AGENUS INC
Form 10-Q
August 01, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 000-29089

Agenus Inc.

(exact name of registrant as specified in its charter)

Delaware	06-1562417
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3 Forbes Road, Lexington, Massachusetts 02421

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code:

(781) 674-4400

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations 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 þ No 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 the 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 þ Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Number of shares outstanding of the issuer's Common Stock as of July 28, 2014: 62,679,445 shares

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
AGENUS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$48,270,380	$27,351,969
Short-term investments	14,545,393	—
Inventories	95,700	—
Accounts receivable	—	1,200
Prepaid expenses	1,131,756	658,412
Other current assets	2,988,859	162,997
Total current assets	67,032,088	28,174,578
Plant and equipment, net of accumulated amortization and depreciation of $27,856,858 and $27,637,443 at June 30, 2014 and December 31, 2013, respectively	4,542,907	2,784,845
Goodwill	19,550,840	2,572,203
Acquired intangible assets, net of accumulated amortization of $219,887 at June 30, 2014	7,811,646	—
Other long-term assets	1,250,216	1,303,855
Total assets	$100,187,697	$34,835,481
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current portion, long-term debt	$7,428,701	$3,518,550
Current portion, deferred revenue	2,528,067	1,660,679
Accounts payable	929,905	834,740
Accrued liabilities	5,657,929	4,215,221
Other current liabilities	2,024,630	66,683
Total current liabilities	18,569,232	10,295,873
Other long-term debt	—	5,347,690
Deferred revenue	3,101,680	3,193,809
Contingent royalty obligation	7,360,783	18,799,141
Contingent purchase price consideration	10,854,000	—
Other long-term liabilities	2,669,293	1,679,671
Commitments and contingencies		
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock, par value $0.01 per share; 5,000,000 shares authorized at June 30, 2014 and December 31, 2013:		
Series A-1 convertible preferred stock; 31,620 shares designated, issued, and outstanding at June 30, 2014 and December 31, 2013; liquidation value of $32,371,737 at June 30, 2014	316	316
Series B2 convertible preferred stock; 3,105 shares designated, issued, and outstanding at June 30, 2014 and December 31, 2013	31	31
Common stock, par value $0.01 per share; 140,000,000 and 70,000,000 shares authorized at June 30, 2014 and December 31, 2013, respectively; 62,652,214 and 36,391,191 shares issued at June 30, 2014 and December 31, 2013, respectively	626,522	363,912

Additional paid-in capital	714,088,885	644,571,866
Treasury stock, at cost; 0 and 43,490 shares of common stock at June 30, 2014 and December 31, 2013, respectively	—	(324,792)
Accumulated other comprehensive income	135,637	—
Accumulated deficit	(657,218,682)	(649,092,036)
Total stockholders' equity (deficit)	57,632,709	(4,480,703)
Total liabilities and stockholders' equity (deficit)	$100,187,697	$34,835,481

See accompanying notes to unaudited condensed consolidated financial statements.

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AGENUS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	Quarters Ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Revenue:				
Service revenue	$—	$320,536	$—	$1,045,760
Grant revenue	29,970	—	58,738	—
Research and development revenue	3,044,118	486,860	3,736,206	870,877
Total revenues	3,074,088	807,396	3,794,944	1,916,637
Operating expenses:				
Cost of service revenue	—	(176,681)	—	(449,457)
Research and development	(5,222,704)	(3,316,763)	(9,695,237)	(5,870,885)
General and administrative	(5,847,356)	(4,642,238)	(11,290,115)	(7,533,779)
Contingent purchase price consideration fair value adjustment	(224,000)	—	(1,133,000)	—
Operating loss	(8,219,972)	(7,328,286)	(18,323,408)	(11,937,484)
Other income (expense):				
Non-operating income (expense)	754,363	(3,322,657)	10,576,829	(3,319,777)
Interest expense, net	(296,126)	(490,684)	(651,935)	(1,719,387)
Net loss	(7,761,735)	(11,141,627)	(8,398,514)	(16,976,648)
Dividends on Series A and A-1 convertible preferred stock	(51,107)	(50,785)	(102,133)	(3,057,971)
Net loss attributable to common stockholders	$(7,812,842)	$(11,192,412)	$(8,500,647)	$(20,034,619)
Per common share data:				
Basic and diluted net loss attributable to common stockholders	$(0.12)	$(0.40)	$(0.15)	$(0.76)
Weighted average number of common shares outstanding:				
Basic and diluted	62,607,779	27,845,705	56,615,583	26,466,358
Other comprehensive (loss) income:				
Foreign currency translation (loss) gain	$(81,733)	$—	$133,684	$—
Unrealized gain on investments	1,953	—	1,953	—
Other comprehensive (loss) income	(79,780)	—	135,637	—
Comprehensive loss	$(7,892,622)	$(11,192,412)	$(8,365,010)	$(20,034,619)

See accompanying notes to unaudited condensed consolidated financial statements.

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AGENUS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months Ended June 30,	
	2014	2013
Cash flows from operating activities:		
Net loss	$(8,398,514)	$(16,976,648)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	589,407	311,993
Share-based compensation	2,422,244	2,526,026
Noncash interest expense	306,881	1,541,723
Loss on disposal of assets	1,150	17,944
Change in fair value of contingent obligations	(10,512,858)	—
Loss on extinguishment of debt	—	3,322,657
Changes in operating assets and liabilities:		
Accounts receivable	1,200	349,847
Inventories	(95,700)	11,999
Prepaid expenses	(88,132)	(192,880)
Accounts payable	(562,062)	(242,106)
Deferred revenue	(1,229,554)	(868,831)
Accrued liabilities and other current liabilities	544,269	409,264
Other operating assets and liabilities	(2,598,582)	230,977
Net cash used in operating activities	(19,620,251)	(9,558,035)
Cash flows from investing activities:		
Cash acquired in acquisition	514,470	—
Purchases of plant and equipment	(771,097)	(591,378)
Purchases of available-for-sale securities	(14,543,440)	—
Net cash used in investing activities	(14,800,067)	(591,378)
Cash flows from financing activities:		
Net proceeds from sales of equity	56,792,252	2,274,768
Proceeds from employee stock purchases	84,271	50,568
Financing of property and equipment	(24,114)	(21,452)
Debt issuance costs	—	(177,802)
Proceeds from issuance of long-term debt	—	10,000,000
Payments of debt	(1,666,667)	(10,000,000)
Net cash provided by financing activities	55,185,742	2,126,082
Effect of exchange rate changes on cash	152,987	—
Net increase (decrease) in cash and cash equivalents	20,918,411	(8,023,331)
Cash and cash equivalents, beginning of period	27,351,969	21,468,269
Cash and cash equivalents, end of period	$48,270,380	$13,444,938
Supplemental cash flow information:		
Cash paid for interest	$367,155	$152,747
Non-cash investing and financing activity:		
Deemed dividend on Series A convertible preferred stock	$—	$2,906,664
Issuance of common stock, $0.01 par value, for acquisition of 4-Antibody AG	10,102,259	—
Contingent purchase price consideration issued in connection with the acquisition of 4-Antibody AG	9,721,000	—

Issuance of common stock, $0.01 par value, as payment of long-term debt	953,765	11,275,000
Contingent royalty obligation	—	19,090,658
Elimination of noncontrolling interest	—	5,580,124

See accompanying notes to unaudited condensed consolidated financial statements.

