AmpliPhi Biosciences Corp
Form 10-Q
September 12, 2014

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 June 30, 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

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

Washington	**91-1549568**
(State or other jurisdiction of incorporation or organization)	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 x

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 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 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 Public Common Stock outstanding at August 7, 2014 was 187,159,093.

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AMPLIPHI BIOSCIENCES CORPORATION
CONSOLIDATED BALANCE SHEETS

	June 30, 2014 (Unaudited)	December 31, 2013 (Restated)
Assets		
Current assets		
Cash and cash equivalents	$12,550,000	$ 20,355,000
Accounts receivable	136,000	8,000
Prepaid expenses and other current assets	297,000	171,000
Total current assets	12,983,000	20,534,000
Property and equipment, net of accumulated depreciation of $559,000 and $473,000 as of June 30, 2014 and December 31, 2013, respectively	1,119,000	145,000
Intangible assets		
In process research and development	12,446,000	12,446,000
Patents, net of accumulated amortization of $108,000 and $93,000 as of June 30, 2014 and December 31, 2013, respectively	385,000	400,000
Goodwill	4,329,000	4,329,000
Total intangible assets	17,160,000	17,175,000
Total assets	$31,262,000	$ 37,854,000
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities		
Accounts payable and accrued expenses	$1,366,000	$ 2,147,000
Total current liabilities	1,366,000	2,147,000
Long term liabilities		
Derivative preferred shares conversion liability	26,104,000	34,443,000
Derivative warrants liability	12,813,000	16,664,000
Total long term liabilities	38,917,000	51,107,000
Total liabilities	40,283,000	53,254,000
Stockholders' equity (deficit)		
Preferred stock, $0.01 par value, 10,000,000 shares authorized; 8,671,040 shares issued and outstanding at June 30, 2014 and 8,859,978 shares issued and outstanding at December 31, 2013	87,000	89,000
Common stock, $0.01 par value, 445,000,000 shares authorized, 187,159,093 shares issued and outstanding at June 30, 2014 and 182,535,562 shares issued and outstanding at December 31, 2013	1,872,000	1,825,000
Additional paid-in capital	361,968,000	358,988,000
Paid-in-capital – contingent shares	1,837,000	1,837,000
Accumulated other comprehensive loss	(85,000)	(65,000)
Accumulated deficit	(374,700,000)	(378,074,000)
Total stockholders' equity (deficit)	(9,021,000)	(15,400,000)
Total liabilities and stockholders' equity (deficit)	$31,262,000	$ 37,854,000

See accompanying condensed notes to consolidated financial statements.

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AMPLIPHI BIOSCIENCES CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	$310,000	$314,000	$310,000	$336,000
Operating expenses				
Research and development	1,876,000	3,721,000	2,883,000	4,272,000
General and administrative	2,151,000	2,875,000	3,745,000	3,566,000
Total operating expenses	4,027,000	6,596,000	6,628,000	7,838,000
Loss from operations	(3,717,000)	(6,282,000)	(6,318,000)	(7,502,000)
Other income (expense)				
Gain (loss) on derivative liabilities	19,120,000	(4,069,000)	9,692,000	(4,069,000)
Amortization of note discount	—	(2,334,000)	—	(2,637,000)
Interest expense, net	—	(128,000)	—	(224,000)
Other income (expense), net	19,120,000	(6,531,000)	9,692,000	(6,930,000)
Net income (loss)	$15,403,000	$(12,813,000)	$3,374,000	$(14,432,000)
Net income (loss) per share – basic	$0.08	$(0.14)	$0.02	$(0.18)
Weighted average number of shares of common stock outstanding – basic	183,590,053	90,645,074	183,065,721	78,842,512
Net income (loss) per share – diluted	$0.05	$(0.14)	$0.01	$(0.18)
Weighted average number of shares of common stock outstanding – diluted	324,880,957	90,645,074	325,709,071	78,842,512
Other comprehensive income (loss)				
Net unrealized gain (loss) on foreign currency translations	(16,000)	158,000	(20,000)	45,000
Comprehensive income (loss)	$15,387,000	$(12,655,000)	$3,354,000	$(14,387,000)

See accompanying condensed notes to consolidated financial statements.

