

AmpliPhi Biosciences Corp
Form 10-Q/A
September 12, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

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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 March 31, 2014

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: 000-23930

AMPLIPHIBIOSCIENCES 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)

4870 Sadler Road, Suite 300 **23060**
Glen Allen, Virginia (Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code: **(804) 205-5069**

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 as defined in Rule 12b-2 of the Exchange Act. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a small reporting company) 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

The number of shares of the Registrant's Public Common Stock outstanding at May 5, 2014 was 182,535,562.

EXPLANATORY NOTE

The Company's previously issued March 31, 2014 financial statements have been restated to remove deemed dividends which were accrued on its preferred shares and to recognize an increase in derivative expense due to adding several features to the valuation model used to measure the compound derivatives and changing from a Black-Scholes valuation model to a Monte Carlo valuation model. Additional paid in capital and accumulated deficit have been reduced by \$8,464,000 to reflect the elimination of deemed dividends. Loss on derivative liabilities increased by \$1,870,000 to \$9,428,000 due to the change in the valuation model.

The Company also contracted a valuation team to review the purchase price allocation of Biocontrol. As a result, in process research and development (IPR&D) was restated and a new intangible asset, patents, was recognized. For the Biocontrol acquisition, \$493,000 of IPR&D was reclassified to patents. In addition, amortization expense for patents was recognized in the three month period ending March 31, 2014 and the three month period ending March 31, 2013.

As a result of these corrections, the Company's net loss for the period ending March 31, 2014 increased by \$1,885,000 to \$12,029,000. The net loss per share decreased by \$0.03 per share to \$(0.07) per share which reflected both the increased net loss and the removal of the deemed dividends. The Company's net loss for the period ending March 31, 2013 increased \$7,000 to \$1,619,000. The net loss per share remained the same.

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AmpliPhi Biosciences Corporation**Consolidated Balance Sheets**

	March 31, 2014 (Unaudited) (Restated)	December 31, 2013 (Restated)
Assets		
Current assets		
Cash and cash equivalents	\$ 16,435,000	\$ 20,355,000
Accounts receivable	12,000	8,000
Prepaid expenses and other current assets	280,000	171,000
Total current assets	16,727,000	20,534,000
Property and equipment, net of accumulated depreciation of \$491,000 and \$473,000 as of March 31, 2014 and December 31, 2013, respectively	356,000	145,000
Intangible Assets		
In process research and development	12,446,000	12,446,000
Patents, net of accumulated amortization of \$101,000 and \$93,000 as of March 31, 2014 and December 31, 2013, respectively	392,000	400,000
Goodwill	4,329,000	4,329,000
Total intangible assets	17,167,000	17,175,000
Total assets	\$ 34,250,000	\$ 37,854,000
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable and accrued expenses	\$ 886,000	\$ 2,147,000
Total current liabilities	886,000	2,147,000
Long term liabilities		
Derivative preferred shares conversion liability	41,356,000	34,443,000
Derivative warrants liability	19,179,000	16,664,000
Total long term liabilities	60,535,000	51,107,000
Total liabilities	61,421,000	53,254,000
Stockholders' equity (deficit)		
Preferred stock, \$0.01 par value, 10,000,000 shares authorized; 8,859,978 shares issued and outstanding at March 31, 2014 and December 31, 2013	89,000	89,000
Common stock, \$0.01 par value, 445,000,000 shares authorized, 182,535,562 shares issued and outstanding at March 31, 2014 and December 31, 2013	1,825,000	1,825,000
Additional paid-in capital	359,250,000	358,988,000
Paid-in-capital – contingent shares	1,837,000	1,837,000
Accumulated other comprehensive loss	(69,000)	(65,000)
Accumulated deficit	(390,103,000)	(378,074,000)
Total stockholders' equity (deficit)	(27,171,000)	(15,400,000)

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Total liabilities and stockholders' equity (deficit)	\$ 34,250,000	\$ 37,854,000
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See accompanying condensed notes to consolidated financial statements.

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AmpliPhi Biosciences Corporation

Consolidated Statements of Operations and Comprehensive Loss

	Three Months Ended March 31,		Year Ended December 31,
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Restated)
	(Restated)	(Restated)	
Revenue			
Licensing revenue	\$—	\$ 22,000	\$ 325,000
Total revenue		22,000	325,000
Operating expenses			
Research and development	1,007,000	551,000	6,502,000
General and administrative	1,594,000	691,000	6,285,000
Total operating expenses	2,601,000	1,242,000	12,787,000
Loss from operations	(2,601,000)	(1,220,000)	(12,462,000)
Other expense			
Loss on derivative liabilities	(9,428,000)	—	(42,317,000)
Amortization of note discount	—	(303,000)	(2,636,000)
Interest expense, net	—	(96,000)	(233,000)
Total other expense	(9,428,000)	(399,000)	(45,186,000)
Net loss	\$(12,029,000)	\$(1,619,000)	\$(57,648,000)
Net loss per share – basic & diluted	\$(0.07)	\$(0.02)	\$(0.57)
Weighted average number of shares of common stock outstanding – basic & diluted	182,535,562	66,908,810	101,201,753
Net loss	\$(12,029,000)	\$(1,619,000)	\$(57,648,000)
Other comprehensive income (loss)			
Net unrealized gain (loss) on foreign currency translations	(4,000)	(113,000)	41,000
Comprehensive loss	\$(12,033,000)	\$(1,732,000)	\$(57,607,000)

See accompanying condensed notes to consolidated financial statements.

