building restrictions and other minor encumbrances on real property and irregularities in the title to such property which do not in the aggregate materially impair the use or value of such property or risk the loss or forfeiture of title thereto; and (vi) Liens upon or in any equipment now or hereafter acquired or held by the Grantor to secure the purchase price of such equipment or indebtedness incurred solely for the purpose of financing or refinancing the acquisition of such equipment, provided that the Lien is confined solely to the equipment so acquired and accessions thereon and proceeds thereof.

**“Person”** means an individual, corporation, partnership, joint venture, trust, unincorporated organization, governmental agency or authority, or any other entity of whatever nature.

“**Trademarks**” means any trademark and service mark rights, whether registered or not, applications to register and registrations of the same and like protections, and the parts of the goodwill of the business connected with the use of and symbolized by such marks.

“**UCC**” means the Uniform Commercial Code as the same may, from time to time, be in effect in the State of New York.

(b) Where applicable and except as otherwise defined herein, terms used in this Agreement shall have the meanings assigned to them in the UCC.

(c) In this Agreement, (i) the meaning of defined terms shall be equally applicable to both the singular and plural forms of the terms defined; (ii) the captions and headings are for convenience of reference only and shall not affect the construction of this Agreement; (iii) the words “hereof,” “herein,” “hereto,” “hereunder” and the like mean and refer to this Agreement as a whole and not merely to the specific Article, Section, subsection, paragraph or clause in which the respective word appears; (iv) the words “including,” “includes” and “include” shall be deemed to be followed by the words “without limitation;” and (v) the term “or” shall not be limiting.

SECTION 2. Security Interest.

(a) Subject to the Permitted Liens, as security for the payment and performance of the Obligations, the Grantor hereby pledges, assigns and grants to the Secured Party a security interest in all of the Grantor’s right, title and interest in, to and under all of the Collateral (other than as set forth in Section 2(b) hereof).

(b) Notwithstanding the foregoing, except for fixtures (to the extent covered by Article 9 of the UCC), such grant of a security interest shall not extend to, and the term “Collateral” shall not include, any asset which would be real property under the law of the jurisdiction in which it is located.

(c) This Agreement shall create a continuing security interest in the Collateral that shall remain in effect until terminated in accordance with the provisions hereof.

SECTION 3. Financing Statements, Etc. The Grantor hereby authorizes the Secured Party to file (with a copy thereof to be provided to the Grantor contemporaneously therewith), at any time and from time to time thereafter, all financing statements, financing statement assignments, continuation financing statements, and UCC filings, in form reasonably satisfactory to the Secured Party. The Grantor shall execute and deliver and shall take all other action, as the Secured Party may reasonably request, to perfect and continue perfected, maintain the priority of or provide notice of the security interest of the Secured Party in the Collateral (subject to the terms hereof) and to accomplish the purposes of this Agreement. Without limiting the generality of the foregoing, the Grantor ratifies and authorizes the filing by the Secured Party of any financing statements filed prior to the date hereof that accomplish the purposes of this Agreement.

SECTION 4. Representations and Warranties. The Grantor represents and warrants to the Secured Party that:

(a) Grantor is a business entity duly formed, validly existing and in good standing under the law of the jurisdiction of its organization and has all requisite power and authority to execute, deliver and perform its obligations under this Agreement.

(b) The execution, delivery and performance by the Grantor of this Agreement has been duly authorized by all necessary corporate action of the Grantor, and this Agreement constitutes the legal, valid and binding obligation of the Grantor, enforceable against the Grantor in accordance with its terms, except as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other laws of general application affecting enforcement of creditors' rights generally, as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

(c) Except for the filing of appropriate financing statements, no authorization, consent, approval, license, exemption of, or filing or registration with, any governmental authority or agency, or approval or consent of any other Person, is required for the due execution, delivery or performance by the Grantor of this Agreement unless the same has already been obtained or is being obtained simultaneously in connection herewith.

(d) This Agreement creates a security interest that is enforceable against the Collateral in which the Grantor now has rights and will create a security interest that is enforceable against the Collateral in which the Grantor hereafter acquires rights at the time the Grantor acquires any such rights.

(e) The Grantor has the right and power to grant the security interests in the Collateral to the Secured Party in the Collateral, and the Grantor is the sole and complete owner of the Collateral, free from any Lien other than the Permitted Liens.

SECTION 5. Covenants of the Grantor. Until this Agreement has terminated in accordance with the terms hereof, the Grantor agrees to do the following:

(a) The Grantor shall give prompt written notice to the Secured Party (and in any event not later than ten (10) days following any change described below in this subsection) of: (i) any change in the Grantor's name; (ii) any changes in the Grantor's identity or structure in any manner which might make any financing statement filed hereunder incorrect or misleading; or (iii) any change in jurisdiction of organization; provided that the Grantor shall not locate any Collateral outside of the United States nor shall the Grantor change its jurisdiction of organization to a jurisdiction outside of the United States.

