AmpliPhi Biosciences Corp
Form 10-K/A
May 23, 2014

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

AMENDMENT NO. 1 TO
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2013

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 and organization)	(I.R.S. Employer Identification No.)

4870 Sadler Road, Suite 300
Glen Allen, Virginia 23060

(Address of principal executive offices, including zip code)

(804) 205-5069

(Registrant s telephone number)

Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.01 per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.Yes o No x

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 o

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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large accelerated filer o Accelerated filer o
Non-accelerated filer o (Do not check if a smaller 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 o No x

As of June 30, 2013, the aggregate market value of voting stock held by non-affiliates of the Registrant, based on the closing price of the Common Stock on June 28, 2013 as reported on the OTC Pink market, was approximately $10,122,521. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded from this computation in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 24, 2014, the Registrant had outstanding 182,535,562 shares of Common Stock.

Documents incorporated by reference: Portions of the Registrant s proxy statement to be filed pursuant to Regulation 14A within 120 days after Registrant s fiscal year end of December 31, 2013 are incorporated herein by reference into Items 10, 11, 12, 13 and 14 of Part III of this annual report.

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AMPLIPHI BIOSCIENCES CORPORATION

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EXPLANATORY NOTE REGARDING AMENDMENT AND RESTATEMENT

Unless the context otherwise requires, we use the terms AmpliPhi Biosciences, AmpliPhi, we, us, the Company and our in this report to refer to AmpliPhi Biosciences Corporation and its subsidiaries.

We are filing this Amendment No. 1 to our Annual Report on Form 10-K to Amend and Restate Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8, Financial Statements and Supplementary Data. Other than these changes, the Annual Report is not being amended.

This Annual Report on Form 10-K includes restatement of the following previously filed consolidated financial statements and data (and related disclosures): our consolidated balance sheets as of December 31, 2013, and our consolidated statements of operations and comprehensive loss, consolidated statement of stockholders equity (deficit), and consolidated statement of cash flows for the fiscal year ended December 31, 2013.

The Company s previously issued December 31, 2013 financial statements have been restated to net investment fees paid as part of the December financing against the proceeds received. As a result of this correction, we reduced general and administrative expenses and additional paid in capital by $2,550,000. The Company s net loss decreased $2,550,000 to $55,861,000. The net loss per share decreased by $0.02 per share to $(0.64) per share.

For more information regarding these restatements, please refer to Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 14 (Correction of Errors) in Notes to Consolidated Financial Statements Year Ended December 31, 2013.

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the consolidated financial statements and the related notes contained elsewhere in this Annual Report. Some of the information contained in this discussion and analysis are set forth elsewhere in this Annual Report, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. See Special Note Regarding Forward-Looking Statements. Our actual results may differ substantially from those referred to herein due to a number of factors, including but not limited to risks described in the section entitled Risk Factors and elsewhere in this Annual Report.

Restatement

As discussed in the Explanatory Note Regarding Amendment and Restatement and Note 14 (Correction of Errors) to Notes to Consolidated Financial Statements Year Ended December 31, 2013 included in this Annual Report on Form 10-K/A, we are amending and restating our audited consolidated financial statements and related disclosures for the year ended December 31, 2013.

The following discussion and analysis of our financial condition and results of operations incorporates the restated amounts. For this reason, the data set forth in this section may not be comparable to discussion and data in our previously filed Annual Report on Form 10-K for the year ended December 31, 2013.

Overview

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

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

Our lead programs consist of three product candidates: AmpliPhage-001 for the treatment of *P. aeruginosa* lung infections in cystic fibrosis (CF) patients; AmpliPhage-002, for the treatment of methicillin-resistant *S. aureus* (MRSA) infections; and AmpliPhage-004 for the treatment of *C. difficile* infections.

We have incurred net losses since our inception. Our operations to date have been limited to research and development and raising capital. Since November 2010, we have raised approximately $5.6 million through the sale and issuance of convertible notes and warrants to purchase common stock. In June and July of 2013, we completed a private placement of shares of our Series B Convertible Preferred Stock and warrants to purchase common stock, which raised approximately $7.0 million in addition to converting approximately $6.3 million in outstanding convertible notes. In December 2013, we completed a private placement of shares of our common stock, which raised approximately $18 million, prior to commissions. To date, we have not generated any revenue and have primarily

financed our operations through the sale and issuance of convertible notes and the private placement of our equity securities. As of December 31, 2013, we had a deficit accumulated of $384.7 million. We recorded annual net losses of $55.9 million in 2013 and $1.1 million in 2012. We anticipate that a substantial portion of our capital resources and efforts in the foreseeable future will be focused on completing the development and obtaining regulatory approval of our product candidates.

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

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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.

Financial Operations Overview

Revenue

To date, we have not generated any revenue from the sale of our product candidates and do not expect to generate any revenue from the sale of our product candidates in the near term. In the last two years, we recognized $1.0 million in revenue related to license agreements and grants from governments and academic institutions. These revenues were used in our new focus, the development of phages.

Research and Development Expenses

Research and development costs consist of the costs associated with our research and discovery activities, conducting clinical trials, manufacturing development efforts and activities related to regulatory filings. Our research and development expenses consist of salaries, non-cash stock-based compensation, costs of outside collaborators and outside services, royalty and license costs and facility, occupancy and utility expenses. We expense research and development costs as incurred. We expect annual research and development expenses will increase significantly in the future as we progress with development. In the last two years, we incurred an aggregate of $8.0 million on research and development expenses, including non-cash stock-based compensation expense.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and related costs for our personnel in the executive, finance, patent, accounting and other administrative functions, including non-cash stock-based compensation, as well as consulting costs for functions for which we either do not or only partially staff internally, including public relations, market research and recruiting. Other costs include professional fees for legal and accounting services, insurance and facility costs. In the last two years, we incurred an aggregate of $9.5 million in general and administrative expenses, including non-cash stock-based compensation expense.

Interest Income (Expense)

Interest income consists of interest earned on our cash and cash equivalents and is not considered significant to our financial statements. We expect our interest income to increase in the future as we raise further capital to fund our operations.

Critical Accounting Policies and Use of Estimates

Our management s discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, and expenses and the disclosure of contingent assets and liabilities in our consolidated financial statements. On an ongoing basis, we evaluate our estimates and judgments, including those related to accrued expenses and stock-based compensation. We base our estimates on historical experience, known trends and events, and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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Goodwill

Costs of investments in purchased companies in excess of the underlying fair value of net assets at the date of acquisition are recorded as goodwill and assessed annually for impairment. If considered impaired, goodwill will be written down to fair value and a corresponding impairment loss recognized. As of December 31, 2013, we have recorded goodwill of $4.3 million due to the 2012 acquisition of SPH s know-how and phage libraries and the 2011 acquisition of Biocontrol s patents and phage library. In management s opinion, no goodwill has been impaired as of December 31, 2013.

Research and Development Costs

In Process Research & Development (IPR&D) assets represent capitalized incomplete research projects that the Company acquired through business combinations. Such assets are initially measured at their acquisition date fair values. The fair value of the research projects is recorded as intangible assets on the consolidated balance sheet rather than expensed regardless of whether these assets have an alternative future use. The amounts capitalized are being accounted for as indefinite-lived intangible assets, subject to impairment testing until completion or abandonment of research and development efforts associated with the projects. Upon successful completion of each project, the Company will make a determination as to the then remaining useful life of the intangible asset and begin amortization. The Company tests its indefinite-lived intangibles, including IPR&D assets, for impairment at least quarterly. As of December 31, 2013, we have recorded IPR&D of $12.9 million due to the 2012 acquisition of SPH s know-how and phage libraries and the 2011 acquisition of Biocontrol s patents and phage library. In management s opinion, no IPR&D has been impaired as of December 31, 2013.

