DUNKIN' BRANDS GROUP, INC.
Form DEF 14A
March 26, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant þ Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

þ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

DUNKIN BRANDS GROUP, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

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2) Aggregate number of securities to which transaction applies:

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4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

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130 Royall Street

Canton, Massachusetts 02021

March 26, 2014

Dear Shareholder:

We cordially invite you to attend our 2014 Annual Meeting of Shareholders on Tuesday, May 6, 2014, at 10:00 a.m. (local time), to be held at the Boston Marriott Quincy, 1000 Marriott Drive, Quincy, Massachusetts 02169.

Again this year, Dunkin Brands has elected to deliver our proxy materials to the majority of our shareholders over the Internet under the Securities and Exchange Commission rules that allow companies to furnish proxy materials to shareholders over the Internet. This delivery process allows us to provide shareholders with the information they need, while at the same time conserving natural resources and lowering the cost of delivery. On March 26, 2014, we mailed to our shareholders a Notice of Internet Availability of Proxy Materials (the Notice) containing instructions on how to access our proxy statement for our 2014 Annual Meeting of Shareholders and our 2013 Annual Report. The Notice also provides instructions on how to vote online or by telephone and includes instructions on how to receive a paper copy of the proxy materials by mail.

The Notice will serve as an admission ticket for one shareholder to attend the 2014 Annual Meeting of Shareholders. On March 26, 2014, we also first mailed this proxy statement and the enclosed proxy card to certain shareholders. If you received a paper copy of the proxy materials in the mail, the proxy card includes an admission ticket for one shareholder to attend the Annual Meeting of Shareholders. **All shareholders must also present a valid form of government-issued picture identification in order to attend.**

The proxy statement accompanying this letter describes the business we will consider at the meeting. Your vote is important regardless of the number of shares you own. Whether or not you plan to attend the Annual Meeting, we encourage you to consider the matters presented in the proxy statement and vote as soon as possible.

We hope that you will be able to join us on May 6th.

Sincerely,
Nigel Travis

Chairman and Chief Executive Officer

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Dunkin Brands Group, Inc.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

May 6, 2014

The Annual Meeting of Shareholders of Dunkin Brands Group, Inc. (the Company) will be held at the Boston Marriott Quincy, 1000 Marriott Drive, Quincy, Massachusetts 02169 on Tuesday, May 6, 2014, at 10:00 a.m. (local time) for the following purposes as further described in the proxy statement accompanying this notice:

To elect the two directors specifically named in the proxy statement, each for a term of three years.

To approve, on an advisory basis, of the compensation paid by the Company to its named executive officers (the say-on-pay vote).

To ratify the appointment of KPMG LLP as the independent registered public accounting firm of the Company for the current fiscal year.

To approve the Dunkin Brands Group, Inc. Annual Management Incentive Plan.

To consider, if properly presented at the Annual Meeting, one shareholder proposal.

Any other business properly brought before the meeting.

Shareholders of record at the close of business on March 12, 2014 are entitled to notice of, and entitled to vote at, the Annual Meeting and any adjournments or postponements thereof.

To attend the Annual Meeting, you must demonstrate that you were a Dunkin Brands shareholder as of the close of business on March 12, 2014, or hold a valid proxy for the Annual Meeting from such a shareholder. If you received a Notice of Internet Availability of Proxy Materials, the Notice will serve as an admission ticket for one shareholder to attend the 2014 Annual Meeting of Shareholders. If you received a paper copy of the proxy materials in the mail, the proxy card includes an admission ticket for one shareholder to attend the Annual Meeting of Shareholders. You may alternatively present a brokerage statement showing proof of your ownership of Dunkin Brands stock as of March 12, 2014. **All shareholders must also present a valid form of government-issued picture identification in order to attend.** Please allow additional time for these procedures.

By Order of the Board of Directors
Rich Emmett
Secretary

Canton, Massachusetts

March 26, 2014

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Dunkin Brands Group, Inc.

ANNUAL MEETING OF SHAREHOLDERS

May 6, 2014

PROXY STATEMENT

The Board of Directors of Dunkin Brands Group, Inc., or Dunkin Brands, is soliciting your proxy for the 2014 Annual Meeting. Attendance in person or by proxy of a majority of the shares outstanding and entitled to vote at the meeting is required for a quorum for the meeting.

You may vote on the Internet, using the procedures and instructions described on the Notice of Internet Availability of Proxy Materials (the Notice) that you received. If you received a paper copy of these proxy materials, included with such copy is a proxy card or a voting instruction card from your bank, broker or other nominee for the Annual Meeting. You may vote by telephone using the toll-free telephone number contained on the Notice, proxy card, or voting instruction card. Both Internet and telephone voting provide easy-to-follow instructions and have procedures designed to authenticate your identity and permit you to confirm that your voting instructions are accurately reflected.

