AmpliPhi Biosciences Corp
Form 10-Q
August 13, 2015

**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, 2015

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) |
| **800 East Leigh Street, Suite 209** | **23219** |

**Richmond, Virginia** (Zip Code)
(Address of principal executive offices)

Registrant's telephone number, including area code: **(804) 827-2524**

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

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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 13, 2015 was 5,783,503.

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**AmpliPhi Biosciences Corporation**

**Consolidated Balance Sheets**

| | **June 30, 2015** (Unaudited) | **December 31, 2014** |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $14,351,000 | $ 6,581,000 |
| Accounts receivable | - | 100,000 |
| Prepaid expenses and other current assets | 512,000 | 339,000 |
| **Total current assets** | 14,863,000 | 7,020,000 |
| Property and equipment, net | 1,147,000 | 1,220,000 |
| In process research and development | 12,446,000 | 12,446,000 |
| Acquired patents, net | 354,000 | 369,000 |
| Goodwill | 7,562,000 | 7,562,000 |
| **Total assets** | $36,372,000 | $ 28,617,000 |
| | | |
| **Liabilities, Series B redeemable convertible preferred stock and stockholders' equity** | | |
| **Current liabilities** | | |
| Accounts payable, accrued expenses and other | $1,365,000 | $ 1,167,000 |
| Deferred revenue | 350,000 | 244,000 |
| Accrued severance | 321,000 | 457,000 |
| Dividends payable | 131,000 | - |
| **Total current liabilities** | 2,167,000 | 1,868,000 |
| Preferred B stock derivative liability | 10,032,000 | 12,320,000 |
| Warrant liability | 3,984,000 | 5,826,000 |
| Accrued severance | - | 98,000 |
| Deferred tax liability | 3,078,000 | 3,078,000 |
| **Total liabilities** | 19,261,000 | 23,190,000 |
| | | |
| **Series B redeemable convertible preferred stock** | | |
| $0.01 par value, 10,000,000 shares authorized, 8,290,353 shares issued and outstanding at June 30, 2015 and 8,671,040 shares issued and outstanding at December 31, 2014 (liquidation preference of $14,053,000 and $14,042,000 at June 30, 2015 and December 31, 2014, respectively) | 4,023,000 | 1,990,000 |
| | | |
| **Stockholders' equity** | | |
| Common stock, $0.01 par value, 445,000,000 shares authorized at June 30, 2015, 5,706,883 shares issued and outstanding at June 30, 2015 and 3,983,182 shares issued and outstanding December 31, 2014 | 57,000 | 40,000 |
| Additional paid-in capital | 378,761,000 | 365,403,000 |
| Accumulated deficit | (365,730,000) | (362,006,000) |
| **Total stockholders' equity** | 13,088,000 | 3,437,000 |

| | | |
|---|---|---|
| **Total liabilities, Series B redeemable convertible preferred stock and stockholders' equity** | $36,372,000 | $ 28,617,000 |

See accompanying condensed notes to consolidated financial statements.

**AmpliPhi Biosciences Corporation**

**Consolidated Statements of Operations**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| **Revenue** | $ 102,000 | $ 101,000 | $ 204,000 | $ 205,000 |
| **Operating expenses** | | | | |
| Research and development | 1,077,000 | 1,888,000 | 2,049,000 | 2,899,000 |
| General and administrative | 1,617,000 | 1,961,000 | 3,014,000 | 3,588,000 |
| **Total operating expenses** | 2,694,000 | 3,849,000 | 5,063,000 | 6,487,000 |
| **Loss from operations** | (2,592,000) | (3,748,000) | (4,859,000) | (6,282,000) |
| **Other income (expense)** | | | | |
| Change in fair value of warrant liability | 4,604,000 | 5,404,000 | (86,000) | 2,166,000 |
| Change in fair value of Preferred B stock derivative liability | 8,757,000 | 12,217,000 | 1,652,000 | 6,682,000 |
| Other expense | - | - | (431,000) | - |
| **Total other income** | 13,361,000 | 17,621,000 | 1,135,000 | 8,848,000 |
| **Net income (loss)** | 10,769,000 | 13,873,000 | (3,724,000) | 2,566,000 |
| Accretion of Series B redeemable convertible preferred stock | (1,828,000) | (318,000) | (2,166,000) | (632,000) |
| **Net income (loss) attributable to common stockholders** | $ 8,941,000 | $ 13,555,000 | $ (5,890,000) | $ 1,934,000 |
| Per share information: | | | | |
| Net income (loss) per share of common stock - basic | $ 1.58 | $ 3.69 | $ (1.19) | $ 0.53 |
| Weighted average number of shares of common stock outstanding - basic | 5,667,170 | 3,671,801 | 4,960,416 | 3,661,314 |
| Net income (loss) per share of common stock - diluted | $ 1.17 | $ 2.09 | $ (1.19) | $ 0.30 |
| Weighted average number of shares of common stock outstanding - diluted | 7,658,556 | 6,497,619 | 4,960,416 | 6,514,181 |

See accompanying condensed notes to consolidated financial statements.