AMPLIPHI BIOSCIENCES CORPORATION

CONSOLIDATED STATEMENTS OF SOCKHOLDERS' EQUITY (DEFICIT)

	Preferred Stock		Common Stock					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholder Equity (Deficit)
Balances, December 31, 2012 (Restated)	—	—	66,908,810	$669,000	$332,806,000	$(320,426,000)	$(106,000)	$12,943,000
Net income (los)	—	—	—	—	—	(57,648,000)	—	(57,648,00
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)	—	—	—
	—	—	72,007,000	720,000	14,744,000	—	—	15,464,000

Issuance of common stock for December financing								
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)	$(15,400,00
Net income (loss)	—	—	—	—	—	3,374,000	—	3,374,000
Warrants exercised	—	—	2,734,151	28,000	1,729,000	—	—	1,757,000
Preferred stock converted to common stock	(188,938)	(2,000)	1,889,380	19,000	724,000	—	—	741,000
Stock-based compensation	—	—	—	—	527,000	—	—	527,000
Foreign currency translations	—	—	—	—	—	—	(20,000)	(20,000
Balances, June 30, 2014 (Unaudited)	8,671,040	$87,000	187,159,093	$1,872,000	$363,805,000	$(374,700,000)	$(85,000)	$(9,021,000

See accompanying condensed notes to consolidated financial statements.

AMPLIPHI BIOSCIENCES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2014 (Unaudited)	2013 (Unaudited)
Cash flows from operating activities		
Net income (loss) from operations	$3,374,000	$(14,432,000)
Adjustments required to reconcile net income (loss) to cash used in operating activities:		
Derivative liability (gain) loss	(9,692,000)	4,069,000
Shares issued for technology access fee	—	3,000,000
Amortization of patents	15,000	15,000
Amortization of note discount	—	2,637,000
Warrants issued as investment fees	—	759,000
Depreciation	86,000	45,000
Stock-based compensation	527,000	958,000
Changes in operating assets and liabilities net of acquisitions:		
Accounts receivable	(128,000)	(117,000)
Tax refund	—	618,000
Accounts payable and accrued expenses	(781,000)	(120,000)
Prepaid expenses and other current assets	(126,000)	(87,000)
Interest on loan notes	—	224,000
Net cash used in operating activities	(6,725,000)	(2,431,000)
Cash flows from investing activities		
Purchases of property and equipment	(1,060,000)	(65,000)
Net cash used in investing activities	(1,060,000)	(65,000)
Cash flows from financing activities		
Proceeds from Preferred Series B	—	7,000,000
Proceeds from convertible loan notes	—	2,000,000
Payment of convertible loan note	—	(26,000)
Net cash provided by financing activities	—	8,974,000
Effect of exchange rates	(20,000)	45,000
Net increase (decrease) in cash and cash equivalents	(7,805,000)	6,523,000
Cash and cash equivalents, beginning of period	20,355,000	862,000
Cash and cash equivalents, end of period	$12,550,000	$7,385,000

See accompanying condensed notes to consolidated financial statements.

AMPLIPHI BIOSCIENCES CORPORATION

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014
(Unaudited)

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 and six months ended June 30, 2014 and 2013, our cash flows for the six months ended June 30, 2014 and 2013 and our financial position as of June 30, 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 June 30, 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 June 30, 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 in a business combination with an aggregate value of $7,172,000. 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 June 30, 2014 and December 31, 2013.

During the year ended December 31, 2011, the rights to Biocontrol Limited's patents and phage libraries were acquired in a business combination with an aggregate value of $8,584,000. 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 June 30, 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 in 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 the preferred shares conversion feature of the Company's Series B preferred stock 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 such warrants and the Series B 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 as 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 utilizing Level 2 inputs. The Company uses the Monte Carlo valuation technique as it embodies all of the requisite assumptions (including trading volatility, remaining term to maturity, market price, strike price, and 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.

Revenue Recognition

The Company generates revenue from technology licenses. 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

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.

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 annually. 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 for $7,172,000. 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 June 30, 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 $8,584,000. 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 June 30, 2014 and December 31, 2013.

Net Income (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 the three months ended June 30, 2014 and the six months ended June 30, 2014, both basic and diluted net income are disclosed in the Consolidated Statements of Operations and Comprehensive Income. For the three months ended June 30, 2013 and the six months ended June 30, 2013, 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 numbers of shares that the Company excluded from the calculations of net loss per share were 24,976,557 shares for the three month period ending June 30, 2013 and 22,348,566 shares for the six month period ending June 30, 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 $374.7 million as of June 30, 2014. 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 $5,491,001 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.