You may revoke your proxy at any time before it is voted by voting later by telephone or Internet, returning a later-dated proxy card, or delivering a written revocation to the Secretary of Dunkin Brands.

Shareholders of record at the close of business on March 12, 2014 are entitled to vote at the meeting. Each of the 106,602,825 shares of common stock outstanding on the record date is entitled to one vote.

This proxy statement, the proxy card and the Annual Report to Shareholders for our fiscal year ended December 28, 2013 (fiscal 2013) are being first mailed or made available to shareholders on or about the date of the notice of meeting. Our address is 130 Royall Street, Canton, Massachusetts 02021.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting To Be Held on May 6, 2014: Our proxy statement is attached. Financial and other information concerning Dunkin Brands is contained in our annual report to shareholders for the fiscal year ended December 28, 2013. The proxy statement and our fiscal 2013 annual report to shareholders are available on our website at http://investor.dunkinbrands.com. Additionally, you may access our proxy materials at www.proxyvote.com, a site that does not have cookies that identify visitors to the site.

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BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD

Board structure and committee composition

Our Board of Directors has established an audit committee, a compensation committee and a nominating and corporate governance committee with the composition and responsibilities described below. Each committee operates under a written charter approved by our board of directors. The members of each committee are appointed by the Board of Directors and serve until their successor is elected and qualified, unless they are earlier removed or resign. In addition, from time to time, special committees may be established under the direction of the Board of Directors when necessary to address specific issues. While each committee has designated responsibilities, the committees act on behalf of the entire Board. The committees regularly report on their activities to the entire Board.

Our Board of Directors held 5 meetings in fiscal 2013. During fiscal 2013, each director attended at least 75% of the Board meetings and the total meetings held by all of the committees on which he or she served during the periods that he or she served.

During fiscal 2013, the Board of Directors had three standing committees: Audit, Compensation and Nominating & Corporate Governance. The table below provides information about the membership of these committees during fiscal 2013:

Name	Audit	Compensation	Nominating & Corporate Governance
Raul Alvarez	X	X*	
Anthony DiNovi		X	
Michael Hines	X*		X*
Sandra Horbach		X	X
Jon Luther**			
Mark Nunnelly		X	
Carl Sparks***	X		
Nigel Travis			
Joseph Uva	X	X	X
Number of meetings during fiscal 2013	7	5	3

* Chair
** Mr. Luther resigned from the Board of Directors in May 2013
*** Mr. Sparks was appointed to the Board in July 2013

Audit Committee

The purpose of the audit committee is set forth in the audit committee charter. The audit committee s primary duties and responsibilities are to:

Appoint, compensate, retain and oversee the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services and review and appraise the audit efforts of our independent accountants;

Establish procedures for (i) the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and (ii) confidential and anonymous submissions by our employees of concerns regarding questionable accounting or auditing matters;

Engage independent counsel and other advisers, as necessary;

Determine funding of various services provided by accountants or advisers retained by the committee;

Review our financial reporting processes and internal controls;

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Review and approve related-party transactions or recommend related-party transactions for review by independent members of our Board of Directors; and

Provide an open avenue of communication among the independent accountants, financial and senior management and the board.

The audit committee consists of Mr. Alvarez, Mr. Hines and Mr. Sparks. Mr. Uva resigned from the Audit Committee on July 26, 2013 upon Mr. Sparks appointment to the committee. The Board has determined that each member of the audit committee is an independent director and that Mr. Hines is an audit committee financial expert within the meaning of Item 407 of Regulation S-K. Mr. Hines serves as chair of the audit committee. Our Board of Directors has adopted a written charter under which the audit committee operates. A copy of the charter is available on our website.

Compensation Committee

The purpose of the compensation committee is to assist the Board of Directors in fulfilling responsibilities relating to oversight of the compensation of our directors, executive officers and other employees and the Company s benefit and equity-based compensation programs. The compensation committee reviews and recommends to our Board of Directors compensation plans, policies and programs and approves specific compensation levels for all executive officers. Under the committee charter, the compensation committee may, in its sole discretion, retain or obtain the advice of a compensation consultant, legal counsel, or other adviser only conducting an independence assessment of such advisor as required under NASDAQ rules. The compensation committee consists of Mr. Alvarez, Mr. DiNovi, Ms. Horbach, Mr. Nunnelly and Mr. Uva. Mr. Alvarez serves as chair of the compensation committee. The Board has determined that each member of the compensation committee is an independent director as defined under SEC and NASDAQ rules. The compensation committee met 5 times in fiscal 2013. Our Board of Directors has adopted a written charter under which the compensation committee operates. A copy of the charter is available on our website.