**AmpliPhi Biosciences Corporation**

**Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)**

| | Redeemable Convertible Preferred Stock | | Stockholders' Equity (Deficit) | | | | |
|---|---|---|---|---|---|---|---|
| | Series B | | Common Stock | | Additional Paid- | Accumulated | Total Stockholders' |
| | Shares | Amount | Shares | Amount | in Capital | Deficit | Equity (Deficit) |
| **Balances, December 31, 2013** | 8,859,978 | $707,000 | 3,650,711 | $36,000 | $362,454,000 | $(385,115,000) | $(22,625,000) |
| Net income | - | - | - | - | - | 23,109,000 | 23,109,000 |
| Accretion of dividends on Series B redeemable convertible preferred stock | - | 1,285,000 | - | - | (1,285,000) | - | (1,285,000) |
| Warrants exercised | - | - | 54,683 | 1,000 | 1,594,000 | - | 1,595,000 |
| Conversion of Series B redeemable convertible preferred stock to common stock | (188,938) | (2,000) | 37,788 | 1,000 | 706,000 | - | 707,000 |
| Stock-based compensation | - | - | - | - | 775,000 | - | 775,000 |
| Stock-based compensation - severance | - | - | - | - | 1,161,000 | - | 1,161,000 |
| Shares released from escrow | - | - | 240,000 | 2,000 | (2,000) | - | - |
| **Balances, December 31, 2014** | 8,671,040 | 1,990,000 | 3,983,182 | 40,000 | 365,403,000 | (362,006,000) | 3,437,000 |
| Net loss | - | - | - | - | - | (3,724,000) | (3,724,000) |
| Accretion of dividends on Series B redeemable convertible preferred stock | - | 674,000 | - | - | (674,000) | - | (674,000) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Amount reclassified to Series B redeemable convertible stock to accrete to its redemption value | - | 1,492,000 | - | - | (1,492,000) | - | (1,492,000) |
| Conversion of Series B redeemable convertible preferred stock to common stock | (380,687) | (133,000) | 76,137 | 1,000 | 635,000 | - | 636,000 |
| Common stock issued in March 2015 financing, net of fair value of warrants issued | - | - | 1,575,758 | 16,000 | 8,250,000 | - | 8,266,000 |
| Warrants exercised | - | - | 56,644 | - | 1,072,000 | - | 1,072,000 |
| Amount reclassified to additional paid in capital related to amendment of warrants | - | - | - | - | 5,462,000 | - | 5,462,000 |
| Exercise of common stock options | - | - | 15,163 | - | - | - | - |
| Stock-based compensation | - | - | - | - | 105,000 | - | 105,000 |
| **Balances, June 30, 2015 (Unaudited)** | 8,290,353 | $4,023,000 | 5,706,884 | $57,000 | $378,761,000 | $(365,730,000) | $13,088,000 |

See accompanying condensed notes to consolidated financial statements.

**AmpliPhi Biosciences Corporation**

**Consolidated Statement of Cash Flows**

| | Six Months Ended June 30, | |
|---|---|---|
| | **2015** | **2014** |
| | (Unaudited) | (Unaudited) |
| **Operating activities:** | | |
| Net income (loss) from operations | $ (3,724,000) | $ 2,566,000 |
| Adjustments required to reconcile net income (loss) from operations to net cash used in operating activities: | | |
| Change in fair value of warrant liability | 86,000 | (2,166,000) |
| Change in fair value of Preferred B derivative liability | (1,652,000) | (6,682,000) |
| Warrants issued to placement agents | 213,000 | - |
| Amortization of patents | 15,000 | 15,000 |
| Depreciation | 117,000 | 86,000 |
| Stock-based compensation | 105,000 | 468,000 |
| Changes in operating assets and liabilities net of acquisitions: | | |
| Accounts receivable | 100,000 | (128,000) |
| Accounts payable, accrued expenses and other | 181,000 | (675,000) |
| Accrued severance | (234,000) | - |
| Prepaid expenses and other current assets | (174,000) | (229,000) |
| **Net cash used in operating activities** | (4,967,000) | (6,745,000) |
| **Investing activities:** | | |
| Purchases of property and equipment | (44,000) | (1,060,000) |
| **Net cash provided used in investing activities** | (44,000) | (1,060,000) |
| **Financing activities:** | | |
| Proceeds from warrant exercises | 397,000 | - |
| Proceeds from issuance of common stock, net | 12,384,000 | - |
| **Net cash provided by financing activities** | 12,781,000 | - |
| Net increase (decrease) in cash and cash equivalents | 7,770,000 | (7,805,000) |
| Cash and cash equivalents, beginning of period | 6,581,000 | 20,355,000 |
| Cash and cash equivalents, end of period | $ 14,351,000 | $ 12,550,000 |
| **Supplemental schedule of non-cash financing activities:** | | |
| Accretion of Series B redeemable convertible preferred stock | $ 2,166,000 | $ 632,000 |
| Fair value of warrant liability upon issuance | 4,210,000 | - |

See accompanying condensed notes to consolidated financial statements.

**AmpliPhi Biosciences Corporation**

**Condensed Notes to Consolidated Financial Statements**

**June 30, 2015**
**(Unaudited)**

## 1. Organization and Description of the Business

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

As a development stage company, we have incurred net losses since our inceptions, have negative operating cash flows, and have an accumulated deficit of $365.7 million and $362.0 million as of June 30, 2015 and December 31, 2014, respectively. The Company completed a $13.0 million private placement of common shares in March 2015, which provided the Company net proceeds of approximately $12.4 million after commissions to placement agents. We believe that with this capital infusion, the Company has resources sufficient to fund operations through the third quarter of 2016. This estimate is based on the Company's current product development calendar, projected staffing expenses, working capital requirements, and capital expenditure plans.

## 2. Significant Accounting Policies

The Company's significant accounting policies are described in Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Since the date of those financial statements, there have been no material changes to the Company's significant accounting policies. The interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Biocontrol, Ampliphi d.o.o., and AmpliPhi Australia. All significant intercompany accounts and transactions have been eliminated.

***Basis of Presentation***

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Any reference in these notes to applicable guidance is meant to refer to the authoritative United States generally accepted account principles as found in the Accounting Standards Codification (ASC) an Accounting Standards Update (ASU) of the Financial Accounting Standards Board (FASB).

