AmpliPhi Biosciences Corp
Form 10-Q
November 16, 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 September 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: 001-37544

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 **Richmond, Virginia** (Address of principal executive offices)	**23219** (Zip Code)

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 November 10, 2015 was 5,883,503.

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AmpliPhi Biosciences Corporation

Consolidated Balance Sheets

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	$ 11,737,000	$ 6,581,000
Accounts receivable	40,000	100,000
Prepaid expenses and other current assets	785,000	339,000
Total current assets	12,562,000	7,020,000
Property and equipment, net	1,162,000	1,220,000
In process research and development	12,446,000	12,446,000
Acquired patents, net	346,000	369,000
Goodwill	7,562,000	7,562,000
Total assets	$ 34,078,000	$ 28,617,000
Liabilities, Series B redeemable convertible preferred stock and stockholders' equity		
Current liabilities		
Accounts payable, accrued expenses and other	$ 1,153,000	$ 1,167,000
Deferred revenue	247,000	244,000
Accrued severance	491,000	457,000
Dividends payable	368,000	-
Total current liabilities	2,259,000	1,868,000
Series B preferred stock derivative liability	2,127,000	12,320,000
Warrant liability	10,000	5,826,000
Accrued severance	-	98,000
Deferred tax liability	3,078,000	3,078,000
Total liabilities	7,474,000	23,190,000
Series B redeemable convertible preferred stock $0.01 par value, 9,357,935 shares authorized at September 30, 2015 and December 31, 2014, 7,527,853 shares issued and outstanding at September 30, 2015 and 8,671,040 shares issued and outstanding at December 31, 2014 (liquidation preference of $13,068,000 and $14,042,000 at September 30, 2015 and December 31, 2014, respectively)	10,941,000	1,990,000
Stockholders' equity		
Common stock, $0.01 par value, 670,000,000 shares authorized at September 30, 2015 and 445,000,000 shares authorized at December 31, 2014, 5,883,503 shares issued and outstanding at September 30, 2015 and 3,983,182 shares issued and outstanding December 31, 2014	59,000	40,000

Additional paid-in capital	375,895,000	365,403,000
Accumulated deficit	(360,291,000)	(362,006,000)
Total stockholders' equity	15,663,000	3,437,000
Total liabilities, Series B redeemable convertible preferred stock and stockholders' equity	$ 34,078,000	$ 28,617,000

See accompanying condensed notes to consolidated financial statements.

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AmpliPhi Biosciences Corporation

Consolidated Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2014 (Unaudited)
Revenue	$ 143,000	$ 103,000	$ 347,000	$ 308,000
Operating expenses				
Research and development	728,000	1,793,000	2,777,000	4,692,000
General and administrative	1,554,000	1,701,000	4,568,000	5,289,000
Severance expense	289,000	1,840,000	289,000	1,840,000
Total operating expenses	2,571,000	5,334,000	7,634,000	11,821,000
Loss from operations	(2,428,000)	(5,231,000)	(7,287,000)	(11,513,000)
Other income (expense)				
Change in fair value of warrant liability	693,000	7,079,000	607,000	9,245,000
Change in fair value of Series B preferred stock derivative liability	7,045,000	19,359,000	8,697,000	26,041,000
Other income (expense)	129,000	-	(302,000)	-
Total other income	7,867,000	26,438,000	9,002,000	35,286,000
Net income	5,439,000	21,207,000	1,715,000	23,773,000
Accretion of Series B redeemable convertible preferred stock	(7,163,000)	(323,000)	(9,329,000)	(955,000)
Net (loss) income attributable to common stockholders	$ (1,724,000)	$ 20,884,000	$ (7,614,000)	$ 22,818,000
Per share information:				
Net (loss) income per share of common stock - basic	$ (0.30)	$ 5.58	$ (1.45)	$ 6.19
Weighted average number of shares of common stock outstanding - basic	5,813,063	3,743,182	5,247,508	3,688,903
Net (loss) income per share of common stock - diluted	$ (0.30)	$ 3.30	$ (1.45)	$ 3.53
Weighted average number of shares of common stock outstanding - diluted	5,813,063	6,319,802	5,247,508	6,472,093

