AmpliPhi Biosciences Corp
Form 10-Q
May 15, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from ________________ to ______________________

Commission file number: 001-37544

AMPLIPHI BIOSCIENCES CORPORATION
(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of incorporation or organization)	**91-1549568** (I.R.S. Employer Identification Number)
3579 Valley Centre Drive, Suite 100 **San Diego, California**	**92130**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(858) 829-0829**

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

Yes x No ¨

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 x No ¨

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a small reporting company)	Smaller reporting company x
	Emerging growth company x

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

Exchange Act. x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

The number of shares of the Registrant’s Common Stock, par value $0.01 per share, outstanding at May 10, 2018 was 16,464,464.

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AmpliPhi Biosciences Corporation

Consolidated Balance Sheets

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 8,206,000	$ 5,132,000
Prepaid expenses and other current assets	537,000	253,000
Total current assets	8,743,000	5,385,000
Property and equipment, net	727,000	816,000
In-process research and development	4,661,000	4,661,000
Acquired patents, net	268,000	276,000
Total assets	$ 14,399,000	$ 11,138,000
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 810,000	$ 578,000
Accrued expenses	965,000	1,390,000
Total current liabilities	1,775,000	1,968,000
Derivative liabilities	187,000	292,000
Deferred tax liability	1,147,000	1,147,000
Total liabilities	3,109,000	3,407,000
Stockholders' equity		
Common stock, $0.01 par value; 67,000,000 shares authorized at March 31, 2018 and December 31, 2017; 16,464,464 and 9,498,928 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	165,000	95,000
Additional paid-in capital	408,465,000	401,842,000
Accumulated deficit	(397,340,000)	(394,206,000)
Total stockholders' equity	11,290,000	7,731,000
Total liabilities and stockholders' equity	$ 14,399,000	$ 11,138,000

See accompanying condensed notes to consolidated financial statements.

AmpliPhi Biosciences Corporation

Consolidated Statements of Operations

	Three Months Ended March 31,			
	2018		2017	
	(Unaudited)		(Unaudited)	
Revenue	$ -		$ 29,000	
Operating expenses				
Research and development	1,464,000		1,490,000	
General and administrative	1,591,000		1,898,000	
Total operating expenses	3,055,000		3,388,000	
Loss from operations	(3,055,000	)	(3,359,000	)
Other income (expense)				
Change in fair value of derivative liabilities	(79,000	)	114,000	
Other expense, net	-		(1,000	)
Total other income (expense), net	(79,000	)	113,000	
Net loss	$ (3,134,000	)	$ (3,246,000	)
Per share information:				
Net loss per share, basic and diluted	$ (0.24	)	$ (1.94	)
Weighted average shares outstanding, basic and diluted	13,298,159		1,677,497	

See accompanying condensed notes to consolidated financial statements.

AmpliPhi Biosciences Corporation

Consolidated Statements of Cash Flows

	Three Months Ended March 31, 2018 (Unaudited)	2017 (Unaudited)
Operating activities:		
Net loss	$ (3,134,000)	$ (3,246,000)
Adjustments required to reconcile net loss to net cash used in operating activities:		
Change in fair value of derivative liabilities	79,000	(114,000)
Stock-based compensation	122,000	171,000
Depreciation	89,000	85,000
Amortization of patents	8,000	8,000
Other non-cash adjustments, net	-	10,000
Changes in operating assets and liabilities:		
Accounts payable and accrued expenses	(416,000)	(531,000)
Prepaid expenses and other current assets	(284,000)	318,000
Net cash used in operating activities	(3,536,000)	(3,299,000)
Investing activities:		
Purchases of property and equipment	-	(5,000)
Net cash used in investing activities	-	(5,000)
Financing activities:		
Proceeds from sale of common stock, net of offering costs	6,409,000	-
Proceeds from exercises of warrants	198,000	-
Proceeds from stock issuance under employee stock purchase plan	3,000	-
Principal payment on note payable	-	(205,000)
Net cash provided by (used in) financing activities	6,610,000	(205,000)
Net increase (decrease) in cash and cash equivalents	3,074,000	(3,509,000)
Cash and cash equivalents, beginning of period	5,132,000	5,711,000
Cash and cash equivalents, end of period	$ 8,206,000	$ 2,202,000
Supplemental schedule of non-cash financing activities:		
Offering costs included in accounts payable	$ 223,000	$ -

See accompanying condensed notes to consolidated financial statements.