***Unaudited Interim Financial Statements***

The accompanying financial statements are unaudited. The interim unaudited financial statements have been prepared on the same basis as the annual audited financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the Company's financial position as of June 30, 2015 the results of its operations for the three and six months ended June 30, 2015 and 2014. The financial data and other information disclosed in these notes related to the three and six months ended June 30, 2015 and 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2015, any other interim periods or any future year or period.

***Reverse Stock Split***

On August 3, 2015, the Company filed Articles of Amendment to Amended and Restated Articles of Incorporation with the Secretary of State of the State of Washington that effected a 1-for-50 (1:50) reverse stock split of its common stock, par value $0.01 per share, effective August 7, 2015. On August 3, 2015, the Company increased in its authorized common stock, from 445,000,000 to 670,000,000 shares. The par value of its common stock will remain at $0.01 per share, post-split. All warrant, stock option, and per share information in the consolidated financial statements gives retroactive effect to the 1-for-50 reverse stock split that was effected on August 7, 2015.

***Use of Estimates***

Management considers many factors in selecting appropriate financial accounting policies and controls, and in developing the estimates and assumptions that are used in the preparation of these financial statements. Management must apply significant judgment in this process. In addition, other factors may affect estimates, including expected business and operational changes, sensitivity and volatility associated with the assumptions used in developing estimates, and whether historical trends are expected to be representative of future trends. The estimation process often may yield a range of potentially reasonable estimates of the ultimate future outcomes and management must select an amount that falls within that range of reasonable estimates. This process may result in actual results differing materially from those estimated amounts used in the preparation of the financial statements if these results differ from historical experience, or other assumptions do not turn out to be substantially accurate, even if such assumptions are reasonable when made. In preparing these financial statements, management used significant estimates in the following areas, among others: the determination of the fair value of stock-based awards, the fair value of liability-classified preferred stock derivatives, the fair value of liability-classified warrants, the valuation of long-lived assets, including in-process research and development (IPR&D), patents and goodwill, accrued expenses and the

recoverability of the Company's net deferred tax assets and related valuation allowance.

***Cash and Cash Equivalents***

Cash and cash equivalents consist primarily of deposits with commercial banks and financial institutions. 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 plus accrued interest, which approximates fair market value.

***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. As of June 30, 2015 and December 31, 2014, management determined no allowance for doubtful accounts was required.

***In-Process Research & Development and Goodwill***

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.

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.

We review the carrying value of IPR&D and goodwill for potential impairment on an annual basis and at any time that events or business conditions indicate that it may be impaired. As permitted under Accounting Standards Codification

Topic 350 (ASC 350), through December 31, 2014, we have elected to base our assessment of potential impairment on qualitative factors. Based on our assessment, IPR&D and goodwill were not impaired as of December 31, 2014.

***Warrant and Preferred Shares Conversion Feature Liability***

The Company accounts for warrant and preferred share features with anti-dilution (“down-round”) provisions under the applicable accounting guidance which requires the warrant and the preferred share feature to be recorded as a liability and adjusted to fair value at each reporting period.

***Foreign Currency Translations and Transactions***

The functional currency of our wholly-owned subsidiaries is the U.S. dollar.

***Other Comprehensive Income (Loss)***

The Company recorded no comprehensive income other than net income for the periods reported.

***Recent Accounting Pronouncements***

In August 2014, the FASB issued ASU No. 2014-15, *Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* , which defines management's responsibility to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures if there is substantial doubt about its ability to continue as a going concern. The pronouncement is effective for annual reporting periods ending after December 15, 2016 with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

**3. Fair Value of Financial Assets and Liabilities — Derivative Instruments**

ASC Topic 820, *Fair Value Measurement* (ASC 820), establishes a fair value hierarchy for instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company’s own assumptions (unobservable inputs). Observable inputs are inputs that market participants would use in pricing the

asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the inputs that market participants would use in pricing the asset or liability, and are developed based on the best information available in the circumstances.

ASC 820 identifies fair value as the exchange price, or exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As a basis for considering market participant assumptions in fair value measurements, ASC Topic 820 establishes a three-tier fair value hierarchy that distinguishes among the following:

- Level 1—Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

- Level 2—Valuations based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and models for which all significant inputs are observable, either directly or indirectly.

- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level 3. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Items measured at fair value on a recurring basis include common stock warrants and embedded derivatives related to the Company’s redeemable convertible preferred stock. During the periods presented, the Company has not changed the manner in which it values liabilities that are measured at fair value using Level 3 inputs. The following fair value hierarchy table presents information about each major category of the Company's financial liabilities measured at fair value on a recurring basis:

| | **Quoted Prices in Active Markets for Identical Items (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total** |
|---|---|---|---|---|
| **June 30, 2015** | | | | |
| **Liabilities** | | | | |
| Preferred B stock derivative liability | $ - | $ - | $ 10,032,000 | $10,032,000 |
| Warrant liability | - | - | 3,984,000 | 3,984,000 |
| **Total liabilities** | $ - | $ - | $ 14,016,000 | $14,016,000 |

| | | | | | |
|---|---|---|---|---|---|
| **December 31, 2014** | | | | | |
| **Liabilities** | | | | | |
| Preferred B stock derivative liability | $ - | $ - | $ 12,320,000 | $12,320,000 | |
| Warrant liability | - | - | 5,826,000 | 5,826,000 | |
| **Total liabilities** | $ - | $ - | $ 18,146,000 | $18,146,000 | |

There were no transfers between Level 1, Level 2 or Level 3 of the fair value hierarchy for the three and six months ended June 30, 2015 and the year ended December 31, 2014.