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AGENUS INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2014
Note A - Business, Liquidity and Basis of Presentation

Agenus Inc. including its subsidiaries (also referred to as “Agenus,” the “Company,” “we,” “us,” and “our”) is an immuno-oncology company developing a portfolio of checkpoint modulators (CPMs), heat shock protein peptide-based vaccines and adjuvants.

Our core technology portfolio consists of our Retrocyte Display® Technology Platform and Checkpoint Modulator Antibody Programs, our Heat Shock Protein ("HSP")-Based Platform, and our Saponin Adjuvant Platform.

Our Retrocyte Display® Technology Platform and Checkpoint Modulator Antibody Programs (CPM antibody programs) became part of our technology portfolio through our acquisition of 4-Antibody AG ("4-AB") in February 2014 (see Note C). We have developed a powerful fully-human and humanized monoclonal antibody drug discovery and optimization technology platform that we are using to develop a novel pipeline of antibody therapeutic drug candidates. Our proprietary discovery engine Retrocyte Display® uses a high-throughput approach incorporating IgG format human antibody libraries express in mammalian B-lineage cells. Our CPM antibody programs target GITR, OX40, CTLA-4, LAG-3, TIM-3 and PD-1.

Within our HSP Based Platform are our heat shock protein vaccines, Prophage Series for cancer and HerpV for infectious diseases, both currently in Phase 2 studies. Derived from each patient’s individual tumor, our Prophage Series vaccines contain the antigenic fingerprint of the patient’s particular cancer and are designed to reprogram the body’s immune system to target only the cancer cells bearing this fingerprint. Prophage Series vaccines are currently being studied both newly diagnosed and recurrent glioblastoma multiforme, or GBM. Our HerpV vaccine is comprised of recombinant human heat shock protein-70 complexed with 32 distinct synthetic peptides from the herpes simplex virus-2 proteome. This vaccine is being evaluated in a Phase 2 trial in patients with genital herpes.

Within our Saponin Adjuvant Platform is our QS-21 Stimulon® adjuvant, or QS-21 Stimulon, which, we believe, is one of the most widely tested vaccine adjuvants in clinical development. QS-21 Stimulon is designed to strengthen the body’s immune response to a vaccine’s antigen, potentially increasing the vaccine’s potency. QS-21 Stimulon is a key component in the development of several investigational vaccines across a wide variety of infectious diseases and therapeutic vaccines intended to treat cancer and degenerative disorders. Our QS-21 Stimulon is extensively partnered with GlaxoSmithKline (GSK) and JANSSEN Alzheimer Immunotherapy and includes several candidates in Phase 2 and Phase 3 clinical trials. If any of our partners’ products containing QS-21 Stimulon successfully complete clinical development and receive approval of commercial sale, we are generally entitled to receive milestone payments as well as royalties on product sales for ten years after commercial launch, with some exceptions.

Our business activities have included product research and development, intellectual property prosecution, manufacturing, regulatory and clinical affairs, corporate finance and development activities, and support of our collaborations. Our product candidates require clinical trials and approvals from regulatory agencies, as well as acceptance in the marketplace. In addition to the internal development of our product candidates, we continue to pursue collaborative, out-licensing and/or partnering opportunities for our portfolio programs and product candidates, as well as explore in-licensing, acquisitions and collaborative arrangements in areas of synergy with our existing programs.

We have incurred significant losses since our inception. As of June 30, 2014, we had an accumulated deficit of $657.2 million. Since our inception, we have financed our operations primarily through the sale of equity, issuance of debt, and interest income earned on cash, cash equivalents, and short-term investment balances. We believe that, based on

our current plans and activities, our cash, cash equivalents, and short-term investment balance of $62.8 million as of June 30, 2014, plus potential proceeds from our existing license, supply, and collaborative agreements, will be sufficient to satisfy our liquidity requirements through the first half of 2015. We continue to monitor the likelihood of success of our key initiatives and are prepared to discontinue funding of such activities if they do not prove to be feasible, restrict capital expenditures and/or reduce the scale of our operations.

We expect to attempt to raise additional funds in advance of depleting our current funds. We may attempt to raise funds by: (1) pursuing collaborative, out-licensing and/or partnering opportunities for our portfolio programs and product candidates with one or more third parties, (2) renegotiating third party agreements, (3) selling assets, (4) securing additional debt financing, and/or (5) selling equity securities. Satisfying long-term liquidity needs may require the successful commercialization and/or substantial out-licensing or partnering arrangements for our Retrocyte Display® Technology

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Platform, CPM antibody programs, HerpV and the Prophage Series vaccines, and vaccines containing QS-21 Stimulon under development by our licensees. Our long term success will also be dependent on the successful identification, development and commercialization of potential other product candidates, each of which will require additional capital with no certainty of timing or probability of success. If we incur operating losses for longer than we expect and/or we are unable to raise additional capital, we may become insolvent and be unable to continue our operations.

Our research and development program costs include compensation and other direct costs plus an allocation of indirect costs, based on certain assumptions, and our review of the status of each program. Our product candidates are in various stages of research and development and significant additional expenditures will be required if we start new clinical trials, encounter delays in our programs, apply for regulatory approvals, continue development of our technologies, expand our operations, and/or bring our product candidates to market. The eventual total cost of each clinical trial is dependent on a number of factors such as trial design, length of the trial, number of clinical sites, number of patients, and trial sponsorship. The process of obtaining and maintaining regulatory approvals for new therapeutic products is lengthy, expensive, and uncertain. Because our CPM antibody programs are preclinical, HerpV is in a Phase 2 clinical trial, and the further development of our Prophage Series vaccines is subject to evaluation and uncertainty, we are unable to reliably estimate the cost of completing our research and development programs or, the timing for bringing such programs to various markets or substantial partnering or out-licensing arrangements. Therefore, we cannot predict if or when material cash inflows from operating activities are likely to commence. We will continue to adjust other spending as needed in order to preserve liquidity. Programs involving QS-21 Stimulon, other than our HerpV program, depend on our collaborative partners or licensees successfully completing clinical trials, successfully manufacturing QS-21 Stimulon to meet demand, obtaining regulatory approvals and successfully commercializing product candidates containing QS-21 Stimulon.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and with the instructions to Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete annual consolidated financial statements. In the opinion of our management, the condensed consolidated financial statements include all normal and recurring adjustments considered necessary for a fair presentation of our financial position and operating results. All significant intercompany transactions and accounts have been eliminated in consolidation. Operating results for the six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. For further information, refer to our consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission.

For our subsidiary 4-AB, which operates in Switzerland and Germany, the local currency is the functional currency. Assets and liabilities of 4-AB are translated into U.S. dollars using rates in effect at the balance sheet date while revenues and expenses are translated into U.S. dollars using average exchange rates. The cumulative translation adjustment resulting from changes in exchange rates are included in the consolidated balance sheets as a component of accumulated other comprehensive income in total stockholders’ equity.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances. Actual results could differ materially from those estimates.

