

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:

KaloBios Pharmaceuticals, Inc.,

Debtor.¹

Chapter 11

Case No. 15-12628 (LSS)

Re: D.I. 238, 273 & 293

**NOTICE OF BIDDING PROCEDURES AND AUCTION FOR
PROPOSED TRANSACTIONS TO ACT AS PRIMARY OR SUPPLEMENTAL
SPONSOR OF DEBTOR'S PLAN OF REORGANIZATION**

PLEASE TAKE NOTICE that on March 10, 2016, KaloBios Pharmaceuticals, Inc., the debtor and debtor in possession (the "Debtor") in the above-captioned case (the "Chapter 11 Case") under chapter 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101 *et seq.* (the "Bankruptcy Code"), filed a motion (D.I. 238) (the "Motion"), as amended by the notice of amendment filed on March 18, 2016 (D.I. 273) (the "Amendment Notice," and together with the Motion, the "Amended Motion")² with the United States Bankruptcy Court for the District of Delaware (the "Court") for an order pursuant to sections 105(a), 363(b), 503 and 507 of the Bankruptcy Code and Rules 2002 and 6004 of the Federal Rules of Bankruptcy Procedure and Rules 2002-1 and 6004-1 of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware: (a) approving that certain Amended Letter of Intent and annexed Amended Term Sheet, each dated March 18, 2016 (as attached as Exhibit A to the Amendment Notice, the "Amended LOI"), between (i) the Debtor and (ii) Nomis Bay LTD and funds managed by Black Horse Capital LP, Black Horse Capital Master Fund Ltd. and Cheval Holdings, Ltd. (collectively with such additional parties and assignees ad permitted by the Amended LOI, the "Stalking Horse"); (b) establishing bidding procedures (the "Bidding Procedures") for submission and consideration of competing and supplemental plan sponsorship proposals (such proposals, "Proposed Transactions") for the Debtor's plan of reorganization (the "Plan"); (c) approving the Breakup Fee; (d) scheduling and authorizing the Debtor to conduct an auction to select the highest and best Proposed Transaction(s) (the "Auction"); and (e) granting certain related relief.

PLEASE TAKE FURTHER NOTICE that on March 23, 2016, the Court entered an order (D.I. 293) (the "Bid Procedures Order"). The Bid Procedures Order, among other things: (a) approved the Amended LOI; (b) approved the Bidding Procedures as attached as Exhibit 1 to the Bid Procedures Order; (c) approved the Breakup Fee; and (d) scheduled and authorized the Debtor to conduct the Auction.

PLEASE TAKE FURTHER NOTICE that, as contemplated by the Bid Procedures Order, the Debtor will consider Proposed Transactions for Primary Plan Transactions and Secondary Plan Transactions. A "Primary Plan Transaction" is a Proposed Transaction for a Primary Plan Sponsor and/or its Affiliates to acquire New Common Stock that would, if consummated: (1) result in the Primary Plan Sponsor and/or its Affiliates holding in excess of 30% of the common equity in the reorganized Debtor to be authorized and issued on the effective date of the confirmed Plan to replace the existing equity interests in the Debtor (the "New

¹ The last four digits of the Debtor's federal tax identification number are 7236. The Debtor's address is 442 Littlefield Ave., San Francisco, CA 94080.

² Capitalized terms not defined herein are defined in the Amended Motion or if not defined therein, the Bidding Procedures.

Common Stock"); or (2) render the Debtor unable to issue New Common Stock to the Stalking Horse in the amounts required and on the terms required by the Amended LOI. A "Secondary Plan Transaction" is a Proposed Transaction for a Secondary Plan Sponsor and/or its Affiliates to acquire New Common Stock that would, if consummated: (1) result in the Secondary Plan Sponsor and/or its Affiliates holding 30% or less of the New Common Stock authorized and issued under the Plan; and (2) not interfere with the Debtor's ability to issue New Common Stock to the Stalking Horse in the amounts required and on the terms required by the Amended LOI.

PLEASE TAKE FURTHER NOTICE that the "Bid Deadline" is **April 20, 2016, at 4:00 p.m. (ET)**. A Potential Bidder that desires to submit a proposal for a Plan Transaction is required under the Bidding Procedures to deliver written electronic copies of all materials comprising its Bid prior to the Bid Deadline to: (i) KaloBios International, Inc., Attn: Dr. Cameron Durrant, MD, DRCOG, MRCGP, MBA (email: kbioplanbids@gmail.com); Debtor's Counsel: (A) Hogan Lovells US LLP, 875 Third Avenue, New York, NY 10022, Attn: Peter Ivanick, Esq. (email: peter.ivanick@hoganlovells.com); and (B) Morris, Nichols, Arsht & Tunnell LLP, 1201 N. Market St., 16th Fl., Wilmington, DE 19801, Attn: Eric D. Schwartz, Esq., and Gregory W. Werkheiser, Esq. (email: eschwartz@mnat.com; gwerkheiser@mnat.com); and (iii) Debtor's Financial Advisor: Batuta Capital Advisors LLC, 475 Park Avenue South, 12th Fl., New York, NY 10016, Attn: Alexandre Zyngier (email: azyngier@batutaadvisors.com). **Unless otherwise agreed by the Debtor, any person or entity that does not submit a bid by the Bid Deadline shall not be permitted to participate in the Auction.**

PLEASE TAKE FURTHER NOTICE that, pursuant to the Bid Procedures Order, if, by the Bid Deadline, the Debtor receives one or more Qualified Bids for a Primary Plan Transaction (other than the bid by the Stalking Horse Purchaser) or more than one Qualified Bid for a Secondary Plan Transaction, the Debtor shall conduct the Auction on **April 26, 2016, commencing at 10:00 a.m. (ET)**, at the offices of Hogan Lovells US LLP, 875 Third Avenue, New York, NY 10022, or such other location as may be announced prior to the Auction to the Auction Participants. If Qualified Bids are not received by the Debtor as stated in the immediately preceding sentence, the Debtor will not hold the Auction.

PLEASE TAKE FURTHER NOTICE that any person or entity wishing to submit a bid for a Proposed Transaction is urged to review the Bidding Procedures, the Bid Procedures Order and the Amended Motion. Copies of the Amended Motion and the exhibits thereto, and the Bidding Procedures Order (including the Bidding Procedures attached as Exhibit 1 to the Bidding Procedures Order) may be (a) reviewed during regular Court hours at the United States Bankruptcy Court, 824 N. Market Street, Wilmington, Delaware 19801, (b) reviewed electronically on www.deb.uscourts.gov, the official website for the Court, or (c) reviewed electronically on the Debtor's court-appointed claims and noticing agent website at <https://cases.primeclerk.com/kalobios/>.

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