AmpliPhi Biosciences Corporation

Consolidated Statements of Stockholders' Equity (Deficit)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Comprehensive Income (Deficit)	Total Stockholder Equity (Deficit)
	Shares	Amount	Shares	Amount				
Balances, December 31, 2012 (Restated)	—	\$—	66,908,810	\$669,000	\$332,806,000	\$(320,426,000)	\$(106,000)	\$12,943,000
Net loss	—	—	—	—	—	(57,648,000)	—	(57,648,000)
Stock-based compensation	—	—	—	—	1,437,000	—	—	1,437,000
Beneficial conversion feature and warrants associated with issuance of convertible loan notes	—	—	—	—	2,635,000	—	—	2,635,000
Shares issued for Intrexon	—	—	24,000,000	240,000	2,760,000	—	—	3,000,000
Issuance of preferred stock from conversion of convertible loan notes	5,016,081	50,000	—	—	—	—	—	50,000
Issuance of preferred stock	4,999,999	50,000	—	—	—	—	—	50,000
Preferred stock converted to common stock	(1,156,102)	(11,000)	11,561,020	115,000	6,511,000	—	—	6,615,000
Stock options exercised	—	—	61,018	1,000	12,000	—	—	13,000
Shares released from escrow	—	—	8,000,000	80,000	(80,000)	—	—	—

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Issuance of common stock for December financing	—	—	72,007,000	720,000	14,744,000	—	—	15,464,000
Escheat shares	—	—	(2,286)	—	—	—	—	—
Foreign currency translations	—	—	—	—	—	—	41,000	41,000
Balances, December 31, 2013 (Restated)	8,859,978	\$89,000	182,535,562	\$1,825,000	\$360,825,000	\$(378,074,000)	\$(65,000)	\$(15,400,000)
Net loss	—	—	—	—	—	(12,029,000)	—	(12,029,000)
Stock-based compensation	—	—	—	—	262,000	—	—	262,000
Foreign currency translations	—	—	—	—	—	—	(4,000)	(4,000)
Balances, March 31, 2014 (Unaudited) (Restated)	8,859,978	\$89,000	182,535,562	\$1,825,000	\$361,087,000	\$(390,103,000)	\$(69,000)	\$(27,171,000)

See accompanying condensed notes to consolidated financial statements.

AmpliPhi Biosciences Corporation

Consolidated Statement of Cash Flows

	Three Months Ended March 31,		Year Ended December 31,
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Restated)
	(Restated)	(Restated)	
Cash flows from operating activities			
Net loss from operations	\$ (12,029,000)	\$ (1,619,000)	\$ (57,648,000)
Adjustments required to reconcile net loss from operations to net cash used in operating activities:			
Loss on derivative liabilities	9,428,000	—	42,317,000
Shares issued for technology access fee	—	—	3,000,000
Amortization of note discount and patents	8,000	311,000	2,667,000
Warrants issued as investment fees	—	—	759,000
Depreciation	18,000	21,000	82,000
Stock-based compensation	262,000	154,000	1,437,000
Changes in operating assets and liabilities net of acquisitions:			
Accounts receivable	(4,000)	12,000	15,000
Tax refund	—	618,000	618,000
Accounts payable and accrued expenses	(1,261,000)	(380,000)	210,000
Prepaid expenses and other current assets	(109,000)	(219,000)	(23,000)
Interest on loan notes	—	96,000	233,000
Net cash used in operating activities	(3,687,000)	(1,006,000)	(6,333,000)
Cash flows from investing activities			
Purchases of property and equipment	(229,000)	—	(102,000)
Net cash used in investing activities	(229,000)	—	(102,000)
Cash flows from financing activities			
Proceeds from December financings	—	—	16,887,000
Proceeds from Preferred Series B	—	—	7,000,000
Proceeds from convertible loan notes	—	976,000	2,000,000
Net cash provided by financing activities	—	976,000	25,887,000
Effect of exchange rates	(4,000)	(113,000)	41,000
Net increase (decrease) in cash and cash equivalents	(3,920,000)	(143,000)	19,493,000
Cash and cash equivalents, beginning of period	20,355,000	862,000	862,000
Cash and cash equivalents, end of period	\$ 16,435,000	\$ 719,000	\$ 20,355,000
Supplemental schedule of non-cash financing activities:			
Conversion of convertible loan notes and accrued interest to Series B Convertible Preferred Stock	\$ -	\$ -	\$ 6,316,000

See accompanying condensed notes to consolidated financial statements.

AmpliPhi Biosciences Corporation

Condensed Notes to Consolidated Financial Statements

March 31, 2014

(Unaudited) Restated)

1. Nature of Business and Significant Accounting Policies

Nature of 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, headquartered in Richmond, Virginia, is dedicated to developing novel antibacterial solutions called bacteriophage (phage). Phages are naturally occurring viruses that preferentially target and kill their bacterial targets.

Basis of Presentation

The interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Biocontrol, AmpliPhi d.o.o., and AmpliPhi Australia. All significant intercompany accounts and transactions have been eliminated. All numbers on the financial statements and disclosures have been rounded to the nearest 1,000 except share and per share data.