Note B - Net Loss Per Share

Basic loss and income per common share is calculated by dividing the net loss attributable to common stockholders by the weighted average number of common shares outstanding (including common shares issuable under our Directors’ Deferred Compensation Plan, or DDCP). Diluted income per common share is calculated by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding (including common shares issuable under our DDCP) plus the dilutive effect of outstanding instruments such as warrants, stock

options, nonvested shares, convertible preferred stock, and convertible notes. Because we reported a net loss attributable to common stockholders for all periods presented, diluted loss per common share is the same as basic loss per common share, as the effect of utilizing the fully diluted share count would have reduced the net loss per common share. Therefore, the following potentially dilutive securities have been excluded from the computation of diluted weighted average shares outstanding because they would be anti-dilutive:

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	June 30, 2014	2013
Warrants	2,951,450	2,642,712
Stock options	6,995,648	3,705,012
Nonvested shares	87,202	130,136
Convertible preferred stock	333,333	333,333

Note C - 4-Antibody Acquisition

On January 10, 2014, we entered into a Share Exchange Agreement providing for our acquisition of all of the outstanding capital stock of 4-AB, from the shareholders of 4-AB (the “4-AB Shareholders”). The transaction closed on February 12, 2014 (the "Closing Date"). In exchange for their shares, the 4-AB Shareholders received an aggregate of 3,334,079 shares of our common stock paid upon closing and valued at $10.1 million. Contingent milestone payments of up to $40 million (the "contingent purchase price consideration"), payable in cash or shares of our common stock at our option, will be due to the 4-AB Shareholders as follows (i) $20 million upon our market capitalization exceeding $300 million for ten consecutive trading days prior to the earliest of (a) the fifth anniversary of the Closing Date (b) the sale of the 4-AB or (c) the sale of Agenus, (ii) $10 million upon our market capitalization exceeding $750 million for 30 consecutive trading days prior to the earliest of (a) the tenth anniversary of the Closing Date (b) the sale of 4-AB or (c) the sale of Agenus, and (iii) $10 million upon our market capitalization exceeding $1.0 billion for 30 consecutive trading days prior to the earliest of (a) the tenth anniversary of the Closing Date (b) the sale of 4-AB or (c) the sale of Agenus. We assigned an estimated preliminary fair value of $9.7 million to the contingent purchase price consideration. This acquisition provided us with the Retrocyte Display® Technology Platform for the rapid discovery and optimization of fully-human and humanized monoclonal antibodies against a wide array of molecular targets and a portfolio CPM antibodies.

The acquisition of 4-AB was accounted for under the acquisition method of accounting. The purchase price of approximately $19.8 million has been allocated to the tangible and intangible assets acquired and liabilities assumed. The fair value estimate of assets acquired and liabilities assumed is pending completion and final review by our management. Primary areas yet to be finalized include the fair value of certain tangible assets acquired and liabilities assumed, and the valuation of intangible assets acquired. The final purchase price allocation may differ from that presented below due to adjustments that may result from completion of the valuation of the assets acquired and liabilities assumed.

The following table summarizes the purchase price of the 4-AB acquisition, the identified assets acquired and liabilities assumed at the acquisition date (in thousands):

Assets acquired:	
Cash	$514
Other current assets	600
Plant and equipment	1,340
In-process research and development	2,100
Patented technology	5,700
Other finite-lived intangible	190
Goodwill	16,891
Total assets	27,335
Liabilities assumed:	
Accounts payable	649
Other current liabilities	2,889
Convertible notes	1,142
Deferred revenue	1,890
Deferred tax liability	420
Other long-term liabilities	522
Total liabilities	7,512

Total purchase price	$19,823

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The estimated fair value of the in-process research and development ("IPR&D") and patented technology was determined using the income approach and the relief from royalty rate method, respectively, using significant inputs, including an 18% discount rate, that are not observable. We consider the fair value of the IPR&D and patented technology to be Level 3 due to the significant estimates and assumptions used by management in establishing the estimated fair values.

All of the convertible notes assumed by us in the acquisition were converted into approximately 383,000 shares of our common stock on May 8, 2014.

The following table summarizes the supplemental statements of operations information on an unaudited pro forma basis as if the 4-AB acquisition had occurred on January 1, 2013 (in thousands except per share data):

	Six months ended June 30,	
	2014	2013
Pro forma revenues	$4,000	$4,343
Pro forma net loss attributable to common stockholders	$(9,093)	$(21,526)
Basic and diluted pro forma net loss attributable to common stockholders per share	$(0.15)	$(0.72)

The pro forma results presented above are for illustrative purposes only for the periods presented and do not purport to be indicative of the actual results which would have occurred had the transaction been completed as of the beginning of the period, nor are they indicative of results of operations which may occur in the future. For the six months ended June 30, 2014, revenues and net loss related to 4-AB of $961,000 and $3.5 million, respectively, are included in our condensed consolidated statement of operations and comprehensive loss. For the three months ended June 30, 2014, revenues and net loss related to 4-AB are $659,000 and $1.9 million, respectively.

Note D - Goodwill and Acquired Intangible assets

The following table sets forth the changes in the carrying amount of goodwill for the six months ended June 30, 2014 (in thousands):

Balance, December 31, 2013	$2,572
Goodwill from 4-AB acquisition	16,891
Foreign currency translation adjustment	88
Balance, June 30, 2014	$19,551

Acquired intangible assets consisted of the following at June 30, 2014 (in thousands):

	Amortization period (years)	Gross carrying amount	Accumulated amortization	Net carrying amount
Intellectual Property	15 years	$4,826	$(121)	$4,705
Trademarks	4.5 years	905	(75)	830
Other	3 years	191	(24)	167
In-process research and development	Indefinite	2,110	—	2,110
Total		$8,032	$(220)	$7,812

The weighted average amortization period of our finite-lived intangible assets is 13 years. Amortization expense related to acquired intangibles is estimated at $293,000 for the balance of 2014, $586,000 for each of the years ending 2015 and 2016, $531,000 for the year ending 2017, $448,000 for the year ending 2018, and $322,000 for each of the years 2019-2028, and $38,000 for the year ending 2029.

The acquired IPR&D asset relates to the six pre-clinical CPM antibody programs acquired in the transaction. IPR&D acquired in a business combination is capitalized at fair value until the underlying project is completed and is subject to impairment testing. Once the project is completed, the carrying value of IPR&D is amortized over the estimated useful life of the asset. Post-acquisition research and development expenses related to the acquired IPR&D are expensed as incurred.

Note E - Share-based Compensation Plans

We use the Black-Scholes option pricing model to value stock options granted to employees and non-employees, as well as stock options granted to members of our Board of Directors. All stock options have 10-year terms and generally vest

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ratably over a 3 or 4-year period. A non-cash charge to operations for the stock options granted to non-employees that have vesting or other performance criteria is affected each reporting period, until the non-employee options vest, by changes in the fair value of our common stock.

A summary of option activity for the six months ended June 30, 2014 is presented below:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2013	4,163,100	$5.72		
Granted	2,976,400	3.01		
Exercised	(12,781)	3.41		
Forfeited	(68,045)	3.80		
Expired	(63,026)	13.86		
Outstanding at June 30, 2014	6,995,648	$4.52	8.3	$884,687
Vested or expected to vest at June 30, 2014	6,250,015	$4.69	8.1	$665,567
Exercisable at June 30, 2014	2,848,648	$6.31	6.7	$110,445

The weighted average grant-date fair values of stock options granted during the six months ended June 30, 2014 and 2013, were $1.82 and $2.64, respectively.