The following table sets forth a summary of changes in the fair value of the Company's Series B redeemable convertible preferred stock derivative and warrant liability, which represents a recurring measurement that is classified within Level 3 of the fair value hierarchy, wherein fair value is estimated using significant unobservable inputs:

| | **Warrant Liability** | **Preferred B Stock Derivative Liability** |
|---|---|---|
| Balance, December 31, 2014 | $5,826,000 | $ 12,320,000 |
| Issuances | 4,210,000 | - |
| Exercises | (676,000) | - |
| Conversions to common stock | - | (636,000) |
| Amount reclassified to additional paid in capital related to amendment of warrants | (5,462,000) | - |
| Changes in estimated fair value | 86,000 | (1,652,000) |
| Balance, June 30, 2015 | $3,984,000 | $ 10,032,000 |

The fair value of the warrants on the date of issuance and on each re-measurement date for warrants classified as liabilities is estimated using the Monte Carlo valuation model. For this liability, the Company develops its own assumptions that do not have observable inputs or available market data to support the fair value. This method of valuation involves using inputs such as the fair value of the Company's common stock, stock price volatility, the contractual term of the warrants, risk–free interest rates and dividend yields. Due to the nature of these inputs, the valuation of the warrants is considered a Level 3 measurement. The following assumptions were used at June 30, 2015 and December 31, 2014:

| | June 30, 2015 | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|
| | 2011 | March 2015 | 2011 | June 2013 | July 2013 | December 2013 |
| Volatility | 96 % | 144 % | 155 % | 155 % | 155 % | 151 % |
| Expected term (years) | 1.48 | 4.72 | 1.98 | 3.49 | 3.54 | 3.98 |
| Risk-free interest rate | 0.45 % | 1.55 % | 0.67 % | 1.23 % | 1.25 % | 1.37 % |
| Dividend yield | 0 % | 0 % | 0 % | 0 % | 0 % | 0 % |
| Exercise price | $23.00 | $10.75 | $23.00 | $7.00 | $7.00 | $ 12.50 |
| Common stock closing price | $9.35 | $9.35 | $10.50 | $10.50 | $10.50 | $ 10.50 |

The warrant liability is recorded on the Company's Balance Sheet and is marked-to-market at each reporting period, with the change in fair value recorded as a component of change in fair value of warrant liability in the Statement of Operations.

The fair value of the Series B preferred stock derivative liability on each measurement date is estimated using the Monte Carlo valuation model. For this liability, the Company develops its own assumptions that do not have observable inputs or available market date to support the fair value. This method of valuation involves using inputs such as the fair value of the Company's common stock, stock price volatility, the contractual term of the warrants, risk–free interest rates and dividend yields. Due to the nature of these inputs, the valuation of the Series B preferred conversion liability is considered a Level 3 measurement. The following assumptions were used at June 30, 2015 and December 31, 2014:

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| Volatility | 112 % | 91 % |
| Expected term (years) | 0.75 | 1.25 |
| Risk-free interest rate | 0.2 % | 0.36 % |
| Dividend yield | 0 % | 0 % |
| Exercise price | $ 0.14 | $ 0.14 |
| Common stock closing price | $ 9.35 | $ 10.50 |

The Series B preferred stock derivative liability is recorded on the Company's Balance Sheet and is marked-to-market each reporting period, with the change in fair value recorded as a component of change in fair value of Series B preferred stock derivative liability in the Statement of Operations.

**4. Net Income (Loss) per Common Share**

The following table sets forth the computation of basic and diluted net income (loss) per share for the periods indicated:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Basic and diluted net income (loss) per common share calculation: | | | | |
| Net income (loss) | $10,769,000 | $13,873,000 | $(3,724,000) | $2,566,000 |
| Accretion of redeemable convertible preferred stock | (1,828,000) | (318,000) | (2,166,000) | (632,000) |
| Net income (loss) attributable to common stockholders | $8,941,000 | $13,555,000 | $(5,890,000) | $1,934,000 |
| Weighted average common shares outstanding - basic | 5,667,170 | 3,671,801 | 4,960,416 | 3,661,314 |
| Net income (loss) per share of common stock - basic | $1.58 | $3.69 | $(1.19) | $0.53 |
| Weighted average common shares outstanding - diluted | 7,658,556 | 6,497,619 | 4,960,416 | 6,514,181 |
| Net income (loss) per share of common stock - diluted | $1.17 | $2.09 | $(1.19) | $0.30 |

The following outstanding securities at June 30, 2015 and 2014 have been excluded from the computation of diluted weighted shares outstanding for the six months ended June 30, 2015 and 2014, as they would have been anti-dilutive:

| | **June 30, 2015** | **June 30, 2014** |
|---|---|---|
| Options | 360,635 | 333,905 |
| Warrants | 1,209,650 | 544,754 |
| Series B redeemable convertible preferred stock as converted | 1,658,071 | 1,734,208 |
| Escrow | - | 240,000 |
| **Total** | 3,228,356 | 2,852,867 |

**5. Redeemable Convertible Preferred Stock**

On June 13, 2013, the Company’s Board of Directors approved a resolution designating 10,000,000 shares of Preferred Stock as Series B redeemable convertible preferred stock (Series B) with an initial stated value of $1.40 and par value of $0.01. Each Series B share is convertible into 0.20 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 a major national stock exchange.

Holders of the preferred stock are entitled to receive cumulative dividends at the rate of 10%, compounded per annum, of the applicable purchase price per share if and when declared by the board of directors. No dividends have been declared through June 30, 2015.

At any time on or after June 26, 2018, the holders of at least two-thirds of the outstanding shares of the preferred stock may require the Company to redeem all of the outstanding shares of the preferred stock for an amount equal to the original issue price per share plus any declared and unpaid dividends.

Holders of the Series B are entitled to a liquidation preference in an amount equal to $70.00 per share plus all accrued and unpaid dividends in the event of a liquidation, dissolution, or winding-up of the Company, or in the event the Company merges with or is acquired by another entity.