Stock-Based Compensation Expenses

We account for stock options and restricted stock units related to our Stock Incentive Plans under the provisions of ASC 718, which requires the recognition of the fair value of stock-based compensation. The fair value of stock options and restricted stock units was estimated using a Black-Scholes option valuation model. This model requires the input of subjective assumptions in implementing ASC 718, including expected dividend, expected life, expected volatility and forfeiture rate of each award, as well as the prevailing risk-free interest rate and the fair value of the underlying common stock on the date of grant. The fair value of equity-based awards is amortized over the vesting period of the award, and we have elected to use the straight-line method of amortization. Actual results could differ from our assumptions, which may cause us to record adjustments to increase or decrease compensation expense, in future periods. The assumptions used in the Black-Scholes option valuation model for the years ended December 31, 2013 and 2012 are set forth below.

The following are the assumptions for the periods in which we granted stock options:

Expected Dividend: We do not anticipate any dividends.

Expected Life: The expected life represents the period that we expect our stock-based awards to be outstanding. We determine life based on historical experience and vesting schedules of similar awards.

Expected Volatility: Our expected volatility represents the weighted average historical volatility of the shares of our common stock for the most recent four-year and five-year periods.

Risk-Free Interest Rate: We base the risk-free interest rate used on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term. Where the expected term of our stock-based awards does not correspond with the terms for which interest rates are quoted, we perform a straight-line interpolation to determine the rate from the available term maturities.

Forfeiture Rate: We apply an estimated forfeiture rate that is derived from historical forfeited shares. If the actual number of forfeitures differs from our estimates, we may record additional adjustments to compensation expense in future periods.

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The weighted-average assumptions used in the Black-Scholes option pricing model to determine the fair value of the stock option grants were as follows:

	Years Ended December 31,	
	2013	2012
Risk-free interest rate	1.13 %	0.6 %
Expected volatility	160.9 %	172.1 %
Expected term (in years)	4.0	4.0
Expected dividend yield	0.0 %	0.0 %

Warrant and Preferred Shares Conversion Feature Liability

We account for warrants and the preferred shares conversion feature with anti-dilution (down-round) provisions under the guidance of ASC 815, Derivatives and Hedging and Emerging Issue Task Force Statement 07-5: Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock, which require the warrants and the preferred shares conversion feature to be recorded as a liability and adjusted to fair value in each reporting period. We estimate the fair values of these securities using a Black Scholes valuation model.

Accounting for Income Taxes

Our income tax policy records the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in the accompanying balance sheets, as well as operating loss and tax credit carry-forwards. We have recorded a full valuation allowance to reduce our deferred tax assets, as based on available objective evidence; it is more likely than not that the deferred tax assets will not be realized. In the event that we were to determine that we would be able to realize our deferred tax assets in the future, an adjustment to the deferred tax assets would increase net income in the period such determination was made.

Recent Accounting Pronouncements

In September 2011, the FASB issued Accounting Standards Update (ASU) no. 2011-08, Intangibles Goodwill and Other (Topic 350): Testing Goodwill for Impairment that simplifies how public and nonpublic entities test goodwill for impairment. The amendments permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. The guidance also includes examples of the types of events and circumstances to consider in conducting the qualitative assessment. The amendments will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We elected to early adopt this standard and used these new guidelines in assessing goodwill impairment for the consolidated financial statements.

On May 16, 2013, the FASB issued a proposed Accounting Standards Update, Leases (Topic 842): a revision of the 2010 proposed Accounting Standards Update, Leases (Topic 840). The proposal affects operating leases, especially with properties, and requires lessees to recognize assets and liabilities arising from those leases. The draft also proposes changes in accounting for purchase options and contingent rentals, which would affect the measurement of assets and liabilities for capital leases. An entity will be required to recognize all outstanding leases within the scope of the draft as of the date of initial application using a simplified retroactive approach. The exposure draft proposes

that lessee and lessors should apply a right-of-use model in accounting for all leases, with few exceptions. An entity has a right to use an asset if it has control over the asset which is fulfilled if one of the three conditions outlined in the document are met. For leases within the scope of the draft, a lessee would recognize a right of use asset representing its right to use and the liability to make lease payments. A lessor would recognize an asset representing its right to receive lease payments using a performance obligation approach or a derecognition approach depending on its exposure to risks. There are numerous disclosures that would also be required such as a reconciliation of the opening and closing balances for the leased asset and liabilities. This proposed guidance could impact all companies that participate in leasing activities. We do not believe this proposed accounting standard will have a significant impact on the Company s future financial reporting.

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JOBS Act

In April 2012, the JOBS Act was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for an emerging growth company. As an emerging growth company, we are electing not to take advantage of the extended transition period afforded by the JOBS Act for the implementation of new or revised accounting standards, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision not to take advantage of the extended transition period is irrevocable. In addition, we are in the process of evaluating the benefits of relying on the other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, if as an emerging growth company we choose to rely on such exemptions, we may not be required to, among other things, (i) provide an auditor s attestation report on our system of internal controls over financial reporting pursuant to Section 404, (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (iii) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding a supplement to the auditor s report providing additional information about the audit and the financial statements (auditor discussion and analysis) and (iv) disclose certain executive compensation-related items such as the correlation between executive compensation and performance and comparisons of the Chief Executive Officer s compensation to median employee compensation. These exemptions will apply for a period of five years following the completion of our initial public offering or until we no longer meet the requirements of being an emerging growth company, whichever is earlier.

Results of Operations

Comparison of the Years Ended December 31, 2013 and 2012

Revenue

For the years ended December 31, 2013 and 2012, we recognized $0.3 million and $0.7 million in revenue, respectively. For the years ended December 31, 2013 and 2012, we earned $0.3 million and $0.6 million of revenue through sublicensing agreements involving our former gene therapy program, respectively. For the year ended December 31, 2012, we also earned $0.1 million in grant revenue.

Research and Development

Research and development expenses were $6.5 million for the year ended December 31, 2013, compared to $1.5 million for the year ended December 31, 2012. The $5.0 million increase in expenses is due to an increase in discovery, laboratory, nonclinical testing, research and development collaborations, consulting and clinical development planning expenses for all of our product candidates.

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

General and Administrative

General and administrative expenses were $6.3 million for 2013, compared to $3.2 million for 2012. The $3.1 million increase is due to $1.0 million in placement agent fees associated with the June 2013 Series B Preferred Shares placement, $0.7 million in higher legal expenses due to preparation to become a public company, and $1.4 million in higher staffing and outside consulting expenses (including non-cash compensation expense related to options granted to Company executives).

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

Discontinued Operations

In June 2012, we sold certain assets used in our gene therapy business including process development, quality control, quality assurance, manufacturing and bioanalytical functions for $3.1 million. In addition to this cash consideration, we may receive a long-term royalty of 1.75% on all product sales. This royalty may be completely canceled at any time by a one-time payment of $1.8 million.

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Interest Income (Expense)

During 2013 and 2012, we issued $2.0 million and $1.0 million in convertible notes, respectively. Interest expense in 2013 was $0.2 million, compared to $0.3 million for 2012. The decrease was due to converting the convertible notes into Series B preferred Shares in June and July 2013 and thus eliminating future interest expense.

Income Taxes

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

Net Operating Losses

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

Liquidity and Capital Resources

We have incurred net losses since inception through December 31, 2013 of $384.7 million, of which $315.5 million was incurred in the Company s prior focus of gene therapy in 2010 and years earlier. We have not generated any product revenues and do not expect to generate revenue from the sale of product candidates in the near term.

We had cash of $20.4 million and $0.9 million at December 31, 2013 and 2012, respectively.