As of June 30, 2014, $6.5 million of total unrecognized compensation cost, $390,000 of which pertains to performance awards for which performance has not yet been achieved, related to stock options granted to employees and directors is expected to be recognized over a weighted average period of 2.4 years.

Certain employees and consultants have been granted nonvested stock. The fair value of nonvested stock is calculated based on the closing sale price of our common stock on the date of issuance.

A summary of nonvested stock activity for the six months ended June 30, 2014 is presented below:

	Nonvested Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2013	147,274	$3.99
Granted	—	—
Vested	(43,864)	4.32
Forfeited	(16,208)	3.40
Outstanding at June 30, 2014	87,202	

As of June 30, 2014, there was $236,000 of unrecognized share-based compensation expense related to these nonvested shares awarded to employees expected to be recognized over a weighted average period of 2.4 years. As of June 30, 2014, unrecognized expense for nonvested shares awarded to outside advisors is $27,000. The total intrinsic value of shares vested during the six months ended June 30, 2014, was $141,000.

We issue new shares upon stock option exercises, purchases of stock under our 2009 Employee Stock Purchase Plan, vesting of nonvested stock, issuances under the DDCP, and in lieu of approximately 33% of the base salary of our Chief Executive Officer. During the six months ended June 30, 2014, 18,149 shares were issued under the 2009 Employee Stock Purchase Plan, 43,864 shares were issued as a result of the vesting of nonvested stock, 12,781 shares were issued as a result of stock option exercises, and 25,989 shares were issued to our Chief Executive Officer in lieu of cash salary. Effective June 2014, our Chief Executive Officer will no longer receive shares of our stock in lieu of base salary.

The impact on our results of operations from share-based compensation for the six months ended June 30, 2014, and 2013, was as follows (in thousands):

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	Quarter Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Research and development	$407	$442	$662	$658
General and administrative	1,060	1,375	1,760	1,868
Total share-based compensation expense	$1,467	$1,817	$2,422	$2,526

Note F - Accrued and Other Current Liabilities

Accrued liabilities consist of the following as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
Professional fees	$2,183	$1,121
Payroll	1,727	1,635
Clinical trials	821	1,021
Other	927	438
	$5,658	$4,215

Other current liabilities consist of the following as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014	December 31, 2013
Due to collaborator	$1,375	$—
Other	650	67
	$2,025	$67

Note G - Fair Value Measurements

We measure our short-term investments, contingent royalty obligation and contingent purchase price consideration at fair value. Our short-term investments are comprised solely of U.S. Treasury securities that are valued using quoted market prices with no valuation adjustments applied. Accordingly, these securities are categorized as Level 1 liabilities.

The fair values of our contingent royalty obligation and our contingent purchase price consideration, $7.4 million and $10.9 million, respectively, are based on significant inputs not observable in the market, which require them to be reported as a Level 3 liability within the fair value hierarchy. The valuation uses assumptions we believe would be made by a market participant. In particular, the valuation analysis for the royalty obligation used the Income Approach based on the sum of the economic income that an asset is anticipated to produce in the future. In this case that asset is the potential royalty income to be paid to us as a result of certain license agreements for QS-21 Stimulon and the potential net sales generated from HerpV. The fair value of the contingent royalty obligation is estimated by applying a risk adjusted discount rate (12.5%) to the probability adjusted royalty revenue stream based on expected approval dates. These fair value estimates are most sensitive to changes in the probability of regulatory approvals. The Discounted Cash Flow method of the Income Approach was chosen as the method best suited to valuing the contingent royalty obligation.

The fair value of our purchase price consideration is based on estimates from Monte Carlo simulation of our market capitalization. Market capitalization was evolved using a geometric brownian motion, calculated daily for the life of the contingent purchase price consideration.

The following table presents our liabilities measured at fair value using significant unobservable inputs (Level 3) , as of June 30, 2014 (amounts in thousands):

Balance, December 31, 2013	$18,799
Contingent purchase price consideration	9,721
Change in fair value of contingent royalty obligation during the period	(11,438)
Change in fair value of contingent purchase price consideration during the period	1,133
Balance, June 30, 2014	$18,215

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The decrease in fair value of the contingent royalty obligation liability is included in non-operating (loss) income in our condensed consolidated statement of operations for the periods ended June 30, 2014, and related primarily to the termination by GSK of its Phase 3 clinical trial of a vaccine using our QS-21 Stimulon adjuvant in patients with non-small cell lung cancer. There were no changes in the valuation techniques during the period and there were no transfers into or out of Levels 1 and 2.

The estimated fair values of all of our financial instruments, excluding long-term debt, approximate their carrying amounts in the condensed consolidated balance sheets. The fair value of our long-term debt was derived by evaluating the nature and terms of each note and considering the prevailing economic and market conditions at the balance sheet date.

The fair value of our long-term debt at June 30, 2014 and December 31, 2013, was $7.9 million and $9.6 million respectively, based on the Level 2 valuation hierarchy of the fair value measurements standard using a present value methodology. The principal value of our long-term debt at June 30, 2014 and December 31, 2013 was $7.9 million and $9.6 million, respectively.

In connection with the acquisition of 4-AB, we assumed convertible notes which upon a change of control of 4-AB had the ability to convert into shares of our common stock. All of the convertible notes assumed in connection with the acquisition of 4-AB were converted into approximately 383,000 shares of our common stock on May 8, 2014. We have elected to account for these convertible notes using fair value as a Level 1 liability. The fair value of our convertible notes on the date of settlement was approximately $954,000.

Note H - Equity

In February 2014, we issued and sold 22,236,000 shares of our common stock in a public underwritten offering. Net proceeds after deducting offering expenses were approximately $56.2 million. This offering was made under an effective shelf registration statement and proceeds from the offering will be used for general corporate purposes.

In February 2014, our Board of Directors retired 43,490 shares of our treasury stock then outstanding and returned those shares to authorized and unissued shares of our common stock.

We issued an aggregate of 3,334,079 shares of our common stock in exchange for all of the outstanding capital stock of 4-AB as detailed in Note C.

On April 24, 2014, we amended our certificate of incorporation to increase the authorized number of shares of our common stock from 70,000,000 to 140,000,000 shares.

All of the convertible notes assumed in connection with the acquisition of 4-AB were converted into approximately 383,000 shares of our common stock on May 8, 2014.