The interim consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, or SEC. In the opinion of the Company’s management, all adjustments (consisting of normal recurring adjustments and reclassifications and non-recurring adjustments) necessary to present fairly our results of operations for the three months ended March 31, 2014 and 2013, our cash flows for the three months ended March 31, 2014 and 2013 and our financial position as of March 31, 2014 have been made. The results of operations for such interim periods are not necessarily indicative of the operating results to be expected for the full year.

Certain information and disclosures normally included in the notes to the annual financial statements have been condensed or omitted from these interim consolidated financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the 2013 audited consolidated financial statements and notes.

Use of Estimates

The preparation of 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers cash equivalents to be short-term investments that have a maturity at the time of purchase of three months or less, are readily convertible into cash and have an insignificant level of valuation risk attributable to potential changes in interest rates. Cash equivalents are recorded at cost, which approximates fair market value, and consist primarily of money market accounts.

Accounts Receivable

Accounts receivable amounts are stated at their face amounts less any allowance. Provisions for doubtful accounts are estimated based on assessment of the probable collection from specific customer accounts and other known factors. If an account was determined to be uncollectible (payment has not been made in accordance with contract terms), it would be written off against the allowance. As of March 31, 2014 and December 31, 2013, management determined no allowance for doubtful accounts was required.

Property and Equipment

Property and equipment are recorded at cost and are depreciated using the straight-line method over the estimated useful lives of the related assets, generally three to seven years.

Prepaid Expenses and Other Current Assets

Prepaid and other current assets as of March 31, 2014 and December 31, 2013 consist primarily of prepaid insurance and deposits.

Goodwill

Costs of investments in purchased companies in excess of the underlying fair value of net assets at the date of acquisition are recorded as goodwill and assessed annually for impairment. If considered impaired, goodwill will be written down to fair value and a corresponding impairment loss recognized.

During the year ended December 31, 2012, the rights to SPH Holdings Pty Ltd's know-how and phage libraries were acquired by a business combination. At December 31, 2012, goodwill in the amount of \$2,381,000 has been recorded. In management's opinion, no goodwill has been impaired as of March 31, 2014 and December 31, 2013.

During the year ended December 31, 2011, the rights to Biocontrol Limited's patents and phage libraries were acquired by a business combination. At December 31, 2011, goodwill in the amount of \$1,948,000 has been recorded. In

management's opinion, no goodwill has been impaired as of March 31, 2014 and December 31, 2013.

Patents

Patents are recorded at cost and are amortized using the straight-line method over the estimated useful lives of the patents.

During the year ended December 31, 2011, the rights to Biocontrol Limited's patents were acquired by a business combination. At December 31, 2011, patents in the amount of \$493,000 have been recorded. These patents are amortized over their useful life through December 2026.

Stock-Based Compensation

The Company accounts for stock-based payments under the guidance of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 718, *Stock Compensation*, which requires measurement of compensation cost for all share-based payment awards at fair value on the date of grant and recognition of compensation cost over the requisite service period (typically the vesting period) for awards expected to vest.

Warrant and Preferred Shares Conversion Feature Liability

The Company accounts for warrants and preferred shares conversion feature with anti-dilution ("down-round") provisions under the guidance of ASC 815, *Derivatives, and Hedging* and Emerging Issue Task Force Statement 07-5: *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock*, which require the warrants and the preferred shares conversion feature to be recorded as a liability and adjusted to fair value in each reporting period.

Fair Value of Financial Assets and Liabilities — Derivative Instruments

The Company measures the fair value of financial assets and liabilities in accordance with GAAP, which defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements.

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value:

Level 1 — quoted prices in active markets for identical assets or liabilities.

Level 2 — quoted prices for similar assets and liabilities in active markets or inputs that are observable.

Level 3 — inputs that are unobservable.

The Company does not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, the Company has entered into certain financial instruments and contracts, such as convertible loan notes with detachable common stock warrants and the issuance of preferred stock with detachable common stock warrants with features that are either i) not afforded equity classification, ii) embody risks not clearly and closely related to host contracts, or iii) may be net-cash settled by the counterparty. These instruments are required to be carried as derivative liabilities, at fair value.

The Company estimates fair values of these derivatives (and related embedded beneficial conversion features) utilizing Level 2 inputs. The Company uses the Monte Carlo valuation technique for derivatives as it embodies all of the requisite assumptions (including trading volatility, remaining term to maturity, market price, strike price, risk free rates) necessary to fair value these instruments.

Estimating fair values of derivative financial instruments, including Level 2 instruments, require 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. In addition, option-based techniques are volatile and sensitive to changes in our trading market price, the trading market price of various peer companies and other key assumptions. Since derivative financial instruments are initially and subsequently carried at fair value, our income will reflect this sensitivity of internal and external factors.

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Revenue Recognition

The Company generates revenue from technology licenses, collaborative research arrangements, and agreements to provide research and development services. Revenue under technology licenses typically consists of nonrefundable, up-front license fees, technology access fees and various other payments. The Company recognizes revenue associated with performance milestones as earned, typically based upon the achievement of the specific milestones defined in the applicable agreements.

The Company recognizes revenue under research and development contracts as the related costs are incurred. When contracts include multiple elements, the Company follows ASC 605-25, *Multiple Element Arrangements*, which requires the Company to satisfy the following before revenue can be recognized:

- The delivered items have value to the customer on a stand-alone basis;
- Any undelivered items have objective and reliable evidence of fair value; and
- Delivery or performance is probable and within the Company's control for any delivered items that have a right of return.