Net cash used in operating activities for the years ended December 31, 2013 and 2012 was $6.3 million and $4.3 million, respectively. For the year ended December 31, 2013, cash used in operations was attributable to the net loss for the year after adding back non-cash charges for loss on derivative liabilities, shares issued for technology access fee, amortization of loan discount, fair market value of warrants issued as June and July investment fees, stock-based compensation expense, and depreciation expenses. For the year ended December 31, 2012, cash used in operations was attributable to the net loss for the year after adding back non-cash charges for stock-based compensation expense, depreciation expenses and loss on disposal of equipment, offset by a decrease in accrued liabilities and an increase in receivables. Net cash used in investing activities for the year ended December 31, 2013 was $0.1 million due to purchases of equipment. Net cash provided by investing activities for the year ended December 31, 2012 was $3.1 million due to the sale of assets from discontinued operations slightly offset by purchases of property and equipment. Net cash provided by financing activities was $25.9 million for the year ended December 31, 2013, due to the December 2013 private placement, the Series B financing and convertible loan notes. Net cash provided by financing activities was $1.0 million for the year ended December 31, 2012, due to proceeds from convertible notes. We expect 2014 cash requirements to be in the range of $15.0 million to $17.0 million. We believe that our cash as of December 31, 2013, will be sufficient to fund our projected operating requirements into the first quarter of 2015.

We expect to need to raise additional capital or incur indebtedness to continue to fund our future operations. We may

seek to raise capital through a variety of sources, including:

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

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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.

Contractual Obligations and Commitments

In February 2011, the Company entered into an agreement with Virginia Biotechnology Research Partnership Authority for Richmond, Virginia laboratory space. This agreement has a contractual expiration date of February 29, 2012 at which time it converted to a rolling three-month lease. At December 31, 2013, the Company s minimum payment commitment for the Richmond, Virginia laboratory space was $4,800.

In December 2011, the Company entered into an agreement with Nevis Limited and Charter Limited for laboratory space in Bedfordshire, United Kingdom. This agreement has a minimum period of 3 years and a contractual expiration date of December 8, 2016. At December 31, 2013, the Company s minimum payment commitment for the Bedfordshire laboratory space was $127,000.

In February 2013, we entered into an agreement with Office Suites Plus (now Regus Management Group, LLC) for office space in Glen Allen, Virginia. The agreement has a minimum period of one year ending February 28, 2014, at which time it was extended through June 2014, with a monthly cost of $2,555. At December 31, 2013, our minimum payment commitment for the Glen Allen space was $5,110.

In September 2013, we entered into an agreement with PBC Carlsbad, LLC for office space in Carlsbad, California. The agreement has a minimum period of six months ending February 28, 2014, at which time it was extended through August 2014, with a monthly cost of $1,033. At December 31, 2013, our minimum payment commitment for the Carlsbad office space was $2,066.

Off-Balance Sheet Arrangements

As of December 31, 2013, 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.

Net Cash Used in Operating Activities

For the year ended December 31, 2013, net cash flow used in operating activities was $6.3 million, compared to net cash flow used in operating activities of $4.3 million for the year ended December 31, 2012. Net cash flow used in operating activities for the year ended December 31, 2013 consisted primarily of a net loss of $55.9 million, increased by $40.6 million for the expense recorded as the change in fair value of warrants, $3.0 million for the Intrexon technology access fee paid by stock, $2.6 million for amortization of loan discount, $1.4 million for stock option expense, $0.6 million for the receipt of tax refund, and $0.2 million for accrued interest on convertible loans. Net cash flow used in operating activities for the year ended December 31, 2012, consisted primarily of net loss of $4.2 million, increased by $0.1 million for the receipt of an AMT license fee receivable and $0.3 million for accrued interest on convertible notes, and decreased by $0.4 million for accounts payable and accrued liabilities.

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Net Cash from Financing Activities

For the year ended December 31, 2013, net cash flow provided by financing activities was $25.9 million, compared to net cash flow provided by financing activities of $1.0 million for the year ended December 31, 2012. Net cash flow provided by financing activities for the year ended December 31, 2013 consisted of $16.9 million received through December 2013 common stock placement, $7.0 million received through the Series B Convertible Preferred Stock issuance, $2.0 million received through the issuance of convertible notes. Net cash flow provided by financing activities for the year ended December 31, 2012, consisted of $1.0 million received through the issuance of convertible notes.

Recent Financings

On December 16, 2013, we entered into subscription agreements to issue an aggregate amount of 72,007,000 shares of common stock for an aggregate purchase price of approximately $18 million as part of a private placement. The purchasers of securities in each of these transactions acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in these transactions. Each of such purchasers was an accredited investor under Rule 506 of Regulation D or not a U.S. person under Regulation S.

On June 26, 2013, we completed a private placement of convertible preferred stock and warrants to purchase common stock with gross proceeds of $7.0 million through the sale of shares of our newly-created Series B Convertible Preferred Stock. As part of the same transaction, approximately $5.5 million in outstanding convertible notes were converted into shares of Series B Convertible Preferred Stock and warrants to purchase common stock. On July 15, 2013, we completed a second closing in which we converted approximately $0.8 million of outstanding convertible notes into Series B Convertible Preferred Stock and warrants to purchase common stock. The financing was led by life-sciences investors RA Capital Management and Third Security, LLC, with participation from BioScience Managers Pty Ltd.

Under the terms of the financing, we issued an aggregate amount of approximately 10.0 million shares of the Series B Convertible Preferred Stock for an aggregate purchase price of approximately $13.3 million (including the conversion of approximately $6.3 million of outstanding convertible notes). Each share of Series B Convertible Preferred Stock is convertible into 10 shares of common stock. Additionally, we issued warrants to purchase an aggregate of up to approximately 25.0 million shares of common stock at an exercise price of $0.14 per share. As a result of the completion of this private placement, as of July 15, 2013, all previously issued convertible notes have been converted and there are no convertible notes outstanding.

Comparison of the Years Ended December 31, 2012 and 2011

Revenue

For the years ended December 31, 2012 and 2011, we recognized $0.7 million and $0.1 million in revenue, respectively. For the years ended December 31, 2012 and 2011, we earned $0.6 million and $0.1 million of revenue through sublicensing agreements involving our former gene therapy program.

For the years ended December 31, 2012 and 2011, we also earned $0.1 million and $20,000 in grant revenue, respectively.

Research and Development

Research and development expenses were $1.5 million for the year ended December 31, 2012, compared to $0.7 million for the year ended December 31, 2011. The $0.8 million increase in expenses is due to an increase in consulting and development expenses.

Research and development expenses are expected to increase in 2013 compared to 2012 as we plan to continue devoting substantial resources to research and development in future periods as we start clinical trials and continue our discovery efforts.

General and Administrative

General and administrative expenses were $3.2 million for 2012, compared to $3.3 million for 2011. The $0.1 million decrease is due to lower administrative staffing and facilities expenses, partially offset by higher legal expenses related to the acquisition of SPH.

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We currently expect our general and administrative expenses to increase in 2013 compared to 2012 due to the costs associated with preparing this registration statement and being a public company.

Discontinued Operations

In June 2012, we sold certain assets used in our gene therapy business including process development, quality control, quality assurance, manufacturing and bioanalytical functions for $3.1 million. In addition to this cash consideration, we may receive a long-term royalty of 1.75% on all product sales. This royalty may be completely canceled at any time by a one-time payment of $1.8 million.

Tax Refund

As of December 31, 2012, we had a United Kingdom research and development tax refund of $0.1 million (£0.1 million) for the losses in the subsidiary based in the United Kingdom, compared to $0.3 million for 2011. The decrease in the refund was due to reduced staffing in 2012 compared to 2011.

Interest Income (Expense)

Interest expense in 2012 was $0.3 million, compared to $0.1 million for 2011. The increase was due to interest accrued for convertible notes. During 2012 and 2011, we issued $1.0 million and $2.7 million in convertible notes, respectively. Interest on the unpaid principal balance of these notes accrues at the rate of ten percent (10%) per annum.

Income Taxes

We incurred net operating losses for the years ended December 31, 2012 and 2011 and, accordingly, we did not pay any federal or state income taxes. As of December 31, 2012, we had accumulated approximately $170.4 million in U.S. and UK operating loss carry-forwards and research tax credit carry-forwards of approximately $4.3 million. The carry-forwards began to expire in 2012. Our net operating loss carry-forwards are subject to certain limitations on annual utilization as a result of changes in ownership of us, as defined by federal and state tax laws.