Note I - Recent Accounting Pronouncements

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, ("ASU 2013-11"). ASU 2013-11 amends Accounting Standards Codification 740, Income Taxes, by providing guidance on the financial statement presentation of an unrecognized benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists ("ASC 740"). ASU 2013-11 does not affect the recognition or measurement of uncertain tax positions under ASC 740. ASU 2013-11 will be effective for interim and annual periods beginning after December 15, 2013, with early adoption permitted. The adoption of ASU 2013-11 did not have any impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, ("ASU 2014-09"). ASU 2014-09 amends revenue recognition principles and provides a single set of criteria for revenue recognition among all industries. This new standard provides a five step framework whereby revenue is recognized when promised goods or services are transferred to a customer at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires enhanced disclosures pertaining to revenue recognition in both interim and annual periods. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2016. We are currently evaluating the potential impact that ASU 2014-09 may have on our financial position and results of operations.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This Quarterly Report on Form 10-Q and other written and oral statements we make from time to time contain certain "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the

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Securities Exchange Act of 1934 (the “Exchange Act”). You can identify these forward-looking statements by the fact they use words such as “could,” “expect,” “anticipate,” “estimate,” “target,” “may,” “project,” “guidance,” “intend,” “plan,” “b “potential,” “opportunity,” “future” and other words and terms of similar meaning and expression in connection with any discussion of future operating or financial performance. You can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. Such forward-looking statements are based on current expectations and involve inherent risks and uncertainties, including factors that could delay, divert or change any of them, and could cause actual outcomes to differ materially from current expectations. These statements are likely to relate to, among other things, our business strategy, our research and development, our product development efforts, our ability to commercialize our product candidates, the activities of our licensees, our prospects for initiating partnerships or collaborations, the timing of the introduction of products, the effect of new accounting pronouncements, uncertainty regarding our future operating results and our profitability, anticipated sources of funds as well as our plans, objectives, expectations, and intentions.

We have included more detailed descriptions of these risks and uncertainties and other risks and uncertainties applicable to our business that we believe could cause actual results to differ materially from any forward-looking statements in Part II-Item 1A “Risk Factors” of this Quarterly Report on Form 10-Q. We encourage you to read those descriptions carefully. Although we believe we have been prudent in our plans and assumptions, no assurance can be given that any goal or plan set forth in forward-looking statements can be achieved. We caution investors not to place significant reliance on forward-looking statements contained in this document; such statements need to be evaluated in light of all the information contained in this document. Furthermore, the statements speak only as of the date of this document, and we undertake no obligation to update or revise these statements.

Overview

We are an immuno-oncology company developing a portfolio of checkpoint modulators (CPMs), heat shock protein (HSP)-based vaccines and adjuvants. We are focused on immunotherapeutic products based on our core platform technologies with multiple product candidates advancing through the clinic, including several product candidates that have advanced into late-stage clinical trials through corporate partners. We assess the development, commercialization and/or partnering strategies with respect to each of our internal product candidates periodically based on several factors, including clinical trial results, competitive positioning, and funding requirements and resources.

Our Retrocyte Display® Technology Platform and CPM antibody programs became part of our portfolio with the acquisition of 4-Antibody AG, a European-based biopharmaceutical company ("4-AB") in February 2014. The Retrocyte Display® Technology Platform is intended to enable, among other things, the rapid generation and optimization of fully-human and humanized monoclonal antibodies against a broad range of target antigens of interest. We currently have six pre-clinical CPM antibody programs which target GITR, OX40, CTLA-4, PD-1, TIM-3 and LAG-3. We have selected two GITR agonists and one CTLA-4 antagonist to advance into investigational new drug applications ("INDs") enabling development. Although we envision using Retrocyte Display® to drive the discovery of future CPM antibody candidates, not all candidates will necessarily be derived from the use of this technology. For example, our current antibody candidates targeting GITR were derived independently of Retrocyte Display®. We plan to identify development candidates for the other four CPM antibody programs during the second half of 2014, in order to be in a position to file INDs on at least four candidates within the next two years. During the quarter ended June 30, 2014, we entered into a collaboration and license agreement with Merck to discover and optimize fully-human antibodies against two undisclosed cancer targets using the Retrocyte Display®. Under this agreement, Merck will be responsible for the clinical development and commercialization of antibodies generated under the collaboration, and we are eligible to receive approximately $100 million in potential payments associated with the completion of certain clinical, regulatory and commercial milestones, as well as royalty payments on worldwide product sales. We are exploring other potential partnering opportunities for our Retrocyte Display® Technology Platform and CPM antibody programs.

Our Prophage Series cancer vaccines are based on our HSP-Based Platform. Our Prophage Series vaccines are autologous therapies derived from cells extracted from the patient’s tumor. As a result, Prophage Series vaccines

contain a precise antigenic ‘fingerprint’ of a patient’s particular cancer and are designed to reprogram the body’s immune system to target only cells bearing this fingerprint, reducing the risk that powerful anti-cancer agents will target healthy tissue and cause debilitating side effects often associated with chemotherapy and radiation therapy. We believe that in contrast to many other autologous vaccines that are based on cellular preparations, the Prophage Series vaccines are based on a stable protein preparation produced by a less complex manufacturing process. Our Prophage Series vaccines are currently being studied in two different settings of glioblastoma multiforme, or GBM: newly diagnosed and recurrent disease. In July 2014, we announced final results from a single-arm, open-label Phase 2 trial showing that patients with newly-diagnosed glioblastoma

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who received the Prophage vaccine in addition to the standard of care had a survival benefit over patients who received standard of care alone.

Also within out HSP-Based Platform is HerpV, a recombinant, synthetic vaccine containing multiple antigens derived from the herpes simplex 2 virus. Combining our HSP-Based technology and our QS-21 Stimulon adjuvant, HerpV represents a potential new approach to the treatment of genital herpes. In November 2013, we released top line results from a Phase 2, randomized, double blind, multicenter clinical trial of HerpV in HSV-2 positive genital herpes patients, which showed that the trial met its primary endpoint. In June 2014, we announced that the majority of patients showed an immune response to the HSV antigens after a series of vaccinations and a booster dose at six months. More than half of those vaccinated developed a robust anti-HSV cytotoxic T-cell immune response, and in those patients there was a statistically significant reduction in viral load, which is believed to be relevant in the reduction of transmission and symptoms. After the booster shot, HerpV demonstrated a durable reduction in viral shedding approximating 14%, and remains consistent with the reduction in viral shedding observed during the initial treatment period. HerpV evokes immune responses to the mix of HSV2 peptides contained in the vaccine in a substantial majority of patients. We believe that this is the first demonstration of a correlation between immune response and a statistically significant reduction in viral load. We are currently seeking a partner for the further development of our HerpV program. Notwithstanding these data, it is uncertain whether the degree of benefit conferred by HerpV will be sufficient to (i) warrant additional clinical trials funded by us or (ii) attract a development partner.

Within our Saponin Adjuvant Platform is our QS-21 Stimulon® vaccine adjuvant, or QS-21 Stimulon, a saponin extracted from the bark of the Quillaja saponaria tree, an evergreen tree native to warm temperate central Chile. QS-21 Stimulon has become a key component in the development of investigational preventive vaccine formulations across a wide variety of infectious diseases and, investigational therapeutic vaccines intended to treat cancer and degenerative disorders. QS-21 Stimulon has been studied in approximately 50,000 patients. Our QS-21 Stimulon is extensively partnered with GlaxoSmithKline ("GSK") and JANSSEN Alzheimer Immunotherapy ("JANSSEN AI") and includes several vaccine candidates in Phase 2 and Phase 3 clinical trials. In June 2014, GSK submitted to the European Medicines Agency an application for marketing approval of its malaria vaccine candidate incorporating QS-21 Stimulon. If any of our partners' products containing QS-21 Stimulon successfully complete clinical development and receive approval for commercial sale, we are generally entitled to receive milestone payments as well as royalties for 10 years after commercial launch, with some exceptions.