The Company classifies advance payments received in excess of amounts earned as deferred revenue.

Based upon the terms specified in its collaboration agreements, the Company receives advance payments from some of its collaboration partners before the project has been performed. These payments are deferred and recognized as revenue when the costs are incurred.

Research and Development Costs

In Process Research & Development (IPR&D) assets represent capitalized incomplete research projects that the Company acquired through business combinations. Such assets are initially measured at their acquisition date fair values. The fair value of the research projects is recorded as intangible assets on the consolidated balance sheet rather than expensed regardless of whether these assets have an alternative future use. The amounts capitalized are being accounted for as indefinite-lived intangible assets, subject to impairment testing until completion or abandonment of research and development efforts associated with the projects. Upon successful completion of each project, the

Company will make a determination as to the then remaining useful life of the intangible asset and begin amortization. The Company tests its indefinite-lived intangibles, including IPR&D assets, for impairment at least quarterly.

During the year ended December 31, 2012, the rights to SPH Holdings Pty Ltd's IPR&D were acquired by the business combination. At December 31, 2012, IPR&D in the amount of \$5,161,000 has been recorded. In management's opinion, this IPR&D has not been impaired as of March 31, 2014 and December 31, 2013.

During the year ended December 31, 2011, the rights to Biocontrol - IPR&D and patents were acquired by the business combination. At December 31, 2011, IPR&D in the amount of \$7,285,000 has been recorded. In management's opinion, this IPR&D has not been impaired as of March 31, 2014 and December 31, 2013.

Research and development costs include salaries, costs of outside collaborators and outside services, royalty and license costs and allocated facility, occupancy and utility expenses. The Company expenses research and development costs as incurred.

Net Loss per Common Share

Net loss per common share is based on net loss divided by the weighted average number of common shares outstanding during the period. For each fiscal year reported, the diluted net loss per share is the same as the basic net loss per share because all stock options, warrants, contingent shares, and Series B Preferred shares are antidilutive with respect to computing the net loss per share and therefore are excluded from the calculation of diluted net loss per share. The total number of shares that the Company excluded from the calculations of net loss per share were 148,692,651 shares for the three month period ending March 31, 2014, 20,000,000 shares for the three month period ending March 31, 2013, and 77,490,242 shares for the year ending December 31, 2013.

Recent Accounting Pronouncements

On February 5, 2013, the FASB issued ASU no. 2013-02 which adds new disclosure requirements for items reclassified out of accumulated other comprehensive income (AOCI). The ASU is intended to help entities improve the transparency of changes in other comprehensive income (OCI) and items reclassified out of AOCI in their financial statements. It does not amend any existing requirements for reporting net income or OCI in the financial statements. For public entities, the new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. For nonpublic entities, the ASU is effective for fiscal years beginning after December 15, 2013, and interim and annual periods thereafter. The Company elected to early adopt this standard which did not result in any changes to the consolidated financial statements.

2. Liquidity

The Company has prepared the accompanying 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, has negative operating cash flows and has an accumulated deficit of \$390.1 million and \$378.1 million as of March 31, 2014 and December 31, 2013, respectively. 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.

The Company believes that its current resources will only be sufficient to fund operations into the first quarter of 2015. This estimate is based on the Company's ability to manage its staffing expenses and its working capital and actual results could differ from its estimates. The Company intends to seek additional financing in order to fund operations through 2015; however, the Company cannot provide assurances that it will be successful in obtaining

additional financing for these periods or as needed in the future. If the Company does not raise additional funds by the first quarter of 2015, it plans to implement cost reduction measures, such as a reduction in workforce, reducing its intellectual property prosecution, reducing other operating activities, and/or the pursuit of alternative financing transactions that would likely be on terms disadvantageous to the Company and dilutive to its shareholders. The Company could also be required to relinquish rights to its technology or product candidates or in-licensed technology on unfavorable terms, either of which would reduce the ultimate value of the technology or product candidates, or to sell assets likely at values significantly below their potential worth. If the Company is unable to secure additional capital, it may be required to cease operations, declare bankruptcy or otherwise wind up its business.

3. Preferred Shares

On June 13, 2013, the Company's Board of Directors approved a resolution designating 10,016,080 shares of Preferred Stock as Series B Convertible Preferred Stock with an initial stated value of \$1.40 and par value of \$0.01. Each Series B preferred share is convertible into 10 shares of common stock and is entitled to the number of votes equal to the number of shares of common stock. These Series B shares may be converted to common stock by the holder of the shares at any time. The Series B shares shall be automatically converted into common shares upon the closing of an underwritten initial public offering with aggregate proceeds to the Company of at least \$7 million and a price per share to the public of at least the Series B stated value upon the closing of which the shares of common stock of the Company shall be listed for trading on the New York Stock Exchange. The Series B shares are also convertible into common shares upon the election of the holders of two-thirds of the outstanding Series B shares. Until conversion, the holders of Series B Preferred shares shall be entitled to receive dividends of 10% of the Series B stated value per annum.