Net Operating Losses

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

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

AMPLIPHI BIOSCIENCES CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR S REPORT

To the Board of Directors and Shareholders
AmpliPhi Biosciences Corporation and Subsidiaries
Richmond, Virginia

We have audited the accompanying consolidated balance sheets of AmpliPhi Biosciences Corporation and Subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive loss, stockholders equity (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmpliPhi Biosciences Corporation and Subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has had recurring losses from operations and has an accumulated deficit that raise substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 14 to the financial statements, the 2013 and 2012 financial statements have been restated to correct misstatements.

/s/ PBMares, LLP

Richmond, Virginia
April 15, 2014, except for Note 14, as to which date is May 20, 2014

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AmpliPhi Biosciences Corporation

Consolidated Balance Sheets

	December 31, 2013 (RESTATED)	2012 (RESTATED)
Assets		
Current assets		
Cash and cash equivalents	$20,355,000	$862,000
Accounts receivable	8,000	23,000
Tax refund		618,000
Prepaid expenses and other current assets	171,000	148,000
Total current assets	20,534,000	1,651,000
Property and equipment, net of accumulated depreciation of $473,000 and $391,000 as of December 31, 2013 and December 31, 2012, respectively	145,000	136,000
Intangible Assets		
In process research and development	12,939,000	12,939,000
Goodwill	4,329,000	4,329,000
Total intangible assets	17,268,000	17,268,000
Total assets	$37,947,000	$19,055,000
Liabilities and stockholders equity (deficit)		
Current liabilities		
Accounts payable and accrued expenses	$2,147,000	$1,937,000
Convertible loan notes		3.648.000
Accrued interest		465,000
Total current liabilities	2,147,000	6,050,000
Long term liabilities		
Derivative preferred shares conversion liability	33,510,000	
Derivative warrants liability	16,511,000	
Total long term liabilities	50,021,000	
Total liabilities	52,168,000	6,050,000
Commitments and Contingencies (Note 5)		
Stockholders equity (deficit)		
Preferred stock, $0.01 par value, 10,000,000 shares authorized; 8,859,978 shares issued and outstanding as of December 31, 2013	89,000	
Common stock, $0.01 par value, 445,000,000 shares authorized, 182,535,562 shares issued and outstanding at December 31, 2013 and 66,908,810 shares issued and outstanding at December 31, 2012	1,825,000	669,000
Additional paid-in capital	366,782,000	329,609,000
Paid-in-capital contingent shares	1,837,000	1,837,000
Paid-in-capital escrow shares		1,360,000
Accumulated other comprehensive loss	(65,000)	(106,000)

Accumulated deficit	(384,689,000)	(320,364,000)
Total stockholders equity (deficit)	(14,221,000)	13,005,000
Total liabilities and stockholders equity (deficit)	$37,947,000	$19,055,000

The accompanying notes are an integral part of these consolidated financial statements.

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AmpliPhi Biosciences Corporation

Consolidated Statements of Operations and Comprehensive Loss

	Year Ended December 31,	
	2013 (RESTATED)	2012 (RESTATED)
Revenue		
Licensing revenue	$325,000	$664,000
Total revenue	325,000	664,000
Operating expenses		
Research and development	6,502,000	1,480,000
General and administrative	6,259,000	3,177,000
Total operating expenses	12,761,000	4,657,000
Loss from operations	$(12,436,000)	$(3,993,000)
Other income (expense)		
Loss on derivative liabilities	(40,562,000)	
Amortization of note discount	(2,630,000)	
Interest expense, net	(233,000)	(339,000)
Tax refund and other income		133,000
Loss on disposal of property and equipment		(30,000)
Other income (expense), net	(43,425,000)	(236,000)
Net loss from continuing operations	(55,861,000)	(4,229,000)
Discontinued operations		
Gain on sale of discontinued operations assets		3,150,000
Net loss	$(55,861,000)	$(1,079,000)
Deemed dividend on preferred stock	(8,464,000)	
Net loss available for common stockholders	(64,325,000)	(1,079,000)
Net loss from continuing operations per share basic & diluted	$(0.64)	$(0.09)
Gain from discontinued operations per share basic & diluted	$	$0.07
Net loss per share basic & diluted	$(0.64)	$(0.02)
Weighted average number of shares of common stock outstanding basic & diluted	101,201,753	48,034,493
Net Loss	$(55,861,000)	$(1,079,000)
Other comprehensive income (loss)		
Net unrealized gain (loss) on foreign currency translations	41,000	(14,000)
Comprehensive loss	$(55,820,000)	$(1,093,000)

The accompanying notes are an integral part of these consolidated financial statements.

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AmpliPhi Biosciences Corporation

Consolidated Statements of Stockholders Equity (Deficit)

The accompanying notes are an integral part of these consolidated financial statements.

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AmpliPhi Biosciences Corporation

Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2013 (RESTATED)	2012 (RESTATED)
Cash flows from operating activities		
Net loss from continuing operations	$(55,861,000)	$(4,229,000)
Adjustments required to reconcile net loss to net cash (used in) used in operating activities:		
Loss on derivative liabilities	40,562,000	
Shares issued for technology access fee	3,000,000	
Amortization of note discount	2,630,000	
Warrants issued as investment fees	759,000	
Depreciation	82,000	60,000
Loss on sale/disposal of property & equipment		30,000
Stock-based compensation	1,437,000	9,000
Changes in operating assets and liabilities net of acquisitions:		
Accounts receivable	15,000	99,000
Tax refund	618,000	(133,000)
Accounts payable and accrued expenses	210,000	(458,000)
Prepaid expenses and other assets	(23,000)	2,000
Interest on loan notes	233,000	339,000
Net cash used in operating activities	(6,338,000)	(4,281,000)
Cash flows from investing activities		
Gain on sale of discontinued operations assets		3,150,000
Purchases of property and equipment	(102,000)	(53,000)
Net cash provided by (used in) investing activities	(102,000)	3,097,000
Cash flows from financing activities		
Proceeds from December financing	16,892,000	
Proceeds from Preferred Series B	7,000,000	
Proceeds from issuance of convertible loan notes	2,000,000	950,000
Net cash provided by financing activities	25,892,000	950,000
Effect of exchange rates	41,000	
Net increase (decrease) in cash and cash equivalents	19,493,000	(234,000)
Cash and cash equivalents, beginning of year	862,000	1,096,000
Cash and cash equivalents, end of year	$20,355,000	$862,000
Supplemental schedule of non-cash financing activities:		
Conversion of convertible loan notes and accrued interest to Series B Convertible Preferred Stock	$6,316,000	$

The accompanying notes are an integral part of these consolidated financial statements.

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AmpliPhi Biosciences Corporation

Notes to Consolidated Financial Statements Year Ended December 31, 2013 (Audited)

1. Nature of Business and Significant Accounting Policies

Nature of Business

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

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries AmpliPhi Australia Pty Ltd, Biocontrol Limited, Genovo, Inc. (inactive), and TGCF Manufacturing Corporation (inactive). All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

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

Accounts Receivable

Accounts receivable amounts are stated at their face amounts less any allowance. Provisions for doubtful accounts are estimated based on assessment of the probable collection from specific customer accounts and other known factors. If an account was determined to be uncollectible (payment has not been made in accordance with contract terms), it would be written off against the allowance. As of December 31, 2013 and December 31, 2012, management

determined no allowance for doubtful accounts was required.

Property and Equipment

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

Prepaid Expenses and Other Current Assets

Prepaid and other current assets as of December 31, 2013 and December 31, 2012 consist primarily of prepaid insurance and deposits.

Goodwill

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

During the year ended December 31, 2012, the rights to SPH Holdings Pty Ltd s know-how and phage libraries were acquired by the business combination described in Note 11 for $7,172,000. At December 31,

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AmpliPhi Biosciences Corporation

Notes to Consolidated Financial Statements Year Ended December 31, 2013 (Audited)

1. Nature of Business and Significant Accounting Policies (continued)

2012, goodwill in the amount of $2,381,000 has been recorded. In management s opinion, no goodwill has been impaired as of December 31, 2013 and December 31, 2012.