In connection with the private placement of Series B, the Company recorded a liability for an embedded derivative that required bifurcation under the applicable accounting guidance. The embedded derivative includes a redemption feature, multiple dividend features, as well as multiple conversion features with a down-round ratchet provision.

On April 8, 2015, 107,100 shares of Series B were converted into 21,420 shares of common stock. Due to this conversion, $219,000 was reclassified out of the Series B derivative liability account and into shareholders' equity. On May 4, 2015, 23,587 shares of Series B were converted into 4,717 shares of common stock. Due to this conversion, $36,000 was reclassified out of the Series B derivative liability account and into shareholders' equity. On May 11, 2015, 250,000 shares of Series B was converted into 50,000 shares of common stock. Due to this conversion, $381,000 was reclassified out of the Series B derivative liability account and into shareholders' equity.

The Company re-measured the fair value of the derivative feature and recorded a gain of $8,757,000 for the quarter ended June 30, 2015 to adjust the liability associated with the conversion feature to its estimated fair value of $10,032,000 as of June 30, 2015. For the six months ended June 30, 2015, the Company recorded a gain of $1,652,000 related to the change in fair value of the derivative feature.

At June 30, 2015, the Company reclassified $1,492,000 from additional-paid-in-capital to Series B Redeemable convertible preferred stock to adjust the redemption value of the Series B to actual at that date.

**6. Warrants**

In connection with the March 16, 2015 private placement of 1,575,758 shares of the Company's common stock at a price per share of $8.25, the Company issued an aggregate of warrants to purchase 393,939 shares of common stock at an exercise price of $10.75 per share to the purchasers of the common stock. In addition, the Company issued warrants to purchase an aggregate of 94,545 shares of common stock to the placement agents. These warrants expire in March 2020 and contain certain provisions that contain a contingent cash payment of $2.5 million in liquidated damages to the holders of the warrants in the event the Company fails to take such action to either (i) increase the number of shares of Common Stock the Company is authorized to issue or (ii) effect a reverse split of the Common Stock, in either event sufficient to permit the exercise in full of the Warrants in accordance with their terms. Due to these provisions, the Company accounted for these warrants as liability instruments (see footnote 12). The Company measured the fair value of these warrants on March 16, 2015 and recorded an initial warrant liability of $4,210,000, of which $3,396,000 represented the initial fair value of the warrants issued to investors and $814,000 as the initial fair value of the warrants issued to the placement agents. The Company recorded other expenses of $213,000 in the six months ended June 30, 2015 related to the portion of the initial fair value of the placement agent attributable to the initial fair value of the warrants issued to investors in the quarter.

In connection with the December 2013 private placement of 1,440,140 shares of the Company's common stock at a price per share of $12.50, the Company issued an aggregate of warrants to purchase 86,408 shares of common stock at an exercise price of $12.50 per share to the placement agents. These warrants, which expire December 2018, 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 liability instruments. As a result of the March 16, 2015 private placement of common stock at a price of $8.25 per share, the "down-round" provision of these warrants resulted in an adjustment to their exercise price to $8.25 as of March 16, 2015.

In connection with the private placement of Series B, which occurred through two closings on June 26, 2013 and July 15, 2013, the Company issued an aggregate of warrants to purchase 600,804 shares of common stock at an exercise price of $7.00 per share. These warrants, which expire in June 2018 and in July 2018, respectively, 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 accounts for these warrants as liability instruments. The Company measured the fair value of these warrants on June 26, 2013 and July 15, 2013 and recorded initial warrant liabilities of $4,285,000 and $674,000, respectively, as part of the private placement proceeds and expensed $759,000 for warrants issued to the placement agent.

On December 22, 2011, in connection with the Biocontrol business combination, the Company issued warrants to purchase up to 27,103 shares of its common stock. These warrants expire in December 2016 and are exercisable at a price of $23.00 per share. As the terms of these warrants require that they be settled in registered shares of common stock, the Company accounts for these warrants as liability instruments.

The Company estimates the fair values of all warrants accounted for as liability instruments using a Monte Carlo valuation model.

From February through May 2013, in connection with the issuance of new convertible promissory notes, the Company issued warrants to purchase up to 140,608 shares of its common stock. These warrants expire February through May 2018 and are exercisable at a price of $7.00 per share. The Company classifies these warrants as equity instruments.

On April 1, 2015, 52,120 warrants, issued on June 26, 2013, were exercised, resulting in the issuance of 52,120 shares of common stock and $630,000 being reclassified from the warrant liability account and into shareholders' equity, based on the fair value of the warrants on the exercise date. On April 29, 2015, 4,524 warrants, issued on June 26, 2013, were exercised, resulting in the issuance of 4,524 shares of common stock and $46,000 was reclassified from the warrant liability account and into shareholders' equity, based on the fair value of the warrants on the exercise date.

On May 8, 2015, the Company, upon approval of more than two-thirds of the holders of the 2013 warrants issued on June 26, 2013, July 15, 2013 and December 23, 2013, amended these warrants to remove certain the "down-round" provisions of these warrants. As a result of this amendment, all outstanding warrants from those issuance dates were reclassified as equity instruments resulting in the reclassification of $5,462,000 from the warrant liability to shareholders' equity, reflecting the fair value of these warrants on the amendment date.

The Company re-measured the fair value of the warrant liability and recorded a gain of $4,604,000 for the quarter ended June 30, 2015, reflecting a decrease in the liability associated with the warrants at their estimated fair value, which totaled $3,984,000 as of June 30, 2015For the six months ended June 30, 2015, the Company recorded a loss of $86,000 related to the change in fair value of the warrants for that period.

All share amounts of warrants are after giving consideration to the 1-for-50 reverse split of the Company's common stock which was effective August 7, 2015 (see footnote 12.)