In connection with the private placement of Series B Convertible Preferred Stock, the Company recorded a liability for a complex embedded derivative that required bifurcation under ASC Section 815. The embedded derivative includes a redemption feature, multiple dividend features, as well as multiple conversion features with a down-round ratchet provision. The Company estimates the fair values of the conversion feature using a Monte Carlo valuation model. The Company measured the fair value of the conversion feature on June 26, 2013 and July 15, 2013 (dates of issuance) and recorded the initial liability as part of the private placement proceeds.

On June 26, 2013, the Company issued 4,999,999 shares of the Company's newly-created Series B Convertible Preferred Stock and warrants to purchase 12,499,996 shares of common stock at an exercise price of \$0.14 per share for an aggregate purchase price of \$7.0 million. The value of the derivative liability related to the warrants was \$1,886,000 and the value of the derivative liability related to the preferred shares was \$5,064,000. As part of the same transaction, the Company converted \$5,491,000 in outstanding convertible loan notes (principal and interest) into 4,357,936 shares of Series B Convertible Preferred Stock and warrants to purchase 10,894,839 shares of common stock at an exercise price of \$0.14 per share. The value of the derivative liability related to the warrants was \$1,644,000 and the value of the derivative liability related to the preferred shares was \$3,804,000. As part of this issuance, the Company issued warrants to purchase 4,999,999 shares of common stock at an exercise price of \$0.14 per share with an initial fair value of \$759,000 and paid \$350,000 to the placement agents. As a result of this financing, all outstanding convertible notes were converted into shares of Series B Convertible Preferred Stock and warrants to purchase common stock. On July 15, 2013, the remaining outstanding convertible loan notes, totaling \$829,277 in principal and interest, were converted into 658,145 shares of Series B Convertible Preferred Stock and warrants to purchase 1,645,361 shares of common stock at an exercise price of \$0.14 per share. The value of the derivative liability related to the warrants was \$674,000 and the value of the derivative liability related to the preferred shares was \$155,000.

On July 25, 2013, 1,132,875 preferred shares were converted into 11,328,750 shares of common stock. In connection with the conversion, a loss on derivative of \$5,035,000 was recorded in relation to the conversion. \$6,518,000 was reclassified from the derivative liability to equity due to conversion.

On October 17, 2013, 23,227 preferred shares were converted into 232,270 shares of common stock. In connection with the conversion, a gain on the derivative liability was recorded in the amount of \$5,000. Due to this conversion, \$97,000 was reclassified out of the derivative liability account and into equity.

The Company re-measured the fair value of the conversion feature and recorded \$6,913,000 in total charges to record the liabilities associated with the conversion feature at their estimated fair value totaling \$41,356,000 as of March 31, 2014.

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4. Stock Options and Warrants

The Company follows ASC 815-40, *Contracts in an Entity's Own Equity*, as it relates to outstanding warrants. No warrants were exercised through March 31, 2014.

In connection with the December 2013 private placement of 72,007,000 shares of the Company's common stock at a price per share of \$0.25, the Company issued an aggregate of warrants to purchase 4,320,420 shares of common stock at an exercise price of \$0.25 per share to the placement agents. These warrants expire December 2018. These warrants contain provisions that protect holders from a decline in the issue price of the Company's common stock ("down-round" provision) and contain net settlement provisions. Due to these provisions, the Company accounted for these warrants as liabilities instead of equity.

In connection with the private placement of Series B Convertible Preferred Stock, which occurred through two closings on June 26, 2013 and July 15, 2013, respectively, the Company issued an aggregate of warrants to purchase 30,040,194 shares of common stock at an exercise price of \$0.14 per share. These warrants expire June 2018. These warrants contain provisions that protect holders from a decline in the issue price of the Company's common stock ("down-round" provision) and contain net settlement provisions. Due to these provisions, the Company accounted for these warrants as liabilities instead of equity. The Company measured the fair value of these warrants on June 26, 2013 and July 15, 2013 and recorded the initial liability as part of the private placement proceeds and expensed \$759,000 for the warrants issued to the placement agent.

We estimate the fair values of these securities using a Monte Carlo valuation model. The following warrants were issued in 2013 using the Monte Carlo valuation method with the key inputs as follows:

	June 26, 2013	July 15, 2013	December 23, 2013
Warrants Issued	28,394,834	1,645,360	4,320,420
Risk free interest rate	.0109	.0109	0.0167
Volatility	160.94 %	163.08 %	155.24 %
Expected term	5 years	5 years	5 years
Exercise price	\$ 0.14	\$ 0.14	\$ 0.25

The Company re-measured the fair value of these warrants and recorded \$10,282,000 in charges to record the liabilities associated with these warrants at their estimated fair values totaling \$16,664,000 as of December 31, 2013.

From February through May 2013, in connection with the issuance of new convertible promissory notes, the Company issued warrants to purchase up to 7,030,387 shares of its common stock. These warrants expire February through May 2018 and are exercisable at a price of \$0.14 per share. These warrants are considered to be equity.

On December 22, 2011, in connection with the Biocontrol business combination, the Company issued warrants to purchase up to 1,355,164 shares of its common stock. These warrants expire in December 2016 and are exercisable at a price of \$0.46 per share. These warrants are considered to be equity.

The Company's warrant liability is adjusted to fair value each reporting period and is influenced by several factors including the price of the Company's common stock as of the balance sheet date. On March 31, 2014, the price per share of the Company's common stock was \$0.58 per share compared to \$0.50 per share at December 31, 2013. There were no warrant liabilities as of March 31, 2013.