(b) The Grantor shall not surrender or lose possession of, sell, lease, rent or otherwise dispose of or transfer any of the Collateral or any right or interest therein, except in the ordinary course of business consistent with past practice and except to the extent of equipment that is obsolete or no longer useful to its business.

(c) The Grantor shall keep the Collateral free of all Liens except the Permitted Liens.

SECTION 6. Collection of Accounts. The Grantor shall endeavor in the first instance diligently to collect all amounts due or to become due on or with respect to the accounts and other rights to payment.

SECTION 7. Authorization; Secured Party Appointed Attorney-in-Fact. The Secured Party shall have the right, to, in the name of the Grantor, or in the name of the Secured Party or otherwise, upon notice to, but without the requirement of assent by the Grantor, and the Grantor hereby constitutes and appoints the Secured Party (and any employees or agents designated by a Secured Party) as the Grantor's true and lawful attorney-in-fact, with full power and authority to: (i) assert, adjust, sue for, compromise or release any claims under any policies of insurance; and (ii), execute any and all such other documents and instruments, and do any and all acts and things for and on behalf of the Grantor, that such Secured Party may deem necessary or advisable to maintain, protect, realize upon and preserve the Collateral and the Secured Party's security interests therein and to accomplish the purposes of this Agreement. The Secured Party agrees that, except upon and during the continuance of an Event of Default, it shall not exercise the power of attorney, or any rights granted to the Secured Party under this Section 7. The foregoing power of attorney is coupled with an interest and is irrevocable so long as the Obligations have not been indefeasibly paid and performed in full and the commitments not terminated. The Grantor hereby ratifies, to the extent permitted by law, all that the Secured Party shall lawfully and in good faith do or cause to be done by virtue of and in compliance with this Section 7.

SECTION 8. Remedies.

(a) Upon the occurrence and during the continuance of an Event of Default, the Secured Party shall have, in addition to all other rights and remedies granted to the Secured Party in this Agreement or the Consolidated Note, all rights and remedies of a secured party under the UCC and other applicable laws. Without limiting the generality of the foregoing, upon the occurrence and during the continuance of an Event of Default, the Secured Party may sell, resell, lease, use, assign, license, sublicense, transfer or otherwise dispose of any or all of the Collateral in its then condition or following any commercially reasonable preparation or processing (utilizing in connection therewith any of Grantor's assets, without charge or liability to any Secured Party therefor) at public or private sale, by one or more contracts, in one or more parcels, at the same or different times, for cash or credit, or for future delivery without assumption of any credit risk, all as the Secured Party deem advisable; provided, however, that the Grantor shall be credited with the net proceeds of sale only when such proceeds are finally collected by the Secured Party. Each Secured Party shall have the right upon any such public sale, and, to the extent permitted by law, upon any such private sale, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption, which right or equity of redemption the Grantor hereby releases, to the extent permitted by law. The Grantor hereby agrees that the sending of notice by ordinary mail, postage prepaid, to the address of the Grantor set forth herein or subsequent address that the Grantor provides to the Secured Party in writing, of the place and time of any public sale or of the time after which any private sale or other intended disposition is to be made, shall be deemed reasonable notice thereof if such notice is sent ten (10) business days prior to the date of such sale or other disposition or the date on or after which such sale or other disposition may occur.

(b) The cash proceeds actually received from the sale or other disposition or collection of the Collateral, and any other amounts received in respect of the Collateral the application of which is not otherwise provided for herein shall be applied first, to the payment of the reasonable costs and expenses of the Secured Party in exercising or enforcing their rights hereunder and in collecting or attempting to collect any of the Collateral, and to the payment of all other amounts payable to the Secured Party pursuant to Section 12 hereof; and second, to the payment of the Obligations. Any surplus thereof that exists after payment and performance in full of the Obligations shall be promptly paid over to the Grantor or otherwise disposed of in accordance with the UCC or other applicable law. The Grantor shall remain liable to the Secured Party for any deficiency that exists after any sale or other disposition or collection of the Collateral.

SECTION 9. Certain Waivers.

( a ) The Grantor waives, to the fullest extent permitted by law: (i) any right of redemption with respect to the Collateral, whether before or after sale hereunder, and all rights, if any, of marshalling of the Collateral or other collateral or security for the Obligations; (ii) any right to require the Secured Party to: (A) proceed against any Person, (B) exhaust any other collateral or security for any of the Obligations, (C) pursue any remedy in the Secured Party's power or (D) except as provided herein or in the Consolidated Note, make or give any presentments, demands for performance, notices of nonperformance, protests, notices of protests or notices of dishonor in connection with any of the Collateral; and (iii) all claims, damages and demands against the Secured Party arising out of the repossession, retention, sale or application of the proceeds of any sale of the Collateral.