The following table provides the number of warrants, exercise price and aggregate proceeds to the Company if exercised as of June 30, 2015 and December 31, 2014:

| | March 2015 | | 2013 Series B Warrants | | December 2013 | | 2013 Convertible Notes | | 2011 | | Totals | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Exercise Price | Shares | Exercise Price | Shares | Exercise Price | Shares | Exercise Price | Shares | Exercise Price | Shares | |
| Balance, December 31, 2014 | - | $- | 523,690 | $7.00 | 86,408 | $12.50 | 140,608 | $7.00 | 27,103 | $23.00 | 777,809 | |
| Issuances | 488,485 | 11.00 | - | - | - | - | - | - | - | - | 488,485 | |
| Exercises | - | - | (56,644 | ) 7.00 | - | - | - | - | - | - | (56,644 | |
| Balance, June 30, 2015 | 488,485 | $11.00 | 467,046 | $7.00 | 86,408 | $8.50 | 140,608 | $7.00 | 27,103 | $23.00 | 1,209,650 | |
| Aggregate proceeds if exercised | $5,373,335 | | $3,269,322 | | $734,468 | | $984,256 | | $623,369 | | $11,975,53 | |

**7. Stockholders' Equity (Deficit)**

On March 16, 2015, the Company issued and sold 1,575,758 shares of common stock in a private placement at a price of $8.25 per share, for aggregate proceeds of $13.0 million. In conjunction with this private placement, the Company issued an aggregate of warrants to purchase 393,939 shares of common stock at an exercise price of $10.75 per share to the purchasers of the common stock. The Company paid $833,000 in fees to its placement agents, along with the issuance of warrants to purchase 94,545 shares of common stock at an exercise price of $10.75 per share. The Company valued these warrants as liability instruments and recorded a liability of $4,210,000 as of March 16, 2015. In the first quarter of 2015, the Company recorded $213,000 of other expenses representing the portion of the initial warrant value of the placement agent warrants related to the initial fair value of the warrants issued to the purchasers of the common stock. The remainder of the initial fair value of the warrants of $3,998,000 was treated as a reduction of additional paid-in-capital. In addition, $218,000 of the fees paid to its placement agent were expensed as other expenses in the six months ended June 30, 2015 as they also represented issuance costs related to the initial fair value of the warrants issued to the purchasers of the common stock.

**8. 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 may also receive 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.

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.

The estimated grant-date fair value of the Company's stock-based awards is amortized ratably over the awards' service periods. Stock-based compensation expense recognized was as follows:

| | **Three Months Ended June 30,** | | **Six Months Ended June 30,** | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** |
| Research and development | $ 30,000 | $ 40,000 | $ 59,000 | $ 78,000 |
| General and administrative | 22,000 | 195,000 | 45,000 | 390,000 |
| Total stock-based compensation | $ 52,000 | $ 235,000 | $ 104,000 | $ 468,000 |

The following table summarizes stock option activity for the six months ended June 30, 2015:

| | | Options Outstanding | | | |
|---|---|---|---|---|---|
| | Shares Available For Grant | Shares | Weighted Average Exercise Price | Average Remaining Contractual Term (Years) | Intrinsic Value |
| Balance, December 31, 2014 | 785,000 | 440,695 | $ 9.37 | 8.18 | $640,837 |
| Granted | - | - | - | - | - |
| Exercised | - | (80,000 ) | 8.00 | - | (149,750) |
| Forfeited | - | - | - | - | - |
| Expired | - | (60 ) | 455.00 | - | - |
| Balance, June 30, 2015 | 785,000 | 360,635 | $ 9.60 | 7.62 | $491,087 |
| Vested or expected to vest at June 30, 2015 | | 358,504 | $ 9.60 | 7.62 | $202,222 |
| Exercisable at June 30, 2015 | | 325,222 | $ 9.00 | 7.60 | $202,222 |

The intrinsic value of options exercisable as of June 30, 2015 was $0.2 million, based on the Company's closing stock price of $0.19 per share and a weighted average exercise price of $9.00 per share.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of stock options at the grant date. The Black-Scholes model requires the Company to make certain estimates and assumptions, including estimating the fair value of the Company's common stock, assumptions related to the expected price volatility of the Company's stock, the period during which the options will be outstanding, the rate of return on risk-free investments and the expected dividend yield for the Company's stock.

There were no grants of stock options to employees or directors during the three and six months ended June 30, 2015 and 2014.

As of June 30, 2015, there was $0.3 million of total unrecognized compensation expense related to unvested options that will be recognized over the weighted average remaining period of 1.66 years.

***Shares Reserved For Further Issuance***

As of June 30, 2015, the Company had reserved shares of its common stock for future issuance as follows:

| | Shares Reserved |
|---|---|
| Stock options outstanding | 360,635 |
| Available for future grants under the Stock Incentive Plan | 785,000 |
| Warrants | 1,209,650 |
| Total shares reserved | 2,355,285 |

**9. Collaborative and Other Agreements**

In June 2013, the Company entered into a Collaborative Research and Development Agreement with the United States Army Medical Research and Materiel Command and the Walter Reed Army Institute of Research. The Collaborative Research and Development Agreement will focus on developing and commercializing bacteriophage therapeutics to treat *S. aureus* , *E. coli* and *P. aeruginosa* infections. The Company paid Walter Reed Army Institute of Research $207,000 and $309,000 for services provided under the Collaborative Research and Development Agreement during the years ended December 31, 2014 and December 31, 2013, respectively. During the three and six months ended June 30, 2015, the Company recorded no payments under the Collaborative Research and Development Agreement.