AmpliPhi Biosciences Corporation

Condensed Notes to Consolidated Financial Statements

(Unaudited)

1. Organization and Description of the Business

AmpliPhi Biosciences Corporation (the "Company") was incorporated in the state of Washington in 1989 under the name Targeted Genetics Corporation. In February 2011, Targeted Genetics Corporation changed its name to AmpliPhi Biosciences Corporation. The Company is dedicated to developing novel antibacterial therapies called bacteriophage (phage). Phages are naturally occurring viruses that preferentially bind to and kill their bacterial targets.

2. Liquidity

The Company has prepared its consolidated financial statements on a going concern basis, which assumes that the Company will realize its assets and satisfy its liabilities in the normal course of business. However, the Company has incurred net losses since its inception and has negative operating cash flows. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of the uncertainty concerning the Company's ability to continue as a going concern.

As of March 31, 2018, the Company had cash and cash equivalents of $8.2 million. Considering the Company's current cash resources, management believes the Company's existing resources will be sufficient to fund the Company's planned operations into the fourth quarter of 2018. For the foreseeable future, the Company's ability to continue its operations is dependent upon its ability to obtain additional capital.

3. Significant Accounting Policies

The Company's significant accounting policies are described in Note 3 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission ("SEC"). Since the date of those financial statements, there have been no material changes to the Company's significant accounting policies. The interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Biocontrol Limited, Ampliphi Biotehnološke Raziskave in Razvoj d.o.o., and AmpliPhi Australia Pty Ltd. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company should be read in conjunction with the audited financial statements and notes thereto as of and for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K, filed with the SEC. The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial statements and in accordance with the instructions to Form 10-Q. Any reference in these notes to applicable guidance is meant to refer to authoritative U.S. GAAP as found in the Accounting Standards Codification ("ASC") and Accounting Standards Update ("ASU") of the Financial Accounting Standards Board ("FASB").

In the opinion of management, the accompanying consolidated financial statements include all adjustments that are of a normal and recurring nature and that are necessary for the fair presentation of the Company's financial position and the results of its operations and cash flows for the periods presented. Interim results are not necessarily indicative of results for the full year or any future period.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in its consolidated financial statements and accompanying notes. On an ongoing basis, management evaluates these estimates and judgments, which are based on historical and anticipated results and trends and on various other assumptions that management believes to be reasonable under the circumstances. By their nature, estimates are subject to an inherent degree of uncertainty and, as such, actual results may differ from management's estimates.

Warrants

Warrants are accounted for in accordance with the applicable accounting guidance provided in ASC 815 - *Derivatives and Hedging* as either derivative liabilities or as equity instruments depending on the specific terms of the warrants. Liability-classified instruments are recorded at fair value at each reporting period with any change in fair value recognized as a component of change in fair value of derivative liabilities in the consolidated statements of operations (see Note 4).

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Recent Accounting Pronouncements Not Yet Adopted

In February 2015, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which amends the FASB Accounting Standards Codification and creates Topic 842, "Leases." The new topic supersedes Topic 840, "Leases," and increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and requires disclosures of key information about leasing arrangements. The guidance is effective for reporting periods beginning after December 15, 2018 and mandates a modified retrospective transition method. The Company plans to adopt this ASU on January 1, 2019. While the Company is still evaluating the timing and impact of the adoption of this guidance on its consolidated financial statements, it anticipates that the adoption could result in an increase in the assets and liabilities recorded on its consolidated balance sheet.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other, Simplifying the Accounting for Goodwill Impairment*. ASU 2017-04 removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. This new guidance will be applied prospectively, and is effective for calendar year end companies in 2020. Early adoption is permitted for any impairment tests performed after January 1, 2017. Adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

Recently Adopted Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU creates a single source of revenue guidance for companies in all industries. The new standard provides guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts to provide goods or services to their customers, unless the contracts are within the scope of other accounting standards. It also provides a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets. This guidance, as amended, must be adopted using either a full retrospective approach for all periods presented or a modified retrospective approach and will be effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The Company adopted this ASU as of January 1, 2018 using the modified retrospective approach. As of January 1, 2018, the Company had no revenue contracts and therefore the adoption did not have an impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Cash Flow Statements, Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow classification issues with the objective of reducing diversity in practice. The amendments are effective for public business entities for fiscal years beginning after

December 15, 2017, and interim periods within those fiscal years. The Company adopted this ASU as of January 1, 2018 and the adoption did not have an impact on the Company's consolidated financial statements.