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 income	-	-	-	-	-	1,715,000	1,715,000
Accretion of dividends on Series B redeemable	-	992,000	-	-	(992,000)	-	(992,000)

convertible preferred stock							
Amount reclassified to Series B redeemable convertible stock to accrete to its redemption value	-	8,337,000	-	-	(8,337,000)	-	(8,337,000)
Conversion of Series B redeemable convertible preferred stock to common stock	(1,143,187)	(378,000)	228,637	2,000	1,504,000	-	1,506,000
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	-	-	56,645	1,000	1,072,000	-	1,073,000
Warrants reclassified from liabilities to equity due to amendment of warrants	-	-	-	-	5,462,000	-	5,462,000
Warrants reclassified from liabilities to equity due to increase in authorized shares	-	-	-	-	3,280,000	-	3,280,000
Exercise of common stock options and other	-	-	39,281	-	-	-	-
Stock-based compensation	-	-	-	-	249,000	-	249,000
Stock-based compensation - severance	-	-	-	-	4,000	-	4,000
Balances, September 30, 2015	7,527,853	$10,941,000	5,883,503	$59,000	$375,895,000	$(360,291,000)	$15,663,000

(Unaudited)

See accompanying condensed notes to consolidated financial statements.

AmpliPhi Biosciences Corporation

Consolidated Statement of Cash Flows

	Nine Months Ended September 30,	
	2015	2014
	(Unaudited)	(Unaudited)
Operating activities:		
Net income	$ 1,715,000	$ 23,773,000
Adjustments required to reconcile net income to net cash used in operating activities:		
Change in fair value of warrant liability	(607,000)	(9,245,000)
Change in fair value of Series B preferred stock derivative liability	(8,697,000)	(26,041,000)
Gain on re-valuation of liquidated damages liability	(120,000)	-
Warrants issued to placement agents	213,000	-
Amortization of patents	23,000	23,000
Depreciation	217,000	59,000
Stock-based compensation	249,000	714,000
Stock-based compensation - severance	4,000	1,161,000
Changes in operating assets and liabilities:		
Accounts receivable	60,000	(19,000)
Accounts payable, accrued expenses, deferred revenue and other	(11,000)	(305,000)
Accrued severance	(64,000)	659,000
Prepaid expenses and other current assets	(446,000)	(151,000)
Net cash used in operating activities	(7,464,000)	(9,372,000)
Investing activities:		
Purchases of property and equipment	(160,000)	(1,197,000)
Net cash used in investing activities	(160,000)	(1,197,000)
Financing activities:		
Proceeds from warrant exercises	396,000	-
Proceeds from issuance of common stock, net	12,384,000	-
Net cash provided by financing activities	12,780,000	-
Net increase (decrease) in cash and cash equivalents	5,156,000	(10,569,000)
Cash and cash equivalents, beginning of period	6,581,000	20,355,000
Cash and cash equivalents, end of period	$ 11,737,000	$ 9,786,000
Supplemental schedule of non-cash financing activities:		
Accretion of Series B redeemable convertible preferred stock	$ 9,329,000	$ 955,000
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

September 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 therapies called bacteriophage (phage). Phages are naturally occurring viruses that preferentially target and kill their bacterial targets.

As a development stage company, it has incurred net losses since its inception, has negative operating cash flows, and had an accumulated deficit of $360.3 million and $362.0 million as of September 30, 2015 and December 31, 2014, respectively. The Company completed a $13.0 million private placement of its common stock in March 2015, which provided net proceeds of approximately $12.4 million after commissions to placement agents. In the opinion of management, the Company has resources sufficient to fund its planned operations through the third quarter of 2016. This estimate is based on the Company's current product development plans, 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 Limited, Ampliphi d.o.o., and AmpliPhi Australia Pty Ltd. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company should be read in conjunction with the audited financial statements and notes thereto as of and for the year ended December 31, 2014 included in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission (SEC). The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for interim financial statements and in accordance with the instructions to Form 10-Q. Any reference in these notes to applicable guidance is meant to refer to the authoritative United States generally accepted account principles as found in the Accounting Standards Codification (ASC) and Accounting Standards Update (ASU) of the Financial Accounting Standards Board (FASB).

In the opinion of management, the accompanying financial statements reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of the Company's financial position as of September 30, 2015 and the results of its operations for the three and nine months ended September 30, 2015 and 2014. Interim results are not necessarily indicative of results for the full year or any future 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 its authorized common stock, from 445,000,000 to 670,000,000 shares. The par value of its common stock was unchanged 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.