Nominating and Corporate Governance Committee

The purpose of the nominating and corporate governance committee is to identify individuals qualified to become members of the Board of Directors, to recommend director nominees for each annual meeting of shareholders, to recommend nominees for election to fill any vacancies on the Board of Directors, and to address related matters. The nominating and corporate governance committee reviews and recommends to the Board of Directors any required changes to the corporate governance principles applicable to the Company and is responsible for leading the annual review of the board s performance. The nominating and governance committee consists of Ms. Horbach, Mr. Hines, and Mr. Uva. Mr. Hines serves as chair of the nominating and corporate governance committee. Our Board of Directors has adopted a written charter under which the nominating and corporate governance committee operates. A copy of the charter is available on our website.

Our Board s Role in Risk Oversight

It is management s responsibility to manage risk and bring to the Board s attention risks that are material to Dunkin Brands. The Board has oversight responsibility for the systems established to report and monitor the most significant risks applicable to Dunkin Brands. The Board administers its risk oversight role directly and through its committee structure and the committees regular reports to the Board at Board meetings. The Board reviews strategic, financial and execution risks and exposures associated with the annual plan and multi-year plans, major litigation and other matters that may present material risk to the Company s operations, plans, prospects or the Company s or either of our brands reputation, acquisitions and divestitures and senior management succession planning. The Audit Committee reviews risks associated with financial and accounting matters, including financial reporting, accounting, disclosure, internal controls over financial reporting, ethics and compliance programs, regulatory compliance, compliance with orders and data security. The Compensation Committee reviews risks related to executive compensation and the design of compensation programs, plans and arrangements.

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Compensation of Directors

Non-Employee Director Compensation Program

Under our director compensation program, each member of our board of directors who is not an employee of the Company is eligible to receive compensation for his or her service as a director. In fiscal 2013, the annual board retainer, inclusive of meeting fees, was $70,000. Under this program, the chair of the Audit Committee receives an additional annual retainer of $15,000, the chair of the Compensation Committee receives an additional annual retainer of $12,500 and the chair of the Nominating and Corporate Governance Committee receives an additional annual retainer of $7,500. Effective May 15, 2013, the Lead Director receives an additional annual retainer of $20,000. In addition to cash retainers, independent directors receive an annual grant of restricted stock units with a grant date fair market value equal to $85,000. These restricted stock units become fully vested on the first anniversary of the date of grant, subject to the director s continued service through the vesting date.

Effective March 27, 2013, the Company amended and restated our Non-Qualified Deferred Compensation Plan (the Deferred Compensation Plan) to allow participation by non-employee directors. Under the Deferred Compensation Plan, a non-employee director may elect to defer all or part of the cash we would otherwise pay him and/or the shares of our common stock he or she would otherwise receive upon settlement of his or her restricted stock units. Amounts deferred by a non-employee director under the Deferred Compensation Plan are credited to a deferred stock unit account, which is credited with dividend equivalents upon the payment of any dividends by us. All amounts deferred under the Deferred Compensation Plan are only distributable upon the termination of a non-employee director s board service. During fiscal 2013, Messrs. Alvarez, DiNovi, Nunnelly and Sparks and Ms. Horbach elected to defer cash and/or restricted stock unit awards under the Deferred Compensation Plan.

Director Compensation for 2013

The following table sets forth information concerning the compensation earned by our directors during our 2013 fiscal year. Directors who are employees of the Company do not receive any fees for their service as directors. Mr. Travis compensation is included with that of our other named executive officers below in Executive Compensation.

Name	Fees Earned Or Paid In Cash(1)	Stock Awards (2)	All Other Compensation	Total
Jon Luther	$ 150,000(3)		$ 51,820(4)	$ 201,751
Michael Hines	92,500(5)	$ 85,036		182,224
Joseph Uva	70,000	85,036		155,036
Raul Alvarez	95,000(6)	85,036		180,036
Anthony DiNovi	70,000	116,494(7)		186,494
Mark Nunnelly	70,000	116,494(7)		186,494
Sandra Horbach	70,000	116,494(7)		186,494
Carl Sparks	29,808(8)	68,000(9)		97,808

(1) All cash retainer payments are made quarterly in arrears. Amounts shown in this table are not reduced to reflect the director s election, if any, to deter receipt of his cash retainer payments under the Deferred Compensation Plan.

(2) Reflects the grant date fair value of restricted stock units granted to non-employee directors (other than Mr. Luther) as determined under FASB ASC Topic 718. The grant date fair value of each award received was calculated by multiplying the number of restricted stock units granted to the director by the closing price of our common stock on the date of grant. These grants represent the value of the annual equity value we granted to our non-employee directors in accordance with our non-employee director compensation program described above, and reflect rounding up in the number of restricted stock units granted to avoid the grant of fractional shares. As of December 28, 2013, our non-employee directors held the following aggregate numbers of restricted stock unit awards: Mr. Luther (0); Mr. Hines (2,054); Mr. Uva (2,054);

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Mr. Alvarez (2,054); Mr. DiNovi (2,932); Mr. Nunnelly (2,932); Ms. Horbach (2,932); and Mr. Sparks (1,552). None of our non-employee directors held any other stock awards or held any stock options as of December 28, 2013.