In connection with the private placement of Series B Convertible Preferred Stock, the Company recorded a liability for the conversion feature that contains a provision that protect holders from a decline in the issue price of the Company's common stock ("down-round" 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 and recorded the initial liability as part of the private placement proceeds.

On May 16, 2014, 188,938 preferred shares were converted into 1,889,380 shares of common stock. Due to this conversion, a gain on derivative liabilities of $118,000 was recognized and $741,000 was reclassified out of the derivative liability account and into equity.

The Company re-measured the fair value of the conversion feature at the end of the quarter and recorded $14.4 million gain on derivative liabilities during the second quarter to adjust the liability associated with the conversion feature to its estimated fair value of $26.1 million as of June 30, 2014

4. Warrants and Warrants Liability

The Company follows ASC 815-40, *Contracts in an Entity's Own Equity*, as it relates to outstanding warrants.

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 $1.4 million 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	

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.

On June 26, 2014, 3,855,714 warrants, issued on June 26, 2013, were exercised. Due to this exercise, 2,734,151 shares of common stock were issued, a gain on derivative liabilities of $398,000 was recognized, and $1,729,000 was classified out of the derivative liability account and into equity.

The Company re-measured the fair value of the liability warrants and recorded $4.2 million gain on derivative liabilities during the second quarter to adjust the liabilities associated with these warrants to their estimated fair values totaling $12.8 million as of June 30, 2014.

5. Stock Options

In October 2012, our board of directors approved and adopted the 2012 Stock Incentive Plan, which we refer to as the 2012 Plan. Under the 2012 Plan, we are authorized to issue up to 35,000,000 shares of our common stock in stock incentive awards to employees, directors and consultants.

In March 2009, our board of directors and shareholders adopted the 2009 Stock Incentive Plan, which we refer to as the 2009 Stock Incentive Plan. Under the 2009 Plan, we are authorized to issue up to 4,200,000 shares of our common stock in stock incentive awards to employees, directors and consultants.

In December 2013, our board of directors adopted the 2013 Plan. Under the 2013 Plan, we are authorized to issue up to 40,000,000 shares of our common stock in stock incentive awards to employees, directors and consultants. Our shareholders approved the 2013 Plan in February 2014.

The Company’s 2013 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. Under the 2012 Plan, every non-employee member of the Company’s Board of Directors may elect to receive a non-qualified Option or restricted stock unit grant in lieu of certain cash compensation. Upon

the exercise of Options, the Company issues the resulting shares from shares reserved for issuance under the Company's Incentive Plans.

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 and six month period ended June 30, 2013 and 2014.

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		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Stock options:				
General and administrative expense	$226,000	$733,000	$449,000	$845,000
Research and development expense	39,000	70,000	78,000	113,000
Total stock-based compensation expense	$265,000	$803,000	$527,000	$958,000

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	$ 0.20		
Granted	—	—		
Exercised	—	—		
Forfeited	—	—		
Expired	2,000	13.10		
Outstanding at June 30, 2014	25,719,000	$ 0.19	8.63	$ 6,442,700
Exercisable at June 30, 2014	11,651,493	$ 0.19	8.65	$ 3,017,673

The aggregate intrinsic value is determined using the closing price of the Company's common stock of $0.44 on June 30, 2014.

As of June 30, 2014, the Company had unrecognized compensation cost related to unvested Options of approximately $1,918,638 net of estimated forfeitures, which the Company expects to recognize over a weighted average period of approximately two and a half years.