During the year ended December 31, 2011, the rights to Biocontrol Limited s patents and phage libraries were acquired by the business combination described in Note 11 for $8,584,000. At December 31, 2011, goodwill in the amount of $1,948,000 has been recorded. In management s opinion, no goodwill has been impaired as of December 31, 2013 and December 31, 2012.

Stock-Based Compensation

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

Warrants and Preferred Shares Conversion Feature Liability

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

Fair Value of Financial Assets and Liabilities Derivative Instruments

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

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

GAAP describes three levels of inputs that may be used to measure fair value:

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

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

Level 3 inputs that are unobservable.

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

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

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AmpliPhi Biosciences Corporation

Notes to Consolidated Financial Statements Year Ended December 31, 2013 (Audited)

1. Nature of Business and Significant Accounting Policies (continued)

Estimating fair values of derivative financial instruments, including Level 2 instruments, require the use of significant and subjective inputs that may, and are likely to, change over the duration of the instrument with related changes in internal and external market factors. In addition, option-based techniques are volatile and sensitive to changes in our trading market price, the trading market price of various peer companies and other key assumptions. Since derivative financial instruments are initially and subsequently carried at fair value, our income will reflect this sensitivity of internal and external factors.

Revenue Recognition

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

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

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

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

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

Research and Development Costs

In Process Research & Development (IPR&D) assets represent capitalized incomplete research projects that the Company acquired through business combinations. Such assets are initially measured at their acquisition date fair

values. The fair value of the research projects is recorded as intangible assets on the consolidated balance sheet rather than expensed regardless of whether these assets have an alternative future use. The amounts capitalized are being accounted for as indefinite-lived intangible assets, subject to impairment testing until completion or abandonment of research and development efforts associated with the projects. Upon successful completion of each project, the Company will make a determination as to the then remaining useful life of the intangible asset and begin amortization. The Company tests its indefinite-lived intangibles, including IPR&D assets, for impairment at least quarterly.

During the year ended December 31, 2012, the rights to SPH Holdings Pty Ltd s know-how and phage libraries were acquired by the business combination described in Note 11 for $7,172,000. At December 31, 2012, IPR&D in the amount of $5,161,000 has been recorded. In management s opinion, this IPR&D has not been impaired as of December 31, 2013 and December 31, 2012.

During the year ended December 31, 2011, the rights to Biocontrol Limited s patents and phage libraries were acquired by the business combination described in Note 11 for $8,584,000. At December 31, 2011, IPR&D in the amount of $7,778,000 has been recorded. In management s opinion, this IPR&D has not been impaired as of December 31, 2013 and December 31, 2012.

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AmpliPhi Biosciences Corporation

Notes to Consolidated Financial Statements Year Ended December 31, 2013 (Audited)

1. Nature of Business and Significant Accounting Policies (continued)

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

Net Loss per Common Share

Net loss per common share is based on net loss divided by the weighted average number of common shares outstanding during the period. For each fiscal year reported, the diluted net loss per share is the same as the basic net loss per share because all stock options, warrants, contingent shares, and Series B Preferred shares are antidilutive with respect to computing the net loss per share and therefore are excluded from the calculation of diluted net loss per share. The total number of shares that the Company excluded from the calculations of net loss per share were 54,494,503 shares for the year ending December 31, 2013 and 4,370,105 shares for the year ending December 31, 2012.

Recent Accounting Pronouncements

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

2. Liquidity

The Company has prepared the accompanying consolidated financial statements on a going concern basis, which assumes that the Company will realize its assets and satisfy its liabilities in the normal course of business. However, the Company has incurred net losses since its inception, has negative operating cash flows and has an accumulated deficit of $384.7 million and $320.4 million as of December 31, 2013 and December 31, 2012, respectively. These circumstances raise substantial doubt about the Company s ability to continue as a going concern. The accompanying

financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of the uncertainty concerning the Company s ability to continue as a going concern.

The Company believes that its current resources will only be sufficient to fund operations into the first quarter of 2015. This estimate is based on the Company s ability to manage its staffing expenses and its working capital and actual results could differ from its estimates. The Company is seeking additional financing in order to fund operations through 2015; however, the Company cannot provide assurances that it will be successful in obtaining additional financing for these periods or as needed in the future. If the Company does not raise additional funds by the first quarter of 2015, it plans to implement cost reduction measures, such as a reduction in workforce, reducing its intellectual property prosecution, reducing other operating activities, and/or the pursuit of alternative financing transactions that would likely be on terms disadvantageous to the Company and dilutive to its shareholders. The Company could also be required to relinquish rights to its technology or product candidates or in-licensed technology on unfavorable terms, either of which would reduce the ultimate value of the technology or product candidates, or to sell assets likely at values significantly below their potential worth. If the Company is unable to secure additional capital, it may be required to cease operations, declare bankruptcy or otherwise wind up its business.

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AmpliPhi Biosciences Corporation

Notes to Consolidated Financial Statements Year Ended December 31, 2013 (Audited)

3. Property and Equipment

Property and equipment consist of the following:

	December 31,	
	2013	2012
Furniture and equipment	$ 618,000	$ 527,000
Less: accumulated depreciation	(473,000)	(391,000)
Total furniture and equipment, net	$ 145,000	$ 136,000

Depreciation expense totaled $82,000 and $60,000 for the years ended December 31, 2013 and 2012, respectively.

During the year ended December 31, 2012, the Company sold or disposed of certain property and equipment no longer used as a result of the reprioritization of its business priorities. The Company recognized a net loss of $30,000 on the disposal of property and equipment in the consolidated statements of operations for the year ended December 31, 2012.

4. Income Taxes

Significant components of our US and UK deferred tax assets and liabilities were as follows:

	December 31,	
	2013	2012
Deferred tax assets		
Net operating loss carry-forwards	$60,765,000	$57,774,000
Research and orphan drug credit carry-forwards	3,700,000	4,297,000
Depreciation and amortization	(4,000)	2,000
Restructure and other	1,121,000	467,000
Gross deferred tax assets	65,582,000	62,540,000
Valuation allowance for deferred tax assets	(65,582,000)	(62,540,000)
Net deferred tax asset	$	$

The change in the valuation allowance was a $3.0 million increase in 2013 and a $5.5 million decrease in 2012.

At December 31, 2013, the Company had US and UK net operating loss carry-forwards, or NOLs , of approximately $175.4 million and research tax credit carry-forwards of approximately $3.7 million. The carry-forwards began to expire in 2012, and may be further subject to the application of Section 382 of the Internal Revenue Code of 1986 or

the Code , as discussed further below. The Company has provided a valuation allowance to offset the deferred tax assets due to the uncertainty of realizing the benefits of the net deferred tax asset.

The Company s past sales and issuances of stock have likely resulted in ownership changes as defined by Section 382 of the Code. A study has not been done at this time because the full valuation allowance eliminating potential profit and loss adjustments due to changes in the gross amount of the NOLs and credits would be offset by a change in the valuation allowance. It is possible that a future analysis may result in the conclusion that a substantial portion, or perhaps substantially all, of the NOLs and credits will expire due to the limitations of Sections 382 and 383 of the Code. As a result, the utilization of the NOLs and tax credits may be limited and a portion of the carry-forwards may expire unused.

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AmpliPhi Biosciences Corporation

Notes to Consolidated Financial Statements Year Ended December 31, 2013 (Audited)

4. Income Taxes (continued)

The Company does not have any material unrecognized tax benefits as of December 31, 2013.

The Company is subject to income taxes in the U.S. federal jurisdiction as well as in the United Kingdom for any activity of Biocontrol Ltd and in Australia for any activity of Special Phage Holdings Pty Ltd. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company is subject to U.S. federal tax examinations by tax authorities for the years 1998 to 2012 due to the fact that NOLs exist going back to 1998 that may be utilized on a current or future year tax return.

The Company has a policy of recognizing tax related interest and penalties as additional tax expense. During the years ended December 31, 2013, and 2012 the Company did not recognize any interest and penalties.