In July 2017, the FASB issued ASU No. 2017-11, which amends the FASB Accounting Standards Codification. Part I of ASU No. 2017-11, *Accounting for Certain Financial Instruments with Down Round Features*, changes the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. The guidance is effective for reporting periods beginning after December 15, 2019 and interim periods within those fiscal years with early adoption permitted. The Company elected to early adopt this ASU as of January 1, 2018 and the adoption did not have an impact on the Company's consolidated financial statements. a

4. Fair Value Measurements

The guidance regarding fair value measurements prioritizes the inputs used in measuring fair value and establishes a three-tier value hierarchy that distinguishes among the following:

- Level 1—Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2—Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and models for which all significant inputs are observable, either directly or indirectly.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Company estimates the fair values of derivative liabilities utilizing Level 3 inputs. No derivative liabilities have been transferred between the classification levels. Estimating the fair values of derivative liabilities requires the use of significant and subjective inputs that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. The recurring fair value measurements of the Company's derivative liabilities at March 31, 2018 and December 31, 2017 consisted of the following:

	Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
March 31, 2018				
Liabilities				
June 2016 offering warrant liability	$ -	$ -	$ 32,000	$32,000
November 2016 offering warrant liability	-	-	155,000	155,000
Total liabilities	$ -	$ -	$ 187,000	$187,000
December 31, 2017				
Liabilities				
June 2016 offering warrant liability	$ -	$ -	$ 32,000	$32,000
November 2016 offering warrant liability	-	-	260,000	260,000
Total liabilities	$ -	$ -	$ 292,000	$292,000

The following table sets forth a summary of changes in the fair value of the Company's derivative liabilities:

	June 2016 Offering Warrant Liability	November 2016 Offering Warrant Liability	Total Derivative Liabilities
Balance, December 31, 2017	$ 32,000	$ 260,000	$292,000
Changes in estimated fair value	-	79,000	79,000
Exercised warrants	-	(184,000)	(184,000)
Balance, March 31, 2018	$ 32,000	$ 155,000	$187,000

The Company estimates the fair value of the June 2016 offering warrant liability at each reporting date using the Black-Scholes valuation model. Inputs used in this valuation model include the Company’s stock price volatility, risk-free interest rates and expected term of the warrants.

Historically, the Company estimated the fair value of the November 2016 offering warrant liability at each reporting date using the Monte Carlo valuation model. Inputs used in the Monte Carlo valuation model included the Company’s stock price volatility, risk-free interest rates and expected term of the warrants. Effective March 31, 2017, due primarily to the significant decrease in the number of warrants outstanding, the Company simplified the method used and changed to the Black Scholes valuation model, which approximates the Monte Carlo valuation model.

5. Net Loss per Share

The following outstanding securities at March 31, 2018 and 2017 have been excluded from the computation of diluted weighted average shares outstanding for the three months ended March 31, 2018 and 2017, as they would have been anti-dilutive:

	Three Months Ended March 31,	
	2018	2017
Options	1,116,043	120,360
Warrants	8,304,032	776,267
Total	9,420,075	896,627

6. Stockholders' Equity

Underwritten Public Offering of Common Stock, Pre-funded Warrants and Warrants

On May 10, 2017, the Company completed an underwritten public offering and sold 2,584,085 shares of its common stock and 4,483,334 pre-funded warrants to purchase common stock in lieu of additional shares of common stock, and common warrants to purchase 8,000,000 shares of common stock. All of the pre-funded warrants were exercised during the year ended December 31, 2017. The combined price to the public for each share of common stock and accompanying common warrant was $1.50. The combined price to the public for each pre-funded warrant and accompanying common warrant was $1.49. Each pre-funded warrant was exercisable for one share of common stock at an exercise price of $0.01 per share. The common warrants are exercisable at a price of $1.50 per share of common stock, and will expire five years from the date of issuance. The Company received net proceeds from the offering of approximately $9.4 million, after deducting $1.2 million in offering costs including the underwriting discount and commissions and other offering expenses payable by the Company. The Company evaluated the pre-funded warrants and common warrants issued in the May 2017 offering and determined that the warrants should be classified as equity instruments.

Registered Offerings of Common Stock

On January 12, 2018, the Company completed a registered public offering of 4,000,000 shares of its common stock at an offering price of $1.00 per share, for aggregate gross proceeds of $4.0 million. The Company received net proceeds from the offering of approximately $3.4 million, after deducting placement agent fees and other offering expenses payable by the Company. On March 22, 2018, the Company completed a registered direct offering of 2,743,640 shares of its common stock at an offering price of $1.10 per share, for aggregate gross proceeds of $3.0 million. The Company received net proceeds from the offering of approximately $2.8 million, after deducting placement agent fees and other offering expenses payable by the Company.