As of June 30, 2014, the Company had reserved shares of its common stock for future issuance as follows:

	Shares Reserved
Stock options outstanding	25,719,000
Available for future grants under the 2013 Stock Incentive Plan	40,000,000
Warrants	38,890,451
Total Shares reserved	104,609,451

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, the Company's ability to raise capital through 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 September 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 Series B Convertible Preferred Stock and warrants to purchase common stock, with proceeds to the Company of approximately $7.0 million. At the same time we converted approximately $6.3 million in outstanding convertible notes to Series B Convertible Preferred Stock. In December 2013, we completed a private placement of shares of common stock, with gross proceeds of 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 June 30, 2014, we had an accumulated deficit of $374.7 million. We recorded annual net losses of $57.7 million in 2013 and $1.1 million in 2012. 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 increase our development activities and commence clinical trials to 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 of our cash and cash equivalents 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 our current cash and cash equivalents 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 June 30, 2014, we recognized $310,000 in revenue related to sublicensing agreements involving our former gene therapy program. For the three month period ended June 30, 2013, we recognized revenues of $314,000 in revenue from such sublicenses. For the six month period ending June 30, 2014, we recognized revenues of $310,000 in revenue from sublicensing arrangements, a decrease from $336,000 for the same period in 2013, as a result of reduced grant revenue.

Research and Development

Research and development expenses were $1.9 million for the quarter ended June 30, 2014, compared to $3.7 million for the quarter ended June 30, 2013. Research and development expenses were $2.9 million for the six month period ended June 30, 2014, compared to $4.3 million for the six month period ended June 30, 2013. The decreases in research and development costs for both periods are due to a non-cash $3.0 million one-time technology access fee we incurred in April of 2013. Excluding this non-cash technology access fee, research and development expense increased $1.2 million for the quarter ended June 30, 2014 compared to the quarter ended June 30, 2013 and increased $1.6 million for the six month period ended June 30, 2014 compared to the six month period ended June 30, 2013 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 investing substantial resources to research and development as we prepare to initiate clinical trials and continue our discovery efforts.

General and Administrative

General and administrative expenses were $2.2 million for the quarter ended June 30, 2014 compared to $2.9 million for the quarter ended June 30, 2013. The $0.7 million decrease in general and administrative expense was due to investment fees incurred in 2013 for our Series B private placement. General and administrative expenses were $3.7 million for the six month period ended June 30, 2014 compared to $3.6 million for the six month period ended June 30, 2013. This increase is due to higher legal expenses to satisfy our obligations as a public company and staffing

expenses, offset by reduced investment fees resulting from the fees incurred in 2013 for our Series B private placement.

General and administrative expenses for the quarter ended June 30, 2014 and six month period ended June 30, 2014 included $190,000 accrued in penalties to certain shareholders as a result of our registration statement on Form S-1 not becoming effective within a prescribed period of time after the closing of our December financing.

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

Derivative Liabilities

During the quarter ended June 30, 2014, we recognized gains on derivative liabilities of $19.1 million 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. During the quarter ended June 30, 2013, we recognized a loss on derivative liabilities of $4.1 million for warrants issued in June 2013 and the conversion feature of the shares of Series B Preferred Stock issued in June 2013. For the six month period ended June 30, 2014, we recognized a gain on derivative liabilities of $9.7 million compared to $4.1 million loss for the six month period ended June 30, 2013. Derivative liabilities are adjusted to fair value each reporting period and are influenced by several factors including the price of the Company’s common stock as of the balance sheet date. On June 30, 2014, the price per share of the Company’s common stock was $0.44 per share compared to $0.50 per share at December 31, 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 June 30, 2014 of $374.7 million, of which $315.5 million was incurred in the Company's prior focus on 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 and cash equivalents of $12.6 million and $20.4 million at June 30, 2014 and December 31, 2013, respectively.

Net cash used in operating activities for the six month periods ended June 30, 2014 and 2013 was $6.7 million and $2.4 million, respectively. For the six month period ended June 30, 2014, cash used in operations was attributable to the net loss for the year, after adding back the impact of non-cash income related to derivative liabilities, stock-based compensation expense, and depreciation expenses, a decrease in accrued liabilities and an increase in receivables and prepaid expenses. For the six month period ended June 30, 2013, cash used in operations was attributable to the net loss for the year after adding back non-cash charges for shares issued for technology access fee, amortization of loan discount, stock-based compensation expense, depreciation expenses and loss on disposal of equipment, offset by a decrease in accrued liabilities and a decrease in receivables. Net cash used in investing activities for the six month period ended June 30, 2014 and June 30, 2013 were $1.1 million and $.06 million, respectively, due to purchases of equipment. Net cash provided by financing activities for the six month period ended June 30, 2013 was $9.0 million due to proceeds from Preferred Series B stock and 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 June 30, 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 June 30, 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 half 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.

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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).
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.
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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