In addition to our internal development efforts, we continue to pursue collaborative, out-licensing and/or partnering opportunities for our portfolio programs and product candidates, as well as explore in-licensing, acquisitions and collaborative arrangements in areas of synergy with our existing programs. Our business activities have included product research and development, intellectual property prosecution, manufacturing, regulatory and clinical affairs, corporate finance and development, business development, and support of our collaborations.

We have financed our operations primarily through the sale of equity and debt securities. We believe that, based on our current plans and activities, our working capital resources at June 30, 2014, plus potential proceeds from our existing license, supply, and collaborative agreements, will be sufficient to satisfy our liquidity requirements through the first half of 2015. We expect to attempt to raise additional funds in advance of depleting our current funds. We may attempt to raise funds by: (1) pursuing collaborative, out-licensing and/or partnering opportunities for our portfolio programs and product candidates with one or more third parties, (2) renegotiating third party agreements, (3) selling assets, (4) securing additional debt financing and/or (5) selling equity securities. Satisfying long-term liquidity needs may require the successful commercialization and/or substantial out-licensing or partnering arrangements for our Retrocyte Display® Technology Platform, CPM antibody programs, HerpV and the Prophage Series vaccines, and vaccines containing QS-21 Stimulon under development by our licensees. Our long term success will also be dependent on he successful identification, development and commercialization of potential other product candidates, each of which will require additional capital with no certainty of timing or probability of success. If we incur operating losses for longer than we expect and/or we are unable to raise additional capital, we may become insolvent and be unable to continue our operations.

Historical Results of Operations

Quarter ended June 30, 2014 Compared to the Quarter Ended June 30, 2013

Revenue: We generated revenue of approximately $3.1 million and $807,000 during the three months ended June 30, 2014 and 2013, respectively. In 2014, revenue includes license fees, grant revenue and milestone recognition related to our license agreement with GSK, and in 2013, license fees and service revenue. During the three months ended June 30, 2014 and 2013, we recorded revenue of approximately $1.0 million and $487,000, respectively, from the amortization of deferred revenue.

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Research and Development: Research and development expenses include the costs associated with our internal research and development activities, including compensation and benefits, occupancy costs, clinical manufacturing costs, costs of consultants, and administrative costs. Research and development expense increased 57.5% to $5.2 million for the three months ended June 30, 2014 from $3.3 million for the three months ended June 30, 2013. Increased expenses in 2014 primarily relate to the increased compensation expense related to increased headcount as well as the research and development costs of the CPM antibody program, in each case as a result of of the acquisition of 4-AB.

General and Administrative: General and administrative expenses consist primarily of personnel costs, facility expenses, and professional fees. General and administrative expenses increased 26.0% to $5.8 million for the three months ended June 30, 2014 from $4.6 million for the three months ended June 30, 2013. Increased expenses in 2014 primarily related to increased professional fees related to our corporate activities and the inclusion of the expenses of 4-AB as a result of the acquisition.

Contingent consideration fair value adjustment: Contingent consideration fair value adjustment represents the increase in the fair value of our purchase price consideration during the three months ended June 30, 2014. The fair value of our purchase price consideration is based on estimates from a Monte Carlo simulation of our market capitalization.

Non-operating income: Non-operating income for the three months ended June 30, 2014 represents the change in the fair value of our contingent royalty obligation and our convertible notes.

Interest Expense, net: Interest expense, net decreased to approximately $296,000 for the three months ended June 30, 2014 from $491,000 for the three months ended June 30, 2013 due to the extinguishment of our 8% senior secured convertible notes due August 2014 (the "2006 Notes") during 2013.

Six months ended June 30, 2014 Compared to the six months ended June 30, 2013

Revenue: We generated revenue of approximately $3.8 million and $1.9 million during the six months ended June 30, 2014 and 2013, respectively. In 2014 revenue includes license fees, grant revenue and milestone recognition related to our license agreement with GSK, and in 2013, revenue includes license fees and service revenue. During the six months ended June 30, 2014 and 2013, we recorded revenue of approximately $1.7 million and $869,000, respectively, from the amortization of deferred revenue.

Research and Development: Research and development expenses include the costs associated with our internal research and development activities, including compensation and benefits, occupancy costs, clinical manufacturing costs, costs of consultants, and administrative costs. Research and development expense increased 65.1% to $9.7 million for the six months ended June 30, 2014 from $5.9 million for the six months ended June 30, 2013. Increased expenses in 2014 primarily relate to the increased compensation expense related to increased headcount and bonuses for research and development personnel as well as the research and development costs of the CPM antibody program.

General and Administrative: General and administrative expenses consist primarily of personnel costs, facility expenses, and professional fees. General and administrative expenses increased 49.9% to $11.3 million for the six months ended June 30, 2014 from $7.5 million for the six months ended June 30, 2013. Increased expenses in 2014 resulted from increased compensation expense in connection with bonuses for general and administrative personnel and increased professional fees related to our corporate activities and the acquisition of 4-AB.

Contingent consideration fair value adjustment: Contingent consideration fair value adjustment represents the increase in the fair value of our purchase price consideration during the six months ended June 30, 2014. The fair value of our purchase price consideration is based on estimates from a Monte Carlo simulation of our market capitalization.

Non-operating income: Non-operating income for the six months ended June 30, 2014 represents the change in the fair value of our contingent royalty obligation and our convertible notes.

Interest Expense, net: Interest expense, net decreased to approximately $652,000 for the six months ended June 30, 2014 from $1.7 million for the six months ended June 30, 2013 due to the extinguishment of our 2006 Notes during 2013.

Dividends on Series A and A-1 convertible preferred stock: Dividends decreased to approximately $102,000 for the six months ended June 30, 2014 from approximately $3.1 million for the six months ended June 30, 2013 due to the deemed dividend issued during the exchange of Series A for Series A-1 convertible preferred stock during the quarter ended March 31, 2013 and the related reduced dividend obligation subsequent to the exchange.

Research and Development Programs

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Prior to 2002, we did not track costs on a per project basis, and therefore have estimated the allocation of our total research and development costs to our largest research and development programs for that time period. During the six months ended June 30, 2014, these research and development programs consisted largely of our Prophage Series vaccines, HerpV and CPM antibody programs as indicated in the following table (in thousands).

Research and Development Program	Product	Six Months Ended June 30,	Year Ended December 31,			Prior to 2011	Total
		2014	2013	2012	2011		
Heat shock protein-based vaccine candidates for cancer	Prophage Series Vaccines	$3,525	$5,882	$5,613	$10,182	$281,851	$307,053
Heat shock protein-based vaccine candidates for infectious diseases	HerpV	2,167	6,358	4,862	734	18,354	32,475
Vaccine adjuvant *	QS-21 Stimulon	189	753	85	94	12,404	13,525
Checkpoint Modulator antibody program**		3,810	—	—	—	—	3,810
Other research and development programs		4	12	4	13	33,527	33,560
Total research and development expenses		$9,695	$13,005	$10,564	$11,023	$346,136	$390,423

* Prior to 2000, costs were incurred by Aquila Biopharmaceuticals, Inc., a company we acquired in November 2000.
** Prior to 2014, costs were incurred by 4-Antibody AG, a company we acquired in February 2014.