5. Commitments and Contingencies

As part of the acquisition of SPH Holdings Pty Ltd (Note 11), the Company paid $100,000 and issued an additional 2,000,000 shares of common stock to Cellabs Pty Ltd (Cellabs) as part of a repayment agreement for its outstanding loans to SPH Holdings Pty Ltd. In January 2013, the Company paid an additional $50,000 to Cellabs. The remaining loan balance of $200,000 was paid in December 2013.

In February 2011, the Company entered into an agreement with Virginia Biotechnology Research Partnership Authority for Richmond, Virginia laboratory space. This agreement had a contractual expiration date of February 29, 2012 at which time it converted to a rolling three-month lease. At December 31, 2013, the Company s minimum payment commitment for the Company s Richmond, Virginia laboratory space was $4,800.

In December 2011, the Company entered into an agreement with Nevis Limited and Charter Limited for laboratory space in Bedfordshire, United Kingdom. This agreement has a minimum period of 3 years and a contractual expiration date of December 8, 2016. At December 31, 2013, the Company s minimum payment commitment for the Company s Bedfordshire laboratory space was $127,000.

In February 2013, we entered into an agreement with Office Suites Plus (now Regus Management Group, LLC) for office space in Glen Allen, Virginia. The agreement has a minimum period of one year ending February 28, 2014, at which time it was extended through June 2014, with a monthly cost of $2,555. At December 31, 2013, our minimum payment commitment for the Glen Allen space was $5,110.

In September 2013, we entered into an agreement with PBC Carlsbad, LLC for office space in Carlsbad, California. The agreement has a minimum period of six months ending February 28, 2014, at which time it was extended through

August 2014, with a monthly cost of $1,033. At December 31, 2013, our minimum payment commitment for the Carlsbad office space was $2,066.

The Company recognized rent expense under operating leases of $214,000 in 2013 and $146,000 in 2012.

The Company is subject to legal claims and actions related to the operations of its business. The Company does not expect the ultimate outcome of any such actions to have a material impact on its consolidated financial position or results of operations.

6. Collaborative and Other Agreements

In June 2013, the Company entered into a Collaborative Research and Development Agreement (CRADA) with the United States Army Medical Research and Materiel Command (USAMRMC) and the Walter Reed Army Institute of Research (WRAIR). The CRADA will focus on developing and commercializing bacteriophage therapeutics to treat *S. aureus*, *E. coli* and *P. aeruginosa* infections.

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AmpliPhi Biosciences Corporation

Notes to Consolidated Financial Statements Year Ended December 31, 2013 (Audited)

6. Collaborative and Other Agreements (continued)

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 to Intrexon of $3,000,000 in common stock. The Company shall pay Intrexon, in cash or stock, milestone fees for the initiation of a Phase 2 trial of $2,500,000 upon commencement of the first Phase 2 trial 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.

7. Preferred Shares

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

In connection with the private placement of Series B Convertible Preferred Stock, the Company recorded a liability for the conversion feature that contains a provision that protect holders from a decline in the issue price of the Company s common stock (down-round provision). The Company estimates the fair values of the conversion feature using a Black Scholes valuation model. The Company measured the fair value of the conversion feature on June 26, 2013 and July 15, 2013 and recorded the initial liability as part of the private placement proceeds.

On June 26, 2013, the Company issued 4,999,999 shares of the Company s newly-created Series B Convertible Preferred Stock and warrants to purchase 12,499,996 shares of common stock at an exercise price of $0.14 per share for an aggregate purchase price of $6,999,998. The value of the derivative liability related to the warrants was $1,892,499 and the value of the derivative liability related to the preferred shares was $4,999,999. In addition, a beneficial conversion (deemed dividend) was booked for $2,892,499. As part of the same transaction, the Company converted $5,491,001 in outstanding convertible loan notes into 4,357,936 shares of Series B Convertible Preferred Stock and warrants to purchase 10,894,839 shares of common stock at an exercise price of $0.14 per share. The value of the derivative liability related to the warrants was $1,649,478 and the value of the derivative liability related to the

preferred shares was $3,841,536. In addition, a beneficial conversion (deemed dividend) was booked for $3,131,161. On July 15, 2013, the remaining outstanding convertible loan notes, totaling $829,277, were converted into 658,145 shares of Series B Convertible Preferred Stock and warrants to purchase 1,645,361 shares of common stock at an exercise price of $0.14 per share. The value of the derivative liability related to the warrants was $637,413 and the value of the derivative liability related to the preferred shares was $191,864. In addition, a beneficial conversion (deemed dividend) was booked for $2,440,716. As part of this issuance, the Company issued warrants to purchase 4,999,999 shares of common stock at an exercise price of $0.14 per share with an initial fair value of $759,000 and paid $350,000 to the placement agents. As a result of this financing, all outstanding convertible notes were converted into shares of Series B Convertible Preferred Stock and warrants to purchase common stock.

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AmpliPhi Biosciences Corporation

Notes to Consolidated Financial Statements Year Ended December 31, 2013 (Audited)

7. Preferred Shares (continued)

On July 25, 2013, 1,132,875 preferred shares were converted into 11,328,750 shares of common stock. In connection with the conversion, a loss on derivative of 4,395,555 was recorded in relation to the conversion. $5,664,375 was reclassified from the derivative liability to equity due to conversion.

On October 17, 2013, 23,227 preferred shares were converted into 232,270 shares of common stock. In connection with the conversion, a gain on the derivative liability was recorded in the amount of $1,625. Due to this conversion, $92,908 was reclassified out of the derivative liability account and into equity.

The Company re-measured the fair value of the conversion feature and recorded $30,422,000 in total charges to record the liabilities associated with the conversion feature at their estimated fair value totaling $33,510,000 as of December 31, 2013.

8. Stock Options and Warrants

The Company follows ASC 815-40, *Contracts in an Entity s Own Equity*, as it relates to outstanding warrants. No warrants were exercised through December 31, 2013.

In connection with the December 2013 private placement of 72,007,000 shares of the Company s common stock at a price per share of $0.25, the Company issued an aggregate of warrants to purchase 4,320,420 shares of common stock at an exercise price of $0.25 per share to the placement agents. These warrants expire December 2018. These warrants contain provisions that protect holders from a decline in the issue price of the Company s common stock (down-round provision) and contain net settlement provisions. Due to these provisions, the Company accounted for these warrants as liabilities instead of equity. The Company measured the fair value of these warrants on December 23, 2013 and recorded $1,435,000 as an investment fee.

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

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

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

The Company re-measured the fair value of these warrants and recorded $10,140,000 in charges to record the liabilities associated with these warrants at their estimated fair values totaling $16,511,000 as of December 31, 2013.

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AmpliPhi Biosciences Corporation

Notes to Consolidated Financial Statements Year Ended December 31, 2013 (Audited)

8. Stock Options and Warrants (continued)

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

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

Stock-Based Compensation

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

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

Stock-based compensation expense is reduced by an estimated forfeiture rate derived from historical employee termination behavior. If the actual number of forfeitures differs from the Company s estimates, the Company may record adjustments to increase or decrease compensation expense in future periods. There were no significant adjustments related to changes in the Company s estimates for the year ended December 31, 2013 and year ended December 31, 2012.

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

	Year Ended December 31, 2013	Year Ended December 31, 2012
Stock options:		
Research and development expense	$ 191,000	$
General and administrative expense	1,246,000	2,000
Restricted stock units:		
Research and development expense		
General and administrative expense		7,000
Total stock-based compensation expense	$ 1,437,000	$ 9,000

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AmpliPhi Biosciences Corporation

Notes to Consolidated Financial Statements Year Ended December 31, 2013 (Audited)

8. Stock Options and Warrants (continued)

The following table summarizes Option activity:

	Shares	Weighted Average Exercise Price	Average Remaining Contractual Term (Years)	Intrinsic Value
Outstanding at December 31, 2012	13,749,552	$ 0.21		
Granted	12,350,000	0.18		
Exercised	(91,677)	0.20		
Forfeited	(284,375)	0.20		
Expired	(2,500)	5.70		
Outstanding at December 31, 2013	25,721,000	$ 0.19	9.15	$ 6,451,441
Exercisable at December 31, 2013	8,619,584	$ 0.19	9.15	$ 2,776,669

The aggregate intrinsic value is determined using the closing price of the Company s common stock of $0.50 on December 31, 2013.