(3) In accordance with Mr. Luther s Transition Agreement dated June 30, 2010 (the Transition Agreement), he received compensation for his services as a director in the amount of $50,000 per annum. He also received compensation for his services as Chairman (Chairman Fee). For the period from January 1, 2013 through June 30, 2013, this Chairman Fee was equal to $125,000. Mr. Luther resigned from the Board effective May 15, 2013. Pursuant to the Transition Agreement, he received the board compensation provided under the Transition Agreement through June 30, 2013.

(4) Reflects the value of certain insurance-related costs paid by us in fiscal 2013 pursuant to Mr. Luther s Transition Agreement, including the cost of a Medicare supplemental insurance policy for Mr. Luther and his wife ($1,820) and premium costs for basic term life insurance, executive life insurance and whole life insurance ($50,000).

(5) Includes annual cash retainer payments of $70,000 for Board service and $15,000 as compensation for Mr. Hines role as Audit Committee Chair and $7,500 as compensation for his role as Nominating and Governance Committee Chair.

(6) Includes annual cash retainer payments of $70,000 for board service, $12,500 as compensation for Mr. Alvarez s role as Compensation Committee Chair and $12,500 as pro rata compensation for his role as Lead Director with effect from May 15, 2013.

(7) In addition to receiving the annual grant of restricted stock units for non-employee directors with a value of $85,036 on May 15, 2013, Messrs. DiNovi and Nunnelly and Ms. Horbach each received pro rata grants of restricted stock units with a grant date fair market value of $31,458 (determined under FASB ASC Topic 718, in the same manner as described in footnote (2) above) covering the period of service from January 23, 2013 through May 14, 2013. Each of Messrs. DiNovi and Nunnelly and Ms. Horbach are affiliated with the private equity sponsors who had been our previous owners. After the private equity sponsors that previously owned the Company sold their shares in the Company, the Compensation Committee determined that it was appropriate to begin compensating Messrs. DiNovi and Nunnelly and Ms. Horbach in the same manner as our other non-employee directors, with the equity component of that compensation first taking effect on January 23, 2013.

(8) Represents Mr. Sparks pro rata annual cash retainer payment for board service with effect from July 26, 2013, the date he joined the board.

(9) Mr. Sparks received an initial grant of restricted stock units upon joining the board on July 26, 2013 with a grant date fair market value of $68,000 on the date of grant (determined under FASB ASC Topic 718, in the same manner as described in footnote (2) above). This award represented a pro-rated annual restricted stock unit grant for the period from July 26, 2013 through May 14, 2014.

Director Ownership Guidelines

Under our director ownership guidelines, each non-employee director is expected to own shares of our common stock in an amount equal to five times the director s annual cash retainer. Each director is expected to reach this ownership level within five years of first becoming a director or first being designated as an independent director. Ownership for this purpose includes shares owned directly as well as share equivalents, including shares credited to a non-employee director s stock unit account under the Deferred Compensation Plan.

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PROPOSAL 1

ELECTION OF DIRECTORS

Dunkin Brands has a classified Board of Directors currently consisting of two Directors with terms expiring in 2014 (Class III), three Directors with terms expiring in 2015 (Class I) and three Directors with terms expiring in 2016 (Class II). At each Annual Meeting of Shareholders, Directors in one class are elected for a full term of three years to succeed those Directors whose terms are expiring. This year, the two Class III Director nominees will stand for election to a three-year term expiring at the 2017 Annual Meeting. The persons named in the enclosed proxy will vote to elect Michael Hines and Joseph Uva as Directors unless the Proxy is marked otherwise. Each of the nominees has indicated his willingness to serve, if elected. However, if a nominee should be unable to serve, the shares of common stock represented by proxies may be voted for a substitute nominee designated by the Board. Management has no reason to believe that either of the above-mentioned persons will not serve his term as a Director.

We seek nominees with established strong professional reputations, sophistication and experience in the retail and consumer industries. We also seek nominees with experience in substantive areas that are important to our business such as international operations; marketing and brand management; sales, buying and distribution; accounting, finance and capital structure; strategic planning and leadership of complex organizations; technology and social and digital media; human resources and development practices; and strategy and innovation. Our nominees hold or have held senior executive positions in large, complex organizations or in businesses related to important substantive areas, and in these positions have also gained experience in core management skills and substantive areas relevant to our business. Our nominees also have experience serving on boards of directors and board committees of other public companies, and each of our nominees has an understanding of corporate governance practices and trends.