Research and development program costs include compensation and other direct costs plus an allocation of indirect costs, based on certain assumptions and our review of the status of each program. Our product candidates are in various stages of development and significant additional expenditures will be required if we start new clinical trials, encounter delays in our programs, apply for regulatory approvals, continue development of our technologies, expand our operations, and/or bring our product candidates to market. The total cost of any particular clinical trial is dependent on a number of factors such as trial design, length of the trial, number of clinical sites, number of patients, and trial sponsorship. The process of obtaining and maintaining regulatory approvals for new therapeutic products is lengthy, expensive, and uncertain. Because our CPM antibody programs are preclinical, HerpV is currently in a Phase 2 trial with further development dependent on clinical trial data and successful partnering efforts, among other factors, and the further development of our Prophage Series vaccines is subject to evaluation and uncertainty, we are unable to reliably estimate the cost of completing our research and development programs or, the timing for bringing such programs to various markets, or substantial partnering or out-licensing arrangements, and, therefore, when, if ever, material cash inflows are likely to commence. Programs involving QS-21 Stimulon, other than our HerpV program, depend on our collaborative partners or licensees successfully completing clinical trials, successfully manufacturing QS-21 Stimulon to meet demand, obtaining regulatory approvals and successfully commercializing product candidates containing QS-21 Stimulon.

Liquidity and Capital Resources

We have incurred annual operating losses since inception, and we had an accumulated deficit of $657.2 million as of June 30, 2014. We expect to incur significant losses over the next several years as we continue clinical trials, manage our regulatory processes, prepare for potential commercialization of products, and continue development of our technologies. We have financed our operations primarily through the sale of equity and debt, and interest income earned on cash, cash equivalents, and short-term investment balances. From our inception through June 30, 2014, we

have raised aggregate net proceeds of $618.4 million through the sale of common and preferred stock, the exercise of stock options and warrants, proceeds from our employee stock purchase plan, and the issuance of convertible notes and other notes. In addition, during 2012, we received $9.0 million from GSK for a first right to negotiate the purchase of the Company or certain of our assets and an expanded license agreement and $6.25 million through a license of non-core technologies with an existing licensee. GSK's first right to negotiate will expire in March 2017. The expanded license agreement provides GSK with a license to use QS-21 Stimulon in an undisclosed indication and also provides for additional royalty payments for this indication upon

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commercialization of a vaccine product. The license of non-core technologies converted a license grant from non-exclusive to exclusive and enabled the licensee to buy-out the current royalty stream structure.

We also maintain an effective registration statement to sell an aggregate of up to ten million shares of our common stock from time to time pursuant to an At the Market Issuance Sales Agreement with MLV & Co. LLC, as sales agent. As of June 30, 2014, we have 5 million shares available for sale under this agreement.

As of June 30, 2014, we had $7.9 million of debt outstanding. In April 2013, we entered into a Securities Exchange Agreement with the holders of our 2006 Notes whereby we exchanged all of the 2006 Notes, including accrued and unpaid interest, for $10.0 million in cash, 2,500,000 shares of our common stock, and a contractual right to the proceeds of 20% of our revenue interests from certain QS-21 Stimulon partnered programs and a 0.5% royalty on net sales of HerpV. To finance the cash portion of this exchange we entered into two new debt arrangements. We concurrently entered into a Loan and Security Agreement with Silicon Valley Bank for senior secured debt in the aggregate principal amount of $5.0 million (the “SVB Loan”). The SVB Loan bears interest at a rate of 6.75% per annum, payable in cash on the first day of each month with principal payments beginning November 2013 and ending with the final principal payment in April 2015. We also entered into a Note Purchase Agreement with various investors for senior subordinated notes (the “Subordinated Notes”) in the aggregate principal amount of $5.0 million due in April 2015. The Subordinated Notes bear interest at a rate of 10% per annum, payable in cash on the first day of each month in arrears. We also issued to the holders of the Subordinated Notes four year warrants to purchase 500,000 unregistered shares of our common stock at an exercise price of $4.41 per share. In addition, in connection with the acquisition of 4-AB, we assumed convertible notes which were converted into approximately 383,000 shares of our common stock during the second quarter of 2014.

Our cash, cash equivalents, and short-term investments at June 30, 2014 were $62.8 million, an increase of $35.5 million from December 31, 2013 principally as a result of the completion in February 2014 of a public offering of 22,236,000 shares of our common stock, with net proceeds of $56.2 million. We believe that, based on our current plans and activities, our cash, cash equivalents, and short-term investments of $62.8 million as of June 30, 2014, plus potential proceeds from our existing license, supply, and collaborative agreements, will be sufficient to satisfy our liquidity requirements through the first half of 2015. We continue to monitor the likelihood of success of our key initiatives and are prepared to discontinue funding of such activities if they do not prove to be feasible, restrict capital expenditures and/or reduce the scale of our operations.

We expect to attempt to raise additional funds in advance of depleting our current funds. We may attempt to raise funds by: (1)pursuing collaborative, out-licensing and/or partnering opportunities for our portfolio programs and product candidates with one or more third parties, (2) renegotiating third party agreements, (3) selling assets, (4) securing additional debt financing and/or (5) selling equity securities. Satisfying long-term liquidity needs may require the successful commercialization and/or substantial out-licensing or partnering arrangements for our Retrocyte Display® Technology Platform, CPM antibody programs, HerpV and the Prophage Series vaccines, and vaccines containing QS-21 Stimulon under development by our licensees. Our long term success will also be dependent on the successful identification, development and commercialization of potential other product candidates, each of which will require additional capital with no certainty of timing or probability of success. If we incur operating losses for longer than we expect and/or we are unable to raise additional capital, we may become insolvent and be unable to continue our operations.

Our future cash requirements include, but are not limited to, supporting clinical trial and regulatory efforts and continuing our other research and development programs. Since inception, we have entered into various agreements with institutions and clinical research organizations to conduct and monitor our clinical studies. Under these agreements, subject to the enrollment of patients and performance by the applicable institution of certain services, we have estimated our total payments to be $52.6 million over the term of the studies. Through June 30, 2014, we have expensed $51.2 million as research and development expenses and $50.3 million has been paid related to these clinical studies. The timing of expense recognition and future payments related to these agreements is subject to the enrollment of patients and performance by the applicable institution of certain services.

We have also entered into sponsored research agreements related to our product candidates that required payments of $6.6 million, all of which have been paid as of June 30, 2014. We plan to enter into additional sponsored research agreements, and we anticipate significant additional expenditures will be required to advance our clinical trials, apply for regulatory approvals, continue development of our technologies, and bring our product candidates to market. Part of our strategy is to develop and commercialize some of our product candidates by continuing our existing collaborative arrangements with academic and collaborative partners and licensees and by entering into new collaborations. As a result of our collaborative agreements, we will not completely control the efforts to attempt to bring those product candidates to market. For example, we have various agreements with collaborative partners and/or licensees that allow the use of our QS-21 Stimulon adjuvant in numerous vaccines. These agreements grant exclusive worldwide rights in some fields of use and co-exclusive or non-exclusive rights in others. These agreements generally call for royalties to be paid to us on future sales of licensed vaccines that include

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QS-21 Stimulon, which may or may not be achieved. Significant investment in manufacturing capacity could be required if we were to retain our manufacturing and supply rights.