SECTION 10. Notices. All notices or other communications which are required or permitted hereunder shall be in writing and sufficient if delivered personally or sent by nationally-recognized overnight courier or by registered or certified mail, postage prepaid, return receipt requested or by facsimile, with confirmation as provided above addressed as follows:

If to Grantor:

Protalex, Inc.  
131 Columbia Turnpike, Suite 1,  
Florham Park, NJ 07932  
Attention: Chief Financial Officer

With copies to

Morse, Zelnick, Rose & Lander LLP  
825 Third Avenue, 16<sup>th</sup> Floor  
New York, NY 10022  
Attention: Kenneth S. Rose, Esq.  
Fax: 212-208-6809

If to the Secured Party:

Niobe Ventures, LLC  
c/o Arnold P. Kling  
410 Park Avenue, Suite 1710  
New York, NY 10021  
Attention: Arnold Kling, Managing Member  
Fax: 212-713-1818

With a copy to

Morse, Zelnick, Rose & Lander LLP  
825 Third Avenue, 16<sup>th</sup> Floor  
New York, NY 10022  
Attention: Kenneth S. Rose, Esq.  
Fax: 212-208-6809

SECTION 11. No Waiver; Cumulative Remedies. No failure on the part of the Secured Party to exercise, and no delay in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, remedy, power or privilege preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights and remedies under this Agreement are cumulative and not exclusive of any rights, remedies, powers and privileges that may otherwise be available to the Secured Party.

SECTION 12. Costs and Expenses. The Grantor agrees to pay all reasonable costs and expenses of the Secured Party, in connection with the enforcement and preservation of any rights or interests under, this Agreement and the protection, sale or collection of, or other realization upon, any of the Collateral, including all reasonable expenses of taking, collecting, holding, sorting, handling, preparing for sale, selling or the like and other such expenses of sales and collections of the Collateral.

SECTION 13. Binding Effect. This Agreement shall be binding upon, inure to the benefit of and be enforceable by the Grantor, the Secured Party and their respective successors and assigns.

SECTION 14. Governing Law. This Agreement shall be governed by and construed under the laws of the State of New York without regard to principles of conflict of laws.

SECTION 15. Entire Agreement; Amendment. This Agreement contains the entire agreement of the parties with respect to the subject matter hereof and shall not be amended except by the written agreement of the Grantor and the Secured Party. Notwithstanding the foregoing, this Agreement may not be amended and any term hereunder may not be waived with respect to any Secured Party without the written consent of such Secured Party unless such amendment or waiver applies to all Secured Party in the same fashion.

SECTION 16. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be valid, legal and enforceable under all applicable laws and regulations. If, however, any provision of this Agreement shall be invalid, illegal or unenforceable under any such law or regulation in any jurisdiction, it shall, as to such jurisdiction, be deemed modified to conform to the minimum requirements of such law or regulation, or, if for any reason it is not deemed so modified, it shall be invalid, illegal or unenforceable only to the extent of such invalidity, illegality or limitation on enforceability without affecting the remaining provisions of this Agreement, or the validity, legality or enforceability of such provision in any other jurisdiction.

SECTION 17. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

SECTION 18. Termination. Upon the payment and performance in full of all Obligations, this Agreement shall terminate and the Secured Party shall promptly, at the cost of the Grantor, execute and deliver to the Grantor such documents and instruments reasonably requested by the Grantor as shall be necessary to evidence termination of all security interests given by the Grantor to the Secured Party hereunder; provided, however, that the obligations of the Grantor under Section 12 hereof shall survive such termination.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, as of the date first above written.

**GRANTOR:**

**PROTALEX, INC.**

**By:** \_\_\_\_\_  
**Kirk M. Warshaw, Chief Financial Officer**

**NIOBE VENTURES, LLC**

**By:** \_\_\_\_\_  
**Arnold P. Kling, Manager**





- (e) any and all cash proceeds and/or non-cash proceeds of any of the foregoing, including, without limitation, insurance proceeds, and all supporting obligations and the security therefor or for any right to payment. All terms above have the meanings given to them in the New York Uniform Commercial Code, as amended or supplemented from time to time.