In addition, all of our nominees have prior service on our Board, which has provided them with significant exposure to both our business and the industry in which we compete. We believe that all our nominees possess the professional and personal qualifications necessary for board service, and we have highlighted particularly noteworthy attributes for each director in the individual biographies below.

Nominees for Election for Terms Expiring in 2017 (Class III Directors)

The individuals listed below have been nominated and are standing for election at this year s Annual Meeting. If elected, they will hold office until our 2017 Annual Meeting of Shareholders and until their successors are duly elected and qualified. Both of these directors were previously elected to the board by shareholders.

Your Board of Directors recommends that you vote FOR the election of each of the nominees as director.

Michael Hines, 58

Director since 2011

Mr. Hines served as Executive Vice President and Chief Financial Officer of Dick s Sporting Goods, Inc., a sporting goods retailer, from 1995 to 2007. From 1990 to 1995, he held management positions with Staples, Inc., an office products retailer, most recently as Vice President, Finance. Mr. Hines spent 12 years in public accounting, the last eight years with the accounting firm Deloitte & Touche LLP. Mr. Hines is also a director of GNC Holdings, Inc. and of The TJX Companies, Inc. Mr. Hines experience as a financial executive and certified public accountant provides him with expertise in the retail industry, including accounting, controls, financial reporting, tax, finance, risk management and financial management.

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Joseph Uva, 58

Director since 2011

Mr. Uva is Chairman of Hispanic Enterprises and Content for NBC Universal. Mr. Uva previously worked as an independent consultant in the media and communications industry from 2011 to 2013, and prior to that, he served as President and Chief Executive Officer of Univision Communications, Inc., a Spanish language media company, from April 2007 through March 2011. From 2002 to 2007, Mr. Uva was President and Chief Executive Officer of OMD Worldwide Group, a subsidiary of Omnicom Media Group Holdings, Inc., a media communications firm. Mr. Uva served as a director of Univision Communications, Inc. from 2007 until March 2011 and as a director of TiVo Inc. from 2004 through July 2011. Mr. Uva brings extensive executive experience and knowledge of media and advertising, as well as service on the boards of other public companies, to the Board.

Directors with Terms Expiring in 2015 (Class I Directors)

Sandra Horbach, 53

Director since 2006

Ms. Horbach is a Managing Director of The Carlyle Group, where she serves as head of the Global Consumer and Retail team. Ms. Horbach currently serves as a director of NBTY, Inc. and CVC Brasil Operadora e Agência de Viagens S.A., Beats Electronics and Vogue International as well as a number of not-for-profit organizations. Prior to joining Carlyle, Ms. Horbach was a General Partner at Forstmann Little, a private investment firm, and an Associate at Morgan Stanley. She has also served on the boards of Citadel Broadcasting Corporation and The Yankee Candle Company, Inc. Ms. Horbach has extensive experience in the retail and consumer industries, and experience on other public and private boards.

Mark Nunnelly, 55

Director since 2006

Mr. Nunnelly is a Managing Director at Bain Capital Partners, LLC. Prior to joining Bain Capital Partners, LLC in 1989, Mr. Nunnelly was a Partner at Bain & Company, with experience in the domestic, Asian and European strategy practices. Previously, Mr. Nunnelly worked at Procter & Gamble in product management. Mr. Nunnelly serves on the boards of directors of Apple Leisure Group, BMC Software, Bloomin Brands, Inc. and Genpact, Inc., as well as a number of private companies and not-for-profit corporations, and formerly served on the board of Domino s Pizza, Inc. and Warner Music Group Corp. Mr. Nunnelly brings significant experience in product and brand management, as well as service on the boards of other public companies, including companies in the quick service restaurant business, to the Board.

Carl Sparks, 46

Director since 2013

Mr. Sparks has served as the Chief Executive Officer of Travelocity Global since April 2011. Travelocity is one of the leading companies in online travel, and a division of Sabre Inc. Prior to joining Travelocity, he served as President of Gilt Groupe, an invitation-only online retailer of luxury products and experiences. Mr. Sparks joined Gilt as Chief Marketing Officer in October 2009 and was promoted to President in March 2010, serving in that role until April 2011, when he joined Travelocity. Mr. Sparks also served for five years at Expedia Inc., an online travel company, from June 2004 until October 2009, in a variety of leadership roles, including Senior Vice President, Marketing and Retail Operations at Hotels.com from June 2004 to May 2006, Chief Marketing Officer at Expedia.com from June 2006 to December 2007, and General Manager at Hotels.com USA, Latin America & Canada from January 2008 to October 2009. Mr. Sparks is also a director of Vonage Holdings Corp. Mr. Sparks brings expertise in digital marketing, brand management, as well as executive experience, to the Board.