The Company re-measured the fair value of the warrants liability and recorded \$2,515,000 in total charges to record the liabilities associated with the warrants at their estimated fair value totaling \$19,179,000 as of March 31, 2014.

5. Stock-Based Compensation

The Company's Stock Incentive Plan provides for the issuance of long-term incentive awards, or Awards, in the form of non-qualified and incentive stock options, or Options, stock appreciation rights, stock grants and restricted stock units. 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. The exercise price for Options must not be less than the fair market value of the underlying shares on the date of grant. Options expire no later than ten years from the date of grant and generally vest and become exercisable over a four-year period following the date of grant. Every non-employee member of the Company's Board of Directors receives an annual non-qualified Option or restricted stock unit grant. Upon the exercise of Options, the Company issues the resulting shares from shares reserved for issuance under the Company's Incentive Plan.

Under ASC 718 *Stock Compensation*, the Company is required to expense the fair value of share-based payments granted over the vesting period. The Company values Awards granted at their grant date fair value in accordance with the provisions of ASC 718 and recognizes stock-based compensation expense on a straight-line basis over the service period of each award.

Stock-based compensation expense is reduced by an estimated forfeiture rate derived from historical employee termination behavior. If the actual number of forfeitures differs from the Company's estimates, the Company may record adjustments to increase or decrease compensation expense in future periods. There were no significant adjustments related to changes in the Company's estimates for the three months-ended March 31, 2014 and year ended December 31, 2013.

Following is a summary of the amount included as stock-based compensation expense in the accompanying consolidated statements of operations and comprehensive loss:

	Three Months Ended March 31, 2014 (Unaudited)	Three Months Ended March 31, 2013 (Unaudited)	Year Ended December 31, 2013
Stock options:			
Research and development expense	\$ 38,000	\$ 42,000	\$ 191,000
General and administrative expense	224,000	112,000	1,246,000
Total stock-based compensation expense	\$ 262,000	\$ 154,000	\$ 1,437,000

The following table summarizes Option activity:

	Shares	Weighted Average Exercise Price	Average Remaining Contractual Term (Years)	Intrinsic Value
Outstanding at December 31, 2013	25,721,000	\$ 0.19		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	—	—		
Outstanding at March 31, 2014	25,721,000	\$ 0.19	8.88	\$ 8,416,233
Exercisable at March 31, 2014	10,089,662	\$ 0.19	8.89	\$ 4,049,376

The aggregate intrinsic value is determined using the closing price of the Company's common stock of \$0.58 on March 31, 2014.

As of March 31, 2014, the Company had unrecognized compensation cost related to unvested Options of approximately \$2,072,890 net of estimated forfeitures, which the Company expects to recognize over a weighted average period of approximately two and a half years

As of March 31, 2013, the Company had reserved shares of its common stock for future issuance as follows:

	Shares Reserved
Stock options outstanding	25,721,000
Available for future grants under the Stock Incentive Plan	40,000,000
Warrants	38,425,745
Total Shares reserved	104,146,745

6. Correction of Errors

The Company's previously issued March 31, 2014 financial statements have been restated to remove deemed dividends which were accrued on its preferred shares and to recognize an increase in derivative expense due to adding several features to the valuation model used to measure the compound derivatives and changing from a Black-Scholes valuation model to a Monte Carlo valuation model. Additional paid in capital and accumulated deficit have been reduced by \$8,464,000 to reflect the elimination of deemed dividends. Loss on derivative liabilities increased by \$1,870,000 to \$9,428,000 due to the change in the valuation model.

The Company also contracted a valuation team to review the purchase price allocation of Biocontrol. As a result, in process research and development (IPR&D) was restated and a new intangible asset, patents, was recognized. For the Biocontrol acquisition, \$493,000 of IPR&D was reclassified to patents. In addition, amortization expense for patents was recognized in the three month period ending March 31, 2014 and the three month period ending March 31, 2013.

As a result of these corrections, the Company's net loss for the period ending March 31, 2014 increased by \$1,885,000 to \$12,029,000. The net loss per share decreased by \$0.03 per share to \$(0.07) per share which reflected both the increased net loss and the removal of the deemed dividends. The Company's net loss for the period ending March 31, 2013 increased \$7,000 to \$1,619,000. The net loss per share remained the same.

Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with “Selected Consolidated Financial Data” and the Unaudited Condensed Consolidated Financial Statements and related Notes included in Part I Item 1 of this Form 10-Q.

This discussion contains forward-looking statements that involve risks and uncertainties. Such statements, which include statements concerning product development plans, the use of bacteriophages to kill bacterial pathogens, future revenue sources, selling and marketing expenses, general and administrative expenses, clinical trial and other research and development expenses, capital resources, capital expenditures, tax credits and carry-forwards, and additional financings or borrowings, are subject to risks and uncertainties, including, but not limited to, those discussed below and elsewhere in this Form 10-Q, particularly in Part II Item 1A. “Risk Factors,” that could cause actual results to differ materially from those projected. The forward-looking statements set forth in this Form 10-Q are as of the close of business on May 4, 2014, and we do not intend to update this forward-looking information.