Common Stock Issuance Agreement

On April 8, 2016, the Company entered into the Common Stock Issuance Agreement (the "CSIA") with certain former holders of the Company's Series B redeemable convertible preferred stock (the "Holders"). Pursuant to terms of the CSIA, the Company agreed to issue a formula-based number of shares of its common stock to the Holders for no additional consideration upon completion of one or more bona fide equity financings in which the Company sells shares of its common stock below a specified price (a "Dilutive Issuance") in a transaction that occurs prior to the earlier of June 30, 2018 or such time as the Company has raised, following the date of the CSIA, $10.0 million in the aggregate (the "Price Protection Obligations"). In each of June 2016, November 2016 and May 2017, the Company completed offerings of its common stock that constituted Dilutive Issuances under the CSIA. Due in part to limitations on the number of shares issuable to the Holders under the rules of the NYSE American, no additional shares of common stock were issued to the holders in connection with the November 2016 and May 2017 offerings prior to June 2017.

On June 27, 2017, the Company and the Holders entered into an amendment to the CSIA (the "Amendment") to, among other things, terminate the Price Protection Obligations. In consideration for the termination of the Price Protection Obligations and a release of claims by the Holders, the Company agreed to (i) issue to the Holders, within five business days of the Amendment, an aggregate of 28,684 shares of its common stock (the "First Issuance"), which, under the rules of the NYSE American, was the maximum number of shares the Company was permitted to issue to the Holders pursuant to the CSIA without further shareholder approval, and (ii) issue to the Holders in a subsequent closing an aggregate 523,210 shares of common stock (the "Second Issuance"), subject to obtaining shareholder approval of the Second Issuance at the Company's 2017 Annual Meeting of Shareholders and the Company's receipt of a release of claims from the Holders at the time of the Second Issuance. On September 7, 2017 the Company's shareholders approved the Second Issuance. The Company received a release of claims from each of the Holders and issued 523,210 shares of common stock on September 19, 2017.

Warrants

At March 31, 2018, outstanding warrants to purchase shares of common stock, accounted for as equity or liabilities, are as follows:

Shares Underlying Outstanding Warrants	Exercise Price		Expiration Date
9,205	$70.00		April 12 to July 15, 2018
8,640	$82.50		December 23, 2018
8,492	$120.00		December 31, 2018
8,492	$120.00		March 1, 2019
41,872	$107.50		March 16, 2020
31,519	$40.50		March 31, 2021
106,381	$22.50		June 3, 2021
168,498	$0.57	(1)	November 22, 2021
7,920,933	$1.50		May 10, 2022
8,304,032			

(1) The exercise price of the warrants is subject to adjustment upon future dilutive issuances of the Company's common stock and stock combination events as defined in an exercise price adjustment provision in the warrant agreements.

During the three months ended March 31, 2018, warrants to purchase 217,400 shares of the Company's common stock, originally issued in connection with the November 2016 and May 2017 public offerings, were exercised for proceeds to the Company of $198,000. During the three months ended March 31, 2018, warrants to purchase 10,486 shares of the Company's common stock expired. The weighted average exercise price of outstanding warrants to purchase common stock at March 31, 2018 was $2.84 per share.

7. Stock-Based Compensation

Stock Option Plan

In June 2016, the Company's stockholders approved the 2016 Equity Incentive Plan (the "2016 Plan"). The 2016 Plan provides for the issuance of incentive awards in the form of non-qualified and incentive stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards and performance-based stock awards. The awards may be granted by the Company's Board of Directors to its employees, directors and officers and to consultants, agents, advisors and independent contractors who provide services to the Company or to a subsidiary of the Company. The exercise price for stock options must not be less than the fair market value of the underlying shares on the date of grant. Stock options expire no later than ten years from the date of grant and generally vest and typically become exercisable over a four-year period following the date of grant. Upon the exercise of stock options, the Company issues the resulting shares from shares reserved for issuance under the 2016 Plan. With the approval of the 2016 Plan, the remaining unallocated shares under the Company's 2013 Stock Incentive Plan were allocated to the 2016 Plan and an additional 100,000 new shares were added to the authorized share reserve under the 2016 Plan. Under the 2016 Plan, the number of shares authorized for issuance automatically increases annually beginning January 1, 2017 and through January 1, 2026. On January 1, 2018, the number of shares of common stock authorized for future issuance was automatically increased by 474,946 shares.

Share-based Compensation

The Company estimates the fair value of stock options with performance and service conditions using the Black-Scholes valuation model. Compensation expense related to stock options granted is measured at the grant date based on the estimated fair value of the award and is recognized on a straight-line basis over the requisite service period. Stock options issued to non-employees other than directors are accounted for at their estimated fair values using the Black Scholes valuation model and are re-measured to fair value at each period end until the performance by the non-employee is complete.

The table below summarizes the total stock-based compensation expe