**EXHIBIT B**

**PRIOR SECURITY AGREEMENTS**

1. THE CONSOLIDATED, AMENDED AND RESTATED SECURITY AGREEMENT, dated as of October 11, 2013, by and between Protalex, Inc. and Niobe Ventures, LLC.
2. THE SECOND CONSOLIDATED, AMENDED AND RESTATED SECURITY AGREEMENT, dated as of November 4, 2014, by and between Protalex, Inc. and Niobe Ventures, LLC.
3. THE THIRD CONSOLIDATED, AMENDED AND RESTATED SECURITY AGREEMENT, dated as of December 1, 2015, by and between Protalex, Inc. and Niobe Ventures, LLC.
4. THE FOURTH CONSOLIDATED, AMENDED AND RESTATED SECURITY AGREEMENT, dated as of June 30, 2016, by and between Protalex, Inc. and Niobe Ventures, LLC.

**Consolidated and Secured Notes Modification Agreement**

**AGREEMENT** by and between Protalex, Inc., a Delaware corporation (the "Company") and Niobe Ventures, LLC, a Delaware limited liability company ("Niobe").

**WHEREAS**, Niobe is the holder of a Consolidated, Amended and Restated Promissory Note (the "Consolidated Note") made by the Company in the principal amount of \$9,219,366, dated October 11, 2013, with a maturity date of September 1, 2017, as of the date hereof (the "Consolidated Note Maturity Date"); and

**WHEREAS**, Niobe is the holder of the Secured Promissory Notes listed on the attached Schedule A (the "Secured Notes") made by the Company in the aggregate principal amount of \$8,885,000, each with a maturity date of September 1, 2017, as of the date hereof (the "Secured Notes Maturity Date"). Collectively, the Consolidated Note Maturity Date and the Secured Notes Maturity Date are hereinafter referred to as the "Maturity Date"; and

**WHEREAS**, the parties desire to extend the Maturity Date to March 31, 2018.

**NOW THEREFORE**, the parties hereby agree as follows:

1. The Maturity Date is hereby extended to March 31, 2018.
2. Except as otherwise modified hereby, all other terms and provisions of the Consolidated Note and each of the Secured Notes shall remain in full force and effect.

**IN WITNESS WHEREOF**, the parties have duly executed and delivered this Agreement as of the date indicated below.

Dated: October 31, 2016

**PROTALEX, INC.**

By: /s/ Kirk M. Warshaw  
Kirk M. Warshaw, Chief Financial Officer

**NIOBE VENTURES, LLC**

By: /s/ Arnold P. Kling  
Arnold P. Kling, Manager

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**Schedule A**

**Secured Notes with September 1, 2017 Maturity Dates**

<b>Outstanding Notes – Issuance Dates</b>	<b>Principal</b>
11/4/2014 \$	300,000
11/26/2014 \$	430,000
1/9/2015 \$	645,000
2/4/2015 \$	545,000
3/9/2015 \$	395,000
4/1/2015 \$	300,000
5/1/2015 \$	345,000
5/29/2015 \$	345,000
7/1/2015 \$	345,000
7/31/2015 \$	345,000
8/31/2015 \$	345,000
10/6/2015 \$	345,000
11/10/2015 \$	345,000
12/1/2015 \$	345,000
1/4/2016 \$	345,000
2/1/2016 \$	345,000
3/4/2016 \$	345,000
4/1/2016 \$	345,000
5/3/2016 \$	345,000
6/1/2016 \$	345,000
7/1/2016 \$	375,000
8/1/2016 \$	375,000
9/9/2016 \$	345,000
10/4/2016 \$	345,000
<b>Total \$</b>	<b>8,885,000.00</b>

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## CERTIFICATION

I, Arnold P. Kling, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Protalex, 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. The registrant's other certifying officer(s) and I are 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 our 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 our 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 our 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our 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.

Date: January 12, 2017

/s/ Arnold P. Kling

Arnold P. Kling  
President  
(Principal Executive Officer)

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## CERTIFICATION

I, Kirk M. Warshaw, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Protalex 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. The registrant's other certifying officer(s) and I are 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 our 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 our 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 our 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our 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.

Date: January 12, 2017

/s/ Kirk M. Warshaw  
Kirk M. Warshaw  
Chief Financial Officer  
(Principal Financial Officer)

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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 of Protalex, Inc. (the "Company") on Form 10-Q for the period ending November 30, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, Arnold P. Kling, President of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: January 12, 2017

/s/ Arnold P. Kling

Arnold P. Kling

President

(Principal Executive Officer)

A signed original of this certification 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.

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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 of Protalex, Inc. (the "Company") on Form 10-Q for the period ending November 30, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, Kirk M. Warshaw, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 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, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: January 12, 2017

/s/ Kirk M. Warshaw

Kirk M. Warshaw  
Chief Financial Officer  
(Principal Financial Officer)

A signed original of this certification 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.

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