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Directors with Terms Expiring in 2016 (Class II Directors)

Raul Alvarez, 58

Director since 2012

Mr. Alvarez is currently Chairman and Representative Director at Skylark Co., Ltd., a Japanese-based operator of restaurant chains. Mr. Alvarez is a director at Lowe s Companies, Inc., Eli Lilly and Company and Realogy Holdings Corp. and served as a director of McDonald s Corporation and KeyCorp until 2009. Mr. Alvarez served as President and Chief Operating Officer of McDonald s Corporation from August 2006 until December 2009. Previously, he served as President of McDonald s North America from January 2005 to August 2006 and as President of McDonald s USA from July 2004 to January 2005. Mr. Alvarez brings significant experience in the quick service restaurant industry as well as executive leadership experience to the Board.

Anthony DiNovi, 51

Director since 2006

Mr. DiNovi is Co-President of Thomas H. Lee Partners, L.P. Mr. DiNovi joined THL in 1988. Mr. DiNovi is currently a director of West Corporation. Within the last five years, Mr. DiNovi formerly served on the boards of Michael Foods, Inc., American Media Operations, Inc. and Nortek, Inc. Mr. DiNovi was selected as a director because of his experience addressing financial, strategic and operating issues as a senior executive of a financial services firm and as a director of several companies in various industries.

Nigel Travis, 64

Director since 2009

Mr. Travis has served as Chief Executive Officer of Dunkin Brands since January 2009 and assumed the additional role of Chairman of the Board in May 2013. From 2005 through 2008, Mr. Travis served as President and Chief Executive Officer, and on the board of directors of Papa John s International, Inc., a publicly-traded international pizza chain. Prior to Papa John s, Mr. Travis was with Blockbuster, Inc. from 1994 to 2004, where he served in increasing roles of responsibility, including President and Chief Operating Officer. Mr. Travis previously held numerous senior positions at Burger King Corporation. Mr. Travis currently serves on the board of directors of Office Depot, Inc. and formerly served on the boards of Lorillard, Inc. and Bombay Company, Inc. As our Chief Executive Officer, Mr. Travis brings to the board a deep understanding of the Company, as well as domestic and international experience with franchised businesses in the quick service restaurant and retail industries.

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CORPORATE GOVERNANCE

Board Independence. Our Corporate Governance Guidelines provide that our Board of Directors shall consist of such number of directors who are independent as is required and determined in accordance with applicable laws and regulations and requirements of NASDAQ. The Board evaluates any relationships of each director and nominee with Dunkin Brands and makes an affirmative determination whether or not such director or nominee is independent. Under our Corporate Governance Guidelines, an independent director is one who meets the qualification requirements for being an independent director under applicable laws and the corporate governance listing standards of NASDAQ. Our Board reviews any transactions and relationships between each non-management director or any member of his or her immediate family and Dunkin Brands. The purpose of this review is to determine whether there were any such relationships or transactions and if so, whether they were inconsistent with a determination that the director was independent. As a result of this review, our Board unanimously determined that each current member of our Board of Directors with the exception of Mr. Travis, our Chief Executive Officer, is independent under the governance and listing standards of NASDAQ. Mr. Luther, our non-Executive Chairman and former Chief Executive Officer, who resigned from the Board in May 2013, was not deemed independent prior to his resignation.

Board Expertise and Diversity. We seek to have a Board that represents diversity as to experience, gender and ethnicity/race, but we do not have a formal policy with respect to diversity. We also seek a Board that reflects a range of talents, ages, skills, viewpoints, professional experience, educational background and expertise to provide sound and prudent guidance with respect to our operations and interests. All of our directors are financially literate, and one member of our Audit Committee is an audit committee financial expert.

Board Annual Performance Reviews. Our Corporate Governance Guidelines provides that the Board shall be responsible for periodically, and at least annually, conducting a self-evaluation of the Board as a whole. In addition, the written charters of the Audit Committee, Nominating and Corporate Governance Committee and the Compensation Committee provide that such committee shall evaluate its performance on an annual basis using criteria that it has developed and shall report to the Board on its findings.

Board Nominees. Under its charter, our Nominating and Corporate Governance Committee is responsible for recommending to the Board candidates to stand for election to the Board at the Company s annual meeting of shareholders and for recommending candidates to fill vacancies on the Board that may occur between annual meetings of shareholders. The Corporate Governance Guidelines provide that nominees for director shall be selected on the basis of their character, wisdom, judgment, ability to make independent analytical inquiries, business experiences, understanding of the Company s industry and business environment, time commitment and acumen. Board members are expected to become and remain informed about the Company, its business and its industry and rigorously prepare for, attend and participate in all Board and applicable committee meetings. The committee evaluates each individual in the context of the Board as a whole, with the objective of recommending a group that can best perpetuate the success of our business and represent shareholder interests through the exercise of sound judgment using its diversity of experience. In addition, the committee considers, in light of our business, each director nominee s experience, qualifications, attributes and skills that are identified in the biographical information contained under Proposal 1 Election of Directors.