In March 2013, the Company entered into an Exclusive Channel Collaboration Agreement with Intrexon Corporation. This agreement allows the Company to utilize Intrexon's synthetic biology platform for the identification, development and production of bacteriophage-containing human therapeutics. The Company paid a one-time technology access fee in 2013 to Intrexon of $3,000,000 in common stock. The Company shall pay Intrexon, in cash or stock, milestone fees for the initiation and commencement of the first Phase 2 trial of $2,500,000 and $5,000,000 upon the first regulatory approval of any product in any major market country. With regard to each product sold by the Company, the Company will pay, in cash, tiered royalties on a quarterly basis based on net sales of AmpliPhi Products, calculated on a product-by-product basis. No milestones have been met and no milestone payments have been paid to Intrexon through December 31, 2014. The Company paid Intrexon $941,000 and $357,000 for services provided under this agreement for the years ended December 31, 2014 and December 31, 2013, respectively. During the three and six months ended June 30, 2015, the Company recorded $22,000 in expenses under the Exclusive Channel Collaboration Agreement, with cash payments totaling $3,000 and $32,000, respectively.

In April 2013, the Company entered into a collaboration agreement with the University of Leicester to develop a phage therapy that targets and kills all toxin types of *C. difficle.* In August 2013, the Company entered into a collaboration agreement with both the University of Leicester and the University of Glasgow to carry out certain animal model development work. Under these agreements, which are referred to collectively as the Leicester Development Agreements, the Company provides payments to the University of Leicester to carry out in vitro and to the University of Glasgow to carry out animal model development work on the University of Leicester's development of a bacteriophage therapeutic to resolve *C. difficile* infections. The Company licensed related patents, materials and know-how from the University of Leicester. Under the Leicester Development Agreements, the University of Leicester will provide the bacteriophage and act as overall project coordinator for the development work. All rights, title and interest to any intellectual property developed under the Leicester Development Agreements belong to the Company. Under the Leicester License Agreement, the Company has exclusive rights to certain background

intellectual property of the University of Leicester, for which it will pay the University of Leicester royalties based on product sales and make certain milestone payments based on product development. In October 2014, the Company renewed this collaboration, effective as of November 9, 2014. This agreement expires November 12, 2015. The Company made payments to the University of Leicester under this agreement of $182,000 and $168,000 for the years ended December 31, 2014 and December 31, 2013, respectively. During the three and six months ended June 30, 2015, the Company recorded payments to the University of Leicester in the amount of $50,000 and $115,000, respectively, under the Leicester Development Agreements. No payments to the University of Glasgow were recorded during the three months ended June 30, 2015 and payments in the amount of $61,000 six months ended June 30, 2015 under the Leicester Development Agreements.

**10. Severance Charge**

On September 15, 2014, by mutual agreement of the Board of Directors (the "Board") of the Company and Philip J. Young, Mr. Young stepped down from his role as President and Chief Executive Officer of the Company, effective September 15, 2014. In accordance with Mr. Young's employment agreements, the Company recorded a severance charge in 2014 of $1,864,000 related to severance-period compensation and benefits and stock-based compensation expense related to the accelerated vesting of stock options. The severance accrual as of December 31, 2014 and June 30, 2015 is as follows:

| | |
|---|---|
| Accrued severance, December 31, 2014 | $555,000 |
| Payments in 2015 | (234,000) |
| Accrued severance, June 30, 2015 | $321,000 |

**11. Legal Proceedings**

The Company is not involved in any legal proceedings that it expects to have a material adverse effect on its business, financial condition, results of operations and cash flows.

**12. Subsequent Events**

On August 3, 2015, the Company's Board of Directors and shareholders approved a 1-for-50 reverse split of the Company's issued and outstanding common stock, effective at 12:01 am on August 7, 2015. The shares of common stock authorized were also increased to 670 million and retained a par value of $0.01 per share.

On August 4, 2015, the Company announced that it had been cleared to submit an application to the New York Stock Exchange for listing on the NYSE MKT, subject to the Company's satisfaction of the exchange's listing standards.

On August 10, 2015, the Board of Directors approved a stock option grant to M. Scott Salka, its Chief Executive Officer, of 399,716 shares of common stock pursuant to his employment agreement with the Company dated April 24, 2015. Vesting of such options will depend upon the attainment of certain milestones as set forth in Mr. Salka's employment agreement.

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**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 August 13, 2015, 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 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 programs consist of three product candidates: AB-PA01 (formerly AmpliPhage-001), for the treatment of *P. aeruginosa* lung infections in cystic fibrosis (CF) patients; AB-SA01 (formerly AmpliPhage-002), for the treatment of methicillin-resistant *S. aureus* (MRSA) infections; and AB-CD01 (formerly AmpliPhage-004), for the treatment of *C. difficile* infections.

We have generally incurred net losses since our inception and our operations to-date have been primarily limited to research and development and raising capital. We have raised approximately $43.6 million in capital since November 2010 to support our operations, including the March 2015 private placement of shares of our common stock, which raised approximately $13 million, prior to placement agent fees of approximately $0.8 million.

To date, we have not generated any product 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, 2015, we had a cumulative deficit of $365.7 million. 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 continue development of 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 quarters ended June 30, 2015 and 2014, we recognized $0.1 million in revenue related to sublicensing agreements related to our former gene therapy program. For the six months ended June 30, 2015 and 2014, we recognized $0.2 million in revenue from these sublicenses.

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***Research and Development***

Research and development expenses for the quarter ended June 30, 2015 totaled $1.1 million compared to $1.9 incurred in the same period of 2014. This decline of $0.8 million was primarily related to the timing of non-clinical research project fees in 2015 and one-time start-up costs in 2014 related to our Slovenia cGMP manufacturing facility.

Research and development expenses for six months ended June 30, 2015 totaled $2.0 million compared to $2.9 million incurred in the same period of 2014. This decline of $0.9 million was primarily related to the timing of non-clinical research project fees in 2015 and one-time start-up costs in 2014 related to our Slovenia cGMP manufacturing facility. Partially offsetting these factors were increased costs related to the Slovenian facility being operational for the full six-months of 2015.