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Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits with commercial banks and financial institutions. Cash equivalents include 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 an assessment of the probable collection from specific customer accounts and other known factors. As of September 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 adjustment 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.

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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
September 30, 2015				
Liabilities				
Series B preferred stock derivative liability	$ -	$ -	$ 2,127,000	$2,127,000
Warrant liability	-	-	10,000	10,000
Total liabilities	$ -	$ -	$ 2,137,000	$2,137,000
December 31, 2014				
Liabilities				

Series B preferred 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 nine months ended September 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	Series B Preferred Stock Derivative Liability
Balance, December 31, 2014	$5,826,000	$ 12,320,000
Issuances	4,210,000	-
Exercises	(676,000)	-
Conversions to common stock	-	(1,496,000)
Warrants reclassified from liabilities to equity due to amendment of warrants	(5,462,000)	-
Warrants reclassified from liabilities to equity due to increase in authorized shares	(3,281,000)	-
Changes in estimated fair value	(607,000)	(8,697,000)
Balance, September 30, 2015	$10,000	$ 2,127,000

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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 September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014			
	Series (1)	**Series** (1)			
	2011	2011	June 2013	July 2013	December 2013
Volatility	112 %	155 %	155 %	155 %	151 %
Expected term (years)	1.23	1.98	3.49	3.54	3.98
Risk-free interest rate	0.40 %	0.67 %	1.23 %	1.25 %	1.37 %
Dividend yield	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Exercise price	$ 23.00	$23.00	$7.00	$7.00	$ 12.50
Common stock closing price	$ 3.95	$10.50	$10.50	$10.50	$ 10.50

(1) See *Note 6 – Warrants* below for further description of the respective series of warrants.

The warrant liability is recorded on the accompanying consolidated balance sheets 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 on the Company's statements 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 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 expected term of the Series B preferred stock, 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 September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
Volatility	102 %	91 %
Expected term (years)	1.63	1.25

Risk-free interest rate		0.08 %		0.36 %
Common stock dividend yield		0.00 %		0.00 %
Minimum non-diluting issuance price	$	7.00	$	7.00
Common stock closing price	$	3.95	$	10.50

The Series B preferred stock derivative liability is recorded on the accompanying consolidated 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 on the Company’s statements of operations.

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4. Net (Loss) Income per Common Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Basic and diluted net (loss) income per common share calculation:				
Net income	$5,439,000	$21,207,000	$1,715,000	$23,773,000
Accretion of Series B redeemable convertible preferred stock	(7,163,000)	(323,000)	(9,329,000)	(955,000)
Net (loss) income attributable to common stockholders	$(1,724,000)	$20,884,000	$(7,614,000)	$22,818,000
Weighted average common shares outstanding - basic	5,813,063	3,743,182	5,247,508	3,688,903
Net income (loss) per share of common stock - basic	$(0.30)	$5.58	$(1.45)	$6.19
Weighted average common shares outstanding - diluted	5,813,063	6,319,802	5,247,508	6,472,093
Net income (loss) per share of common stock - diluted	$(0.30)	$3.30	$(1.45)	$3.53

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

	September 30, 2015	September 30, 2014
Options	631,126	15,280
Warrants	1,209,681	-
Series B redeemable convertible preferred stock as converted	1,505,571	-
Escrow	-	240,000
Total	3,346,378	255,280

5. Redeemable Convertible Preferred Stock

On June 13, 2013, the Company's Board of Directors approved a resolution designating 9,357,935 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 into which such Series B share may be converted. 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 stock upon the closing of an underwritten initial public offering by the Company occurring after June 13, 2013, with aggregate proceeds to the Company of at least $7.0 million and a price per share to the public of at least the Series B stated value of $1.40 per share upon the closing of which the shares of common stock of the Company are listed for trading on a major national stock exchange.

Holders of the Series B shares are entitled to receive cumulative, cash dividends at the rate of 10% of the Series B stated value. Such dividends accrue from day-to-day commencing on the original issue date, whether or not earned or declared by the Board of Directors, and are compounded annually. No dividends have been declared or paid through September 30, 2015.

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

Holders of the Series B are entitled to a liquidation preference in an amount equal to the Series B stated value of $1.40 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 specified anti-dilution adjustments for certain financing transactions involving the issuance of securities at a price below a minimum non-diluting issuance price of $7.00 per share.