The Nominating and Corporate Governance Committee considers properly submitted recommendations for candidates to the Board of Directors from shareholders. Any shareholder may submit in writing one candidate for consideration for each shareholder meeting at which directors are to be elected by not later than the 120th calendar day before the first anniversary of the date that we released our proxy statement to shareholders in connection with the previous year s annual meeting. Any shareholder recommendations for consideration by the Nominating and Corporate Governance Committee should include the candidate s name, biographical information, information regarding any relationships between the candidate and Dunkin Brands within the last three years, a statement of recommendation of the candidate from the shareholder, a description of our shares beneficially owned by the shareholder, a description of all arrangements between the candidate and the recommending shareholder and any other person pursuant to which the candidate is being recommended, a

written indication of the candidate s willingness to serve on the Board of Directors, any other information required to be provided under securities laws and regulations, and a written indication to provide such other information as the Nominating and Corporate Governance Committee may reasonably request. Recommendations should be sent to Rich Emmett, Corporate Secretary, Dunkin Brands Group, Inc., 130 Royall Street, Canton, MA 02021. The Nominating and Corporate Governance Committee evaluates candidates for the position of director recommended by shareholders or others in the same manner as candidates from other sources. The Nominating and Corporate Governance Committee will determine whether to interview any candidates and may seek additional information about candidates from third-party sources.

Board Leadership Structure. Under our Corporate Governance Guidelines, our Board may select a Chairman of the Board of Directors at any time, who may also be an executive officer of the Company. Jon Luther, our former non-executive Chairman, retired from the Board of Directors in May 2013. At that time, the Board appointed Nigel Travis, our Chief Executive Officer, to the additional role of Chairman of the Board and named Raul Alvarez as Lead Independent Director. Mr. Travis has been our Chief Executive Officer since 2009 and has significant prior experience with franchised businesses in the quick service restaurant and retail industries. The Board believes that combining the chairman and chief executive officer positions is currently the most effective leadership structure for Dunkin Brands given Mr. Travis extensive experience and deep knowledge of our company and our industry. As Chief Executive Officer, Mr. Travis is intimately involved in the day-to-day operations of our company and is best positioned to lead the Board in setting the strategic focus and direction for our company. The Board believes that the combination of the chairman and chief executive officer roles as part of a governance structure that includes a lead independent director, as well as the exercise of key board oversight responsibilities by independent directors, provides an effective balance for the management of the Company in the best interest of our shareholders.

Majority Voting Guidelines. Our Corporate Governance Guidelines provide that in an uncontested election of directors, any nominee for director who receives a greater number of votes withheld from his or her election than votes for such election shall promptly tender his or her resignation following certification of the shareholder vote. The Nominating & Governance Committee shall make a recommendation to the Board and the Board shall determine whether or not to accept such resignation within a period of 90 days following the shareholder vote, and will promptly disclose its decision to accept or reject the resignation and, if rejected, the reasons for doing so.

Policies Relating to Directors. It is our policy that no director shall be nominated who has attained the age of 73 prior to or on the date of his or her election or re-election. We expect each of our directors to attend the Annual Meeting of Shareholders, and in 2013, each of our directors did attend.

Code of Business Ethics and Conduct. We have adopted a written Code of Business Ethics and Conduct (the Code) that applies to our directors, officers and employees, including our executive officers, and is designed to ensure that our business is conducted with integrity. The Code covers professional conduct, conflicts of interest, intellectual property and the protection of confidential information, as well as adherence to laws and regulations applicable to the conduct of our business. A copy of the Code is posted on our website, which is located at *http://investor.dunkinbrands.com*. We intend to disclose any future amendments to, or waivers from, the Code for Dunkin Brands executive officers within four business days of the waiver or amendment through a website posting or by filing a Current Report on Form 8-K with the Securities and Exchange Commission, or SEC.

Corporate Social Responsibility. At Dunkin Brands, we believe that being a socially responsible company is good business. We strive to be recognized as a company that responsibly serves our guests, franchisees, employees, communities, business partners and the interests of our planet. Our commitment to corporate social responsibility is defined by four priorities:

Our People. From our employees to our franchisees and crew members, we believe in treating everyone with respect and fairness.

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Our Guests. We are passionate about offering our guests delicious products they will enjoy, giving them plenty of menu options, and providing accurate nutrition information so they can make the best choices for themselves.

Our Planet. We recognize that everything we do has an impact on the environment. From the materials we use, to the way we construct and operate our stores, to the products we source, we are committed to adopting better, more sustainable approaches whenever feasible.

Our Neighborhoods. We are dedicated to serving the basic needs of our local communities from providing food for the hungry and support for children s health and wellness, to ensuring our neighborhoods are safe and secure.