Overview

AmpliPhi Biosciences is a biotechnology company focused on the discovery, development and commercialization of novel phage therapeutics. Our proprietary pipeline is based on the use of bacteriophages, a family of viruses that infect only bacteria. Phages have powerful and highly selective mechanisms of action that permit them to target and kill specific bacterial pathogens, including the so-called multi-drug-resistant (MDR) or “Superbug” strains.

We are combining our proprietary approach and expertise in identifying, characterizing and developing naturally occurring bacteriophages with that of our collaboration partners in bacteriophage biology, drug engineering, development and manufacturing, to develop second-generation bacteriophage products. We believe that phages represent a promising means to treat bacterial infections, especially those that have developed resistance to current medicines.

Our lead program is AmpliPhage-002, for the treatment of methicillin-resistant *S. aureus* (MRSA) infections. We have two other product candidates in development: AmpliPhage-001 for the treatment of *P. Aeruginosa* lung infections in CF patients and AmpliPhage-004 for the treatment of *C. difficile* infections.

We have incurred net losses since our inception. Our operations to date have been limited to research and development and raising capital. Since November 2010, we have raised approximately \$5.6 million through the sale and issuance of convertible notes and warrants to purchase common stock. In June and July of 2013, we completed a private placement of shares of our Series B Convertible Preferred Stock and warrants to purchase common stock, which raised approximately \$7.0 million in addition to converting approximately \$6.3 million in outstanding convertible notes. In December 2013, we completed a private placement of shares of our common stock, which raised approximately \$18 million, prior to commissions.

To date, we have not generated any revenue and have primarily financed our operations through the sale and issuance of convertible notes and the private placement of our equity securities. As of March 31, 2014, we had a deficit accumulated of \$390.1 million. We recorded annual net losses of \$57.6 million in 2013 and \$1.1 million in 2012. Net loss in 2013 included \$42.3 million in non-cash expense related to the change in derivative liability associated with the outstanding warrants and the conversion feature of the outstanding shares of Series B Preferred Stock. We anticipate that a substantial portion of our capital resources and efforts in the foreseeable future will be focused on completing the development and obtaining regulatory approval of our product candidates.

We expect our research and development expenses to increase as we pursue regulatory approval for our product candidates. We also expect to incur additional expenses associated with operating as a public company. As a result, we expect to continue to incur significant and increasing operating losses at least for the next several years. We do not expect to generate product revenue unless and until we successfully complete development and obtain marketing approval for at least one of our product candidates.

We currently expect to use our existing cash and cash equivalents for the continued research and development of our product candidates and for working capital and other general corporate purposes.

We may also use a portion for the potential acquisition of, or investment in, product candidates, technologies, formulations or companies that complement our business, although we have no current understandings, commitments or agreements to do so. We expect that these funds will not be sufficient to enable us to complete all necessary development of any potential product candidates. Accordingly, we will be required to obtain further funding through other public offerings, debt financing, collaboration and licensing arrangements or other sources. Adequate additional funding may not be available to us on acceptable terms, or at all. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs.

Results of Operations

Revenue

For the quarter ended March 31, 2014, we recognized no revenue. For the quarter ended March 31, 2013 we recognized \$22,000 in grant revenue.

Research and Development

Research and development expenses were \$1.0 million for the quarter ended March 31, 2014, compared to \$0.6 million for the quarter ended March 31, 2013. The \$0.4 million increase in expenses is due to an increase in discovery, laboratory, nonclinical testing, research and development collaborations, consulting and clinical development planning expenses for all of our product candidates.

Research and development expenses are expected to increase in 2014 compared to 2013 as we plan to continue devoting substantial resources to research and development in future periods as we prepare to start clinical trials and continue our discovery efforts.

General and Administrative

General and administrative expenses were \$1.6 million for the quarter ended March 31, 2014 compared to \$0.7 million for the quarter ended March 31, 2013. The \$0.9 million increase is due to higher legal expenses due to preparation to become a public company and staffing expenses.

We currently expect our general and administrative expenses to increase in 2014 compared to 2013 due to the costs associated with being a public company.

Derivative Liabilities

During the quarter ended March 31, 2014, we recognized a loss on derivative liabilities of \$9,428,000 for warrants issued in June, July, and December 2013 and the conversion feature of the shares of Series B Preferred Stock issued in June and July 2013.

Income Taxes

We incurred net operating losses for the years ended December 31, 2013 and 2012 and, accordingly, we did not pay any federal or state income taxes. As of December 31, 2013, we had accumulated approximately \$175.4 million in U.S. and UK operating loss carry-forwards and research tax credit carry-forwards of approximately \$3.7 million. The carry-forwards began to expire in 2012. Our net operating loss carry-forwards are subject to certain limitations on annual utilization as a result of changes in ownership of the Company, as defined by federal and state tax laws.

Net Operating Losses

We have not recorded a benefit from our net operating loss or research credit carry-forwards because we believe that it is uncertain that we will have sufficient income from future operations to realize the carry-forwards prior to their expiration. Accordingly, we have established a 100% valuation allowance against the deferred tax asset arising from the carry-forwards.

Liquidity and Capital Resources

We have incurred net losses since inception through March 31, 2014 of \$390.1 million, of which \$315.5 million was incurred in the Company's prior focus of gene therapy in 2010 and years earlier. We have not generated any product revenues and do not expect to generate revenue from the sale of product candidates in the near term.