We anticipate that research and development spending in future periods will increase from levels of the first six months of 2015 as we initiate non-clinical research studies, prepare to start clinical trials, and continue our discovery efforts.

***General and Administrative***

General and administrative expenses for the quarter ended June 30, 2015 were $1.6 million for the quarter compared to $2.0 million for the same period of 2014. The $0.4 million decrease was primarily attributable to lower cash and stock compensation expenses related to the departure of our prior Chief Executive Officer in the third quarter of 2014, which were partially offset by the appointment of our new Chief Executive Officer on May 18, 2015.

General and administrative expenses for the six months ended June 30, 2015 were $3.0 compared to $3.614. This $0.6 million decrease was primarily attributable to lower cash and stock compensation expenses related to the departure of our prior Chief Executive Officer in the third quarter of 2014, which were partially offset by the appointment of our new Chief Executive Officer on May 18, 2015. Partially offsetting this factor were higher legal and accounting fees in 2015 as compared to 2014.

***Other Income (Expense)***

We recorded a gain of $4.6 million for the quarter ended June 30, 2015 related to the change in fair value of our warrant liability. This gain was primarily attributable to a decrease in the value of our common stock price at June 30, 2015 as compared to March 31, 2015. For the six months ended June 30, 2015, we recorded a loss of $0.1 million related to the change in fair value of our warrant liability.

We recorded a gain of $8.8 million for the quarter ended June 30, 2015 related to the change in fair value of our Preferred B stock derivative liability. This gain was primarily attributable to a decrease in the value of our common stock price at June 30, 2015 as compared to March 31, 2015. For the six months ended June 30, 2015, we recorded a gain of $1.7 million related to the change in fair value of our Preferred B stock derivative liability, with this gain primarily attributable to a decrease in the value of our common stock price at June 30, 2015 as compared to December 31, 2014.

We recorded a gain of $5.4 million for the quarter ended June 30, 2014 related to the change in fair value of our warrant liability. This gain was primarily attributable to a decrease in the value of our common stock price at June 30, 2014 as compared to March 31, 2014. For the six months ended June 30, 2014, we recorded a gain of $2.2 million related to the change in fair value of our warrant. This gain was primarily attributable to a decline in the value of our common stock at June 30, 2014 as compared to December 31, 2013.

We recorded a gain of $12.2 million for the quarter ended June 30, 2014 related to the change in fair value of our Preferred B stock derivative liability. This gain was primarily attributable to a decrease in the price of our common stock at June 30, 2014 as compared to March 31, 2014. For the six months ended June 30, 2014, we recorded a gain $6.7 million related to the change in fair value of our Preferred B stock derivative liability. This gain was primarily attributable to a decrease in the price of our common stock at June 30, 2014 as compared to December 31, 2013.

We will continue to adjust the liability related to our outstanding 2015 and 2011 warrants to fair value until the earlier of exercise or expiration of the warrants or until terms of the warrants no longer require them to be accounted for as liability instruments. We will continue to adjust the liability related to our Series B preferred stock derivative feature until the conversion of our Series B Stock into common shares.

We also recorded expenses of $0.4 million for the six month ended June 30, 2015 related to placement agent costs from our March 16, 2015 private placement of common stock. This expense was related to placement agent fees and the initial fair value of warrants issued to the placement agent assigned to the fair value of warrants issued to the common stock investors.

***Liquidity and Capital Resources***

We have incurred net losses since inception through June 30, 2015 of $365.7 million, of which $315.5 million was incurred as a result of the Company's prior focus on gene therapy in fiscal years 2010 and earlier. We have not generated any product revenues and do not expect to generate revenue from product candidates in the near term.

We had cash and cash equivalents of $14.4 million and $6.6 million at June 30, 2015 and December 31, 2014, respectively.

Net cash used in operating activities for the six months ended June 30, 2015 was $5.0 million. We recorded a net loss for the period of $3.7 million, including a non-cash loss on warrant liability of $0.1 million and a non-cash gain on Series B stock derivative liability of $1.7 million. Other items included in net cash used in operating activities included non-cash charges related to warrants issued to placement agents in conjunction with our March 2015 private placement, stock-based compensation expense, depreciation expense, and patent amortization expense, which collectively approximated $0.4 million. A decrease in accounts receivable and an increases in accounts payable, accrued expenses, and other and deferred revenue represented an aggregate $0.3 million source of funds, and were partially offset by a decrease in accrued severance of $0.2 million and a decrease in prepaid expenses of $0.2 million.

Cash flow from financing activities for the six months ended June 30, 2015 totaled $12.8 million, which represented gross proceeds of $13.0 million from the March 16, 2015 private placement of common stock and warrants to purchase common stock, less commissions and other cash expenses related to the issuance of approximately $0.8 million, and $0.4 million in proceeds from the exercise of warrants.

Net cash used in investing activities was $0.0 million and $1.1 million for the six months ended June 30, 2015 and June 30, 2014, respectively, with the 2014 investments primarily attributable to the build-out of our facility and the purchase of equipment for our Slovenia manufacturing facility.

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.

We believe the Company has resources sufficient to fund operations through the third quarter of 2016. This estimate is based on the Company's current product development calendar, projected staffing expenses, working capital requirements, and capital expenditure plans.

Our ability to raise additional funds will depend on our clinical and regulatory events, 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, 2015, 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 2015 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 for the fiscal year ended December 31, 2014 as filed with the SEC on April 15, 2015.

**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 |
|---|---|
| 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.

**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: August 13, 2015 By /s/ Michael Scott Salka
Name: Michael Scott Salka
Title: Chief Executive Officer
(Principal Executive Officer)