The following table summarizes the conversions of Series B shares to common stock pursuant to Series B shareholder elections during the nine months ended September 30, 2015:

Conversion Date	Series B Shares Converted	Common Stock Issued	Amount Reclassified from Liability into Stockholders' **Equity** (1)
April 8, 2015	107,100	21,420	$ 219,000
May 4, 2015	23,587	4,717	36,000
May 11, 2015	250,000	50,000	381,000
July 16, 2015	262,500	52,500	318,000
August 13, 2015	500,000	100,000	542,000
Totals	1,143,187	228,637	$ 1,496,000

(1) Not inclusive of liabilities for dividends payable upon conversion of these shares.

The Company re-measured the fair value of the derivative feature and recorded a gain of $7,045,000 for the quarter ended September 30, 2015 to adjust the liability associated with the conversion feature to its estimated fair value of $2,127,000 as of September 30, 2015. For the nine months ended September 30, 2015, the Company recorded a gain of $8,697,000 related to the change in fair value of the derivative feature.

At September 30, 2015, the Company reclassified $8,337,000 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, an increase of $6,845,000 from the $1,492,000 recorded at June 30, 2015, which was attributable to the reduction in the fair market value of the Series B stock derivative liability at September 30, 2015 as compared to June 30, 2015.

At September 30, 2015, the Company recorded dividends payable of $368,000 to former holders of preferred stock, which are classified as current liabilities on the Company’s Balance Sheet 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 warrants (Series March 2015) to purchase an aggregate of 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 94,548 shares of common stock at an exercise price of $10.75 per share to the placement agents. These warrants expire in March 2020 and provided for a contingent cash payment of $2.5 million in liquidated damages to the holders of the warrants in the event the Company failed 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 prior to the third quarter of 2015. 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 for the nine months ended September 30, 2015 representing a portion of the initial fair value of warrants issued to the placement agents attributable to the initial fair value of the warrants issued.

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 warrants (Series December 2013) to purchase an aggregate of 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 specified anti-dilution adjustment provisions for certain financing transactions involving the issuance of securities below a specified price 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 anti-dilution adjustment provisions 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 warrants (Series June 2013 and Series July 2013, respectively) to purchase an aggregate of 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 anti-dilution adjustment provisions 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.

In January 2011, we completed the acquisition of Biocontrol Limited, an antimicrobial biotechnology company based in the United Kingdom, with the goal of developing their phage therapy programs using funding from the sale of our legacy gene therapy assets. On December 22, 2011, in connection with our acquisition of Biocontrol, the Company issued warrants (Series 2011) 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.

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From February through May 2013, in connection with the issuance of new convertible promissory notes, the Company issued warrants (Series 2013 Convertible Notes 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 stockholders’ 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 stockholders’ 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 anti-dilution adjustment provisions. 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 stockholders’ equity, reflecting the fair value of these warrants on the amendment date.

On August 3, 2015, the shareholders of the Company approved a 1-for-50 reverse stock split of the Company’s common stock and increased the number of authorized shares of common stock to 670,000,000. As a result, the warrants issued in conjunction with the March 2015 private placement of common stock were reclassified from liability instruments to equity instruments. Accordingly, $3,281,000 was reclassified from warrant liability to stockholders’ equity, reflecting the fair value of these warrants on the effective date of the reverse split, and the accrued fair value of liquidated damages in the amount of $120,000 were also reclassified to stockholders’ equity.

The Company re-measured the fair value of the warrant liability and recorded a gain of $693,000 for the quarter ended September 30, 2015, reflecting a decrease in the liability associated with the warrants at their estimated fair value, which totaled $10,000 as of September 30, 2015. For the nine months ended September 30, 2015 the Company recorded a gain of $607,000 related to the change in fair value of the warrants for that period.

All exercise prices and 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.

The following table provides a summary of warrants outstanding, issued or exercised for the nine months ended September 30, 2015. Also included is the average exercise price per share and the aggregate proceeds to the Company if exercised as of September 30, 2015.

Series
June 2013 and July 2013
March 2015 Series B Warrants December 2013 2013 Convertible Notes 2011 Totals
Weighted
Average
Exercise Exercise Exercise Exercise Exercise Exercise
Shares