As of December 31, 2013, the Company had unrecognized compensation cost related to unvested Options of approximately $2,219,000 net of estimated forfeitures, which the Company expects to recognize over a weighted average period of approximately three years.

The fair value of each Option is estimated on the date of grant using the Black-Scholes valuation method with the key inputs as follows:

	Years Ended December 31,	
	2013	2012
Risk-free interest rate	1.13 %	0.6 %
Expected volatility	160.9 %	172.1 %
Expected term (in years)	4.0	4.0
Expected dividend yield	0.0 %	0.0 %

Reserved Shares

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

	Shares Reserved
Stock options outstanding	25,721,000
Available for future grants under the Stock Incentive Plan	10,658,083
Warrants	42,746,165
Total Shares reserved	**79,125,248**

9. Discontinued Operations

In June 2012, the Company sold all of its assets used in its gene therapy business including process development, quality control, quality assurance, manufacturing and bioanalytical functions for $3.1 million. In addition to this cash consideration, the Company may receive a long term royalty of 1.75% on certain product sales. This royalty may be completely canceled at any time by a one-time payment of $1.75 million.

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AmpliPhi Biosciences Corporation

Notes to Consolidated Financial Statements Year Ended December 31, 2013 (Audited)

10. Employee Retirement Plan

The Company sponsors an employee retirement plan under Section 401(k) of the Internal Revenue Code of 1986, as amended. All of the Company s employees who meet minimum eligibility requirements are eligible to participate in the plan. Matching contributions to the 401(k) plan are made at the discretion of the Company s Board of Directors. The Company suspended matching contributions effective January 1, 2009.

11. Business Combinations

On November 9, 2012, the Company acquired Australia-based Special Phage Services (SPS). The combination of the two companies results in the creation of a leading anti-infective company focused on developing phage-based therapies to combat the growing threat of antibiotic-resistant infection. In a share exchange transaction, AmpliPhi Australia Pty Limited, a wholly owned subsidiary of US-based AmpliPhi, acquired Sydney-based SPH, the holding company of SPS. Under the terms of the acquisition, the Company offered 40 million shares of its common stock in exchange for 100% of the fully diluted share capital of SPH. 20 million shares are held in escrow, 8 million to satisfy potential warranty claims under the transaction documents and the remaining 12 million shares are held pending completion of certain milestones. As part of this transaction, the Company acquired $260,000 in assets to include a $221,000 receivable for an Australian research and development tax refund, $37,000 in equipment, and $2,000 in cash. The Company also assumed liabilities of $613,000. On November 9, 2013, the 8 million shares held to satisfy potential warranty claims were released.

On January 6, 2011, the Company acquired Biocontrol, a clinical development stage biotechnology company in the United Kingdom (the Acquisition). Biocontrol was formed in 1997 to develop bacteriophage-based therapeutics. The Acquisition allows the Company to extend its product reach into bacteriophage-based products. The Company acquired 100% of the voting stock of Biocontrol and issued 22,817,198 shares of its common stock to the Biocontrol shareholders with a total fair value of approximately $8.6 million as of January 6, 2011. The Acquisition was made through an acquisition subsidiary, which has continued post-Acquisition as Biocontrol.

12. Convertible Loan Notes

On February 1, 2013, the Company s Board of Directors approved the issuance of new convertible promissory notes in an aggregate principal amount not to exceed $7,500,000, together with warrants to purchase shares of common stock of the Company. Interest on the unpaid principal balance of these notes shall accrue from the investment date at the rate of ten percent (10%) per annum. The warrants have the right to purchase the number of shares of the Company s common stock equal to twenty five percent (25%) of the principal amount of such holder s note divided by $0.14. The company issued $2,000,000 in new convertible loan notes from February through May 2013, converted $1,900,000 of

previous convertible loan notes and accrued interest into this new security, and issued warrants for 7,030,387 share of common stock.

The cash proceeds from the notes payable were allocated between the note payable, a debt discount, APIC and the beneficial conversion feature as follows:

	February 4, 2013	March 12, 2013	April 12, 2013	May 13, 2013
Cash	$ 2,437,016	$ 500,000	$ 500,000	$ 500,000
Note Payable	-2,437,016	-500,000	-500,000	-500,000
Debt Discount	1,915,737	154,771	92,076	473,698
APIC Warrant	-696,760	-104,171	-92,076	-156,492
APIC BCF	-1,218,977	50,600	0	-317,206

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AmpliPhi Biosciences Corporation

Notes to Consolidated Financial Statements Year Ended December 31, 2013 (Audited)

12. Convertible Loan Notes (continued)

As a result of the private placement of Series B Convertible Preferred Stock that consisted of two closings, occurring on June 26, 2013 and July 15, 2013, respectively, all outstanding convertible notes were converted into shares of Series B Convertible Preferred Stock and warrants to purchase shares of common stock at an exercise price of $0.14 per share. On June 26, 2013, as part of the first closing, the Company converted $5,491,001 in outstanding convertible loan notes into 4,357,936 shares of Series B Convertible Preferred Stock and warrants to purchase 10,894,839 shares of common stock at an exercise price of $0.14 per share. On July 15, 2013, the remaining outstanding convertible loan notes, totaling $829,277, were converted into 658,145 shares of Series B Convertible Preferred Stock and warrants to purchase 1,645,361 shares of common stock at an exercise price of $0.14 per share. $233,000 of interest expense was accrued for all convertible loan notes held through July 15, 2013.

13. Related Parties

During the years ended December 31, 2013 and December 31, 2012, $110,000 and $30,000, respectively, were recognized in General and Administrative expenses for management and accounting consultancy fees provided by two shareholders. The Company shares resources in the new Australian operations such as facility space, electricity, insurance, and equipment with Cellabs, owned by a shareholder, and receives a quarterly invoice for these services. The total expense for these services for the year ended December 31, 2013 was $70,000 and for December 31, 2012 was $6,000. As part of the acquisition of SPH (Note 11), the Company also entered into a loan repayment agreement with Cellabs (Note 5) which was paid in full during 2013. As of December 31, 2013 and December 31, 2012, $152,000 and $562,000, respectively, of current liabilities are due to related parties.

14. Correction of Errors

The Company s previously issued December 31, 2013 financial statements have been restated to net investment fees paid as part of the December financing against the proceeds received. As a result of this correction, we reduced General and Administrative expenses and Additional paid in Capital by $2,550,000. The Company s net loss decreased $2,550,000 to $55,861,000. The net loss per share decreased by $0.02 per share to $(0.64) per share.

The Company s previously issued 2012 financial statements have been restated to reclassify the revenue from the sale of assets that was previously reported as part of revenue to a gain on sale of assets from discontinued operations. As a result of this correction, revenue for 2012 was reduced $3,150,000 and a gain on sale of assets from discontinued operations was recorded for $3,150,000. The net loss per share remained the same, but additional disclosures were added to the Consolidated Statements of Operations and Comprehensive Loss for net loss per share from continuing operations and gain from discontinued operations per share.

The Company also contracted a valuation team to review the purchase price allocation of Biocontrol and Special Phage Services. As a result, overall goodwill was restated and a new intangible asset, in process research and development (IPR&D), was recognized. For the Biocontrol acquisition, $7,778,000 of goodwill was reclassed to IPR&D. For the Special Phage Services, $5,161,000 of goodwill was reclassed to IPR&D. The overall purchase price of Special Phage Services was reduced by $299,000 due to a decrease in the valuation of contingent shares reserved for the milestone agreement. This further reduced goodwill by $299,000 and paid-in-capital contingent shares by $299,000.