Net cash used in operating activities for the six months ended June 30, 2014 and June 30, 2013, was $19.6 million and $9.6 million, respectively. This increase primarily resulted from increased personnel costs, costs related to the acquisition of 4-AB, costs incurred by 4-AB, as well as the reduced service revenue period to period. We continue to support and develop our QS-21 Stimulon partnering collaborations. If applications for marketing approval of vaccines that are submitted by our licensees are approved, the first products containing QS-21 Stimulon are anticipated to be launched in 2016. We are generally entitled to royalties on sales by our licensees of vaccines using QS-21 Stimulon for at least 10 years after commercial launch, with some exceptions. Our future ability to generate cash from operations will depend on achieving regulatory approval and market acceptance of our product candidates, achieving benchmarks as defined in existing collaborative agreements, and our ability to enter into new collaborations.

Recent Accounting Pronouncements

In July 2013, the FASB issued Accounting Standards Update No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, ("ASU 2013-11"). ASU 2013-11 amends Accounting Standards Codification 740, Income Taxes, by providing guidance on the financial statement presentation of an unrecognized benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists ("ASC 740"). ASU 2013-11 does not affect the recognition or measurement of uncertain tax positions under ASC 740. ASU 2013-11 will be effective for interim and annual periods beginning after December 15, 2013, with early adoption permitted. The adoption of ASU 2013-11 did not have an impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, ("ASU 2014-09"). ASU 2014-09 amends revenue recognition principles and provides a single set of criteria for revenue recognition among all industries. This new standard provides a five step framework whereby revenue is recognized when promised goods or services are transferred to a customer at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires enhanced disclosures pertaining to revenue recognition in both interim and annual periods. ASU 2014-09 is effective for interim and annual periods beginning after December 15, 2016. We are currently evaluating the potential impact that ASU 2014-09 may have on our financial position and results of operations.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our primary market risk exposure is foreign currency exchange rate risk. International revenues and expenses are generally transacted by our foreign subsidiaries and are denominated in local currency. Approximately 14% and 0% of our operating expenses for the six months ended June 30, 2014 and the year ended December 31, 2013, respectively, were from foreign subsidiaries. Additionally, in the normal course of business, we are exposed to fluctuations in interest rates as we seek debt financing and invest excess cash. We are also exposed to foreign currency exchange rate fluctuation risk related to our transactions denominated in foreign currencies. We do not currently employ specific strategies, such as the use of derivative instruments or hedging, to manage these exposures. Our currency exposures vary, but are primarily concentrated in the Euro and Swiss Franc, in large part due to our acquisition of 4-AB, a company with operations in Switzerland and Germany. There has been no material change to our interest rate exposure and our approach toward interest rate and foreign currency exchange rate exposures, as described in our Annual Report on Form 10-K for the year ended December 31, 2013. However, commercialization of any of our product candidates outside of the United States could result in increased foreign currency exposure.

We had cash, cash equivalents, and short-term investments at June 30, 2014 of $62.8 million, which are exposed to the impact of interest rate changes, and our interest income fluctuates as interest rates change. Due to the short-term nature of our investments in money market funds and US Treasury Securities, our carrying value approximates the fair value of these investments at June 30, 2014.

We invest our cash and cash equivalents in accordance with our investment policy. The primary objectives of our investment policy are to preserve principal, maintain proper liquidity to meet operating needs, and maximize yields. We review our investment policy annually and amend it as deemed necessary. Currently, the investment policy prohibits investing in any structured investment vehicles and asset-backed commercial paper. Although our investments are subject to credit risk, our investment policy specifies credit quality standards for our investments and limits the amount of credit exposure from any single issue, issuer, or type of investment. We do not invest in derivative financial instruments. Accordingly, we do not believe that there is currently any material market risk exposure with respect to derivatives or other financial instruments that would require disclosure under this item.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Exchange Act. Based on this evaluation, our Principal Executive Officer and our Principal Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective and were designed to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure, and is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. It should be noted that any system of controls is designed to provide reasonable, but not absolute, assurances that the system will achieve its stated goals under all reasonably foreseeable circumstances. Our Principal Executive Officer and Principal Financial Officer have each concluded that our disclosure controls and procedures as of the end of the period covered by this report are effective at a level that provides such reasonable assurances.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the second quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, in the first quarter of 2014, we completed the acquisition of 4-Antibody AG ("4-AB"), at which time 4-AB became our wholly-owned subsidiary. We are currently in the process of assessing and integrating 4-AB's internal controls over financial reporting into our financial reporting systems.

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PART II - OTHER INFORMATION

Item 1A. Risk Factors

Our future operating results could differ materially from the results described in this Quarterly Report on Form 10-Q due to the risks and uncertainties described below. You should consider carefully the following information about risks below in evaluating our business. If any of the following risks actually occurs, our business, financial conditions, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock would likely decline. These risk factors restate and supersede the risk factors set forth under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013.

We cannot assure investors that our assumptions and expectations will prove to be correct. Important factors could cause our actual results to differ materially from those indicated or implied by forward-looking statements. See “Forward-Looking Statements” in Part I, Item 2 of this Quarterly Report on Form 10-Q. Factors that could cause or contribute to such differences include those factors discussed below.

Risks Related to our Business

If we incur operating losses for longer than we expect, or we are not able to raise additional capital, we may be unable to continue our operations, or we may become insolvent.

Our net losses for the years ended December 31, 2013, 2012, and 2011, were $30.1 million, $11.3 million, and $23.3 million, respectively. During the six months ended June 30, 2014, we generated net loss of $8.4 million due primarily to a fair value adjustment to our contingent royalty obligation at June 30, 2014.

We expect to incur additional losses over the next several years as we continue research and clinical development of our technologies and pursue partnering opportunities, regulatory strategies, commercialization, and related activities, and such losses may increase as a result of our acquisition of 4-AB. Furthermore, our ability to generate cash from operations is dependent on the success of our licensees and collaborative partners, as well as the likelihood and timing of new strategic licensing and partnering relationships and/or successful development and commercialization of vaccines containing QS-21 Stimulon, our Prophage Series vaccines and our other product candidates. From our inception through June 30, 2014, we have incurred net losses totaling $657.2 million.

On June 30, 2014, we had $62.8 million in cash, cash equivalents, and short-term investments. We believe that, based on our current plans and activities, our working capital resources at June 30, 2014, and potential proceeds from our existing license, supply, and collaborative agreements will be sufficient to satisfy our liquidity requirements through the first half of 2015. We expect to attempt to raise additional funds in advance of depleting our funds although additional funding may not be available on favorable terms, or at all. For the six months ended June 30, 2014, our average monthly cash used in operating activities was approximately $3.3 million.

We have financed our operations primarily through the sale of equity and debt securities. In order to finance future operations, we will be required to raise additional funds in the capital markets, through arrangements with collaborative partners, or from other sources. Additional financing may not be available on favorable terms, or at all. If we are unable to raise additional funds when we need them or if we incur operating losses for longer than we expect, we may not be able to continue some or all of our operations, or we may become insolvent. We also may be forced to license or sell technologies to others under agreements that allocate to third parties substantial portions of the potential value of these technologies.

There are a number of factors that will influence our future capital requirements, including, without limitation, the following:

- the number and characteristics of the product candidates we pursue;
- the scope, progress, results and costs of researching and developing our future product candidates, and conducting preclinical and clinical trials;
- the timing of, and the costs involved in, obtaining regulatory approvals for our and our licensees' product candidates;

•the cost of manufacturing;