We had cash of \$16.4 million and \$20.4 million at March 31, 2014 and December 31, 2013, respectively. Net cash used in operating activities for the quarters ended March 31, 2014 and 2013 was \$3.7 million and \$1.0 million, respectively. For the quarter ended March 31, 2014, cash used in operations was attributable to the net loss for the year after adding back non-cash charges for loss on derivative liabilities, amortization of patents, stock-based compensation expense, and depreciation expenses offset by a decrease in accrued liabilities and increases in prepaid expenses and receivables. For the quarter ended March 31, 2013, cash used in operations was attributable to the net loss for the year after adding back non-cash charges for amortization of loan discount and patents, stock-based compensation expense, depreciation expenses and loss on disposal of equipment, offset by decreases in accrued liabilities and receivables. Net cash used in investing activities for the quarter ended March 31, 2014 was \$0.2 million due to purchases of equipment. There were no cash flows provided by financing activities for the quarter ended March 31, 2014. Net cash provided by financing activities for the quarter ended March 31, 2013 was \$1.0 million due to convertible loan notes. We expect 2014 cash requirements to be in the range of \$15.0 million to \$17.0 million. We believe that our cash as of March 31, 2014, will be sufficient to fund our projected operating requirements into the first quarter of 2015.

We expect to need to raise additional capital or incur indebtedness to continue to fund our future operations. We may seek to raise capital through a variety of sources, including:

- the public equity market;
- private equity financing;
- collaborative arrangements;
- licensing arrangements; and/or
- public or private debt.

Our ability to raise additional funds will depend on our clinical and regulatory developments, our product development activities, our ability to identify promising in-licensing opportunities and factors related to financial, economic and market conditions, many of which are beyond our control. We cannot be certain that sufficient funds will be available to us when required or on satisfactory terms. If adequate funds are not available, we may be required to significantly reduce or refocus our operations or to obtain funds through arrangements that may require us to relinquish rights to certain of our products, technologies or potential markets, any of which could delay or require that we curtail our development programs or otherwise have a material adverse effect on our business, financial condition and results of operations. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of such securities would result in ownership dilution to our existing stockholders.

If we are unable to secure additional financing on a timely basis or on terms favorable to us, we may be required to cease or reduce certain research and development projects, to sell some or all of our technology or assets or to merge all or a portion of our business with another entity. Insufficient funds may require us to delay, scale back or eliminate some or all of our activities, and if we are unable to obtain additional funding, there is uncertainty regarding our continued existence.

Off-Balance Sheet Arrangements

As of March 31, 2014, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts. Therefore, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Recent Accounting Pronouncements

None.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information required under this item.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Principal Executive Officer and Principal Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Principal Executive Officer and Principal Financial Officer, have concluded that our financial disclosure controls and procedures were effective during the period covered by this report.

Changes in Internal Controls Over Financial Reporting.

There were no changes in our internal control over financial reporting during the first quarter of 2014 that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time we are involved in legal proceedings or subject to claims arising in the ordinary course of our business. Although the results of litigation and claims cannot be predicted with certainty, we do not believe we are a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A, of our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2013 as amended and filed with the SEC on September 12, 2014.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

Number	Description
3.1	Amended and Restated Articles of Incorporation, effective May 21, 2009 (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form 10 filed December 16, 2013).
3.2	Articles of Amendment to Amended and Restated Articles of Incorporation, effective June 26, 2013 (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form 10 filed December 16, 2013).
3.3	Articles of Correction to Amended and Restated Articles of Incorporation, effective June 26, 2013 (incorporated by reference to Exhibit 3.3 to the Registration Statement on Form 10 filed December 16, 2013).
3.4	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.4 to the Registration Statement on Form 10 filed December 16, 2013).
4.1	Specimen stock certificate evidencing shares of common stock (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form 10 filed December 16, 2013).
4.2	Form of Warrant to Purchase Shares of Common Stock (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form 10 filed December 16, 2013).
4.3	Subscription Agreement to Purchase Series B Preferred Stock and Warrants, dated June 26, 2013 (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form 10 filed December 16, 2013).
4.4	Registration Rights Agreement, dated December 16, 2013 (incorporated by reference to Exhibit 4.4 to the Registration Statement on Form 10 filed December 16, 2013).
4.5	Subscription Agreement, dated December 16, 2013 (incorporated by reference to Exhibit 4.5 to the Registration Statement on Form 10 filed December 16, 2013).
10.1	Agreement of Lease of Business Premises, dated as of February 21, 2014, by and between Avotehna d.d. and AmpliPhi, Biotehnoške Raziskave in Razvoj, d.o.o. (incorporated by reference to Exhibit 10.22 to Amendment No. 2 to the Registration Statement on Form 10 filed April 15, 2014).
31.1*	Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a).
31.2*	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a).
32.1*	Certification of the Chief Executive Officer Required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.
32.2*	Certification of the Chief Financial Officer Required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.

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101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF* XBRL Taxonomy Extension Definition Linkbase Document.
101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document.
101.LAB* XBRL Taxonomy Extension Label Linkbase Document.

* Furnished electronically with this report.

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AMPLIPHI BIOSCIENCES CORPORATION

SIGNATURES

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

AMPLIPHI BIOSCIENCES CORPORATION

Date: September 12, 2014 By/s/ Philip J. Young

Name: Philip J. Young

Title: President and Chief Executive Officer

(Principal Executive Officer)

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