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AmpliPhi Biosciences Corporation

Notes to Consolidated Financial Statements Year Ended December 31, 2013 (Audited)

15. Common Stock

In December 2013, the Company issued 72,007,000 shares of the Company s common stock at a price per share of $0.25. As part of this private placement, the Company issued warrants to purchase 4,320,420 shares of common stock at an exercise price of $0.25 per share with an initial fair value of $1,435,000 and paid $1,115,000 to the placement agents.

16. Subsequent Events

On February 11, 2014, the Company held a special meeting of shareholders at which the shareholders approved the planned reincorporation of the Company as a Delaware corporation, a reverse stock split in a ratio at least one-for-five and up to one-for-twenty (with the timing and specific ratio to be determined by the board of directors and to be effected prior to the reincorporation), the execution of indemnification agreements with the Company s directors and certain officers, and the adoption of the Company s 2013 Stock Incentive Plan (pursuant to which 40,000,000 shares of common stock are reserved for issuance, before giving effect to the reverse stock split).

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PART IV

Item 15. EXHIBITS.

The following exhibits are filed as part of this Annual Report. Exhibit numbers correspond to the exhibit requirements of Regulation S-K.

Exhibit Number	Description of Document
3.1	Amended and Restated Articles of Incorporation, effective May 21, 2009 (incorporated by reference to Exhibit 3.1 to the Registration Statement on Form 10 filed December 16, 2013).
3.2	Articles of Amendment to Amended and Restated Articles of Incorporation, effective June 26, 2013 (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form 10 filed December 16, 2013).
3.3	Articles of Correction to Amended and Restated Articles of Incorporation, effective June 26, 2013 (incorporated by reference to Exhibit 3.3 to the Registration Statement on Form 10 filed December 16, 2013).
3.4	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.4 to the Registration Statement on Form 10 filed December 16, 2013).
4.1	Specimen stock certificate evidencing shares of common stock (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form 10 filed December 16, 2013).
4.2	Form of Warrant to Purchase Shares of Common Stock (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form 10 filed December 16, 2013).
4.3	Subscription Agreement to Purchase Series B Preferred Stock and Warrants, dated June 26, 2013 (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form 10 filed December 16, 2013).
4.4	Registration Rights Agreement, dated December 16, 2013 (incorporated by reference to Exhibit 4.4 to the Registration Statement on Form 10 filed December 16, 2013).
4.5	Subscription Agreement, dated December 16, 2013 (incorporated by reference to Exhibit 4.5 to the Registration Statement on Form 10 filed December 16, 2013).
10.1	Loan Repayment Deed, dated September 28, 2012, by and among the Company, Cellabs Pty Ltd and Special Phage Holdings Pty Ltd. (incorporated by reference to Exhibit 10.1 to the Registration Statement on Form 10 filed December 16, 2013).
10.2	Exclusive Channel Collaboration Agreement, dated as of March 29, 2013, by and between the Company and Intrexon Corporation (incorporated by reference to Exhibit 10.2 to the Registration Statement on Form 10 filed December 16, 2013).
10.3	Stock Issuance Agreement, dated as of March 28, 2013, by and between the Company and Intrexon Corporation (incorporated by reference to Exhibit 10.3 to the Registration Statement on Form 10 filed December 16, 2013).
10.4*	Collaboration Agreement, dated as of April 24, 2013, by and between the Company and the University of Leicester (incorporated by reference to Exhibit 10.4 to the Registration Statement on Form 10 filed December 16, 2013).
10.5*	Collaboration Agreement, dated as of August 1, 2013, by and among the Company, the University of Leicester and the University of Glasgow (incorporated by reference to Exhibit 10.5 to the Registration Statement on Form 10 filed December 16, 2013).

10.6*	License, dated as of September 5, 2013, by and between the Company and the University of Leicester (incorporated by reference to Exhibit 10.6 to the Registration Statement on Form 10 filed December 16, 2013).

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Exhibit Number	Description of Document
10.7	Cooperative Research and Development Agreement, dated as of June 13, 2013, by and between the Company and United States Army Medical Research and Materiel Command (incorporated by reference to Exhibit 10.7 to the Registration Statement on Form 10 filed December 16, 2013).
10.8	License Agreement, dated as of February 18, 2013, by and between the Company and Office Suites Plus Properties, Inc. (incorporated by reference to Exhibit 10.8 to the Registration Statement on Form 10 filed December 16, 2013).
10.9	Agreement of Lease, dated as of February 23, 2011, by and between the Company and Virginia Biotechnology Research Partnership Authority (incorporated by reference to Exhibit 10.9 to the Registration Statement on Form 10 filed December 16, 2013).
10.10	Client Services Agreement, dated as of September 1, 2011, by and between the Company and PBC Carlsbad LLC (incorporated by reference to Exhibit 10.10 to the Registration Statement on Form 10 filed December 16, 2013).
10.11	Lease, dated as of December 8, 2011, by and between Biocontrol Limited, Nevis Limited and Charter Limited (incorporated by reference to Exhibit 10.11 to the Registration Statement on Form 10 filed December 16, 2013).
10.12+	2009 Targeted Genetics Stock Incentive Plan (incorporated by reference to Exhibit 10.12 to the Registration Statement on Form 10 filed December 16, 2013).
10.13+	2012 Stock Incentive Plan (incorporated by reference to Exhibit 10.13 to the Registration Statement on Form 10 filed December 16, 2013).
10.14+	Form of Stock Option Agreement under 2012 Stock Incentive Plan (incorporated by reference to Exhibit 10.14 to the Registration Statement on Form 10 filed December 16, 2013).
10.15+	Employment Agreement, dated as of October 19, 2011, by and between the Company and Philip J. Young (incorporated by reference to Exhibit 10.15 to the Registration Statement on Form 10 filed December 16, 2013).
10.16+	Amendment No. 1 to Employment Agreement, dated as of June 25, 2013, by and between the Company and Philip J. Young (incorporated by reference to Exhibit 10.16 to the Registration Statement on Form 10 filed December 16, 2013).
10.17+	Offer of Employment, dated October 7, 2013, by and between the Company and Baxter Phillips, III (incorporated by reference to Exhibit 10.17 to the Registration Statement on Form 10 filed December 16, 2013).
10.18*	License Agreement, dated July 3, 2007, by and between the Company and United Kingdom Health Protection Agency, Centre for Emergency Preparedness and Response (incorporated by reference to Exhibit 10.18 to the Registration Statement on Form S-1 filed January 21, 2014).
10.19	Shareholder Sale Agreement, dated as of September 8, 2012, by and between the Company, Anthony Smithyman and Margaret Smithyman, AmpliPhi Australia Pty Ltd, Special Phage Holdings Pty Ltd, and the other parties listed therein (incorporated by reference to Exhibit 10.19 to the Registration Statement on Form S-1 filed January 21, 2014).
10.20	Agreement and Plan of Merger, dated November 12, 2010, by and between the Company, Sheffield Acquisition 1, Inc., and Sheffield Acquisition 2, Inc. (incorporated by reference to Exhibit 10.20 to the Registration Statement on Form S-1 filed January 21, 2014).
10.21+	2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.21 to Amendment No. 2 to the Registration Statement on Form 10 filed April 15, 2014).

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Item 15. EXHIBITS.

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Exhibit Number	Description of Document
10.22	Agreement of Lease of Business Premises, dated as of February 21, 2014, by and between Avotehna d.d. and Ampliphi, Biotehnolo ke Raziskave in Razvoj, d. o. o. (incorporated by reference to Exhibit 10.22 to Amendment No. 2 to the Registration Statement on Form 10 filed April 15, 2014).
21.1	Subsidiaries of the registrant (incorporated by reference to Exhibit 21.1 to the Registration Statement on Form S-1 filed January 21, 2014).
23.1	Consent of PBMares LLP, independent registered public accounting firm.
24.1	Power of Attorney (contained on the signature page).
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a).
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a).
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350.

Filed herewith.

\+ Indicates management contract or compensatory plan or arrangement.

* Indicates confidential treatment has been requested.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

/s/ Philip J. Young

By: Name: Philip J. Young
Title: President and Chief Executive Officer
(Principal Executive Officer)
Date: May 23, 2014