In 2013, we published our second Corporate Social Responsibility (CSR) report, *Focused on Sustainable Solutions*, in which we demonstrate the progress we have made toward goals outlined in our 2010 report, review the challenges we encountered and set forth new goals. The scope of the report includes corporate functions and North American facilities owned and operated by Dunkin Brands or our subsidiaries for the years 2011-2012, along with some highlights from our franchise restaurants and our international business. We are reporting on a two-year cycle. Our CSR reports are available on our website at www.dunkinbrands.com/responsibility.

Communications with Directors. Security holders and other interested parties may communicate directly with the Board, the non-management directors or the independent directors as a group, or specified individual directors by writing to such individual or group c/o Office of the Corporate Secretary, Dunkin Brands Group, Inc., 130 Royall Street, Canton, Massachusetts 02021. The Secretary will forward such communications to the relevant group or individual at or prior to the next meeting of the Board.

Online Availability of Information. The current versions of our Certificate of Incorporation, By-Laws, Corporate Governance Principles, Code of Business Ethics and Conduct, and charters for our Audit, Compensation and Nominating and Corporate Governance Committee are available on our website at *http://investor.dunkinbrands.com*.

Transactions with Related Persons

Under the Code of Business Ethics and Conduct, the Board is responsible for reviewing and approving or ratifying any transaction in which Dunkin Brands and any of our directors, director nominees, executive officers, 5% shareholders or their immediate family members are participants and in which such persons have a direct or indirect material interest as provided under SEC rules. In the course of reviewing potential related person transactions, the Board considers the nature of the related person s interest in the transaction; the presence of standard prices, rates or charges or terms otherwise consistent with arms-length dealings with unrelated third parties; the materiality of the transaction to each party; the reasons for Dunkin Brands entering into the transaction with the related person; the potential effect of the transaction on the status of a director as an independent, outside or disinterested director or committee member; and any other factors the Board may deem relevant. Our General Counsel s office is primarily responsible for the implementation of processes and procedures for screening potential transactions and providing information to the Board.

Franchise Relationship

Certain family members of our former Chairman, Jon Luther, hold an ownership interest in an entity that owns and operates Dunkin Donuts restaurants and holds the right to develop additional restaurants under store development agreements. During fiscal 2013, the Company received $343,000 in royalty and rental payments from this entity. During fiscal 2013, the Company recognized $6,000 of income related to initial franchise fees with this entity. All material terms of the franchise and store development agreements with this entity are consistent with other unrelated franchisees in the market.

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Stock Ownership Information

The following table sets forth information regarding the beneficial ownership of our common stock as of the record date, March 12, 2014 by (i) such persons known to us to be beneficial owners of more than 5% of our common stock, (ii) each director, director nominee and named executive officer, and (iii) all directors, nominees and executive officers as a group. Unless otherwise noted, the address for each individual is c/o Dunkin Brands Group, Inc. 130 Royall Street, Canton, MA 02021.

Name	Number of Shares(1)	Percentage
Beneficial holders of 5% or more of our outstanding coming stock:		
FMR, LLC(2)	16,450,798	15.4%
Jennison Associates LLC(3)	12,786,835	12.0%
Morgan Stanley(4)	8,981,068	8.4%
The Vanguard Group(5)	6,124,573	5.7%
Directors and executive officers:		
Nigel Travis	1,633,804	1.5%
Paul Carbone	116,376	*
John Costello	86,089	*
Paul Twohig	72,114	*
Richard Emmett	35,750	*
Raul Alvarez	4,671	*
Anthony DiNovi	2,932	*
Sandra Horbach	2,932	*
Michael Hines	8,417	*
Mark Nunnelly	2,932	*
Carl Sparks	1,552	*
Joseph Uva	6,573	*
All Directors, Nominees and Executive Officers as a Group (16 persons)	2,083,341	1.9%

* Indicates less than 1%

(1) Reflects sole voting and investment power except as indicated in footnotes below. Includes shares of common stock which the following person had the right to acquire on March 12, 2014 or within sixty (60) days thereafter through the exercise of stock options: Mr. Travis (1,359,427), Mr. Carbone (114,884), Mr. Costello (26,540), Mr. Twohig (40,567), Mr. Emmett (24,250) and all directors, nominees and executive officers as a group (1,655,965). Includes shares of restricted common stock or restricted stock units subject to vesting conditions: Mr. Travis (150,000), Mr. Costello (27,096), Mr. Alvarez (2,054), Mr. DiNovi (2,054), Ms. Horbach (2,054), Mr. Hines (2,054), Mr. Nunnelly (2,054), Mr. Sparks (1,552), Mr. Uva (2,054) and all directors, nominees and executive officers as a group (190,972).

(2) The information regarding FMR LLC is based solely on information included in Amendment No. 4 to its Schedule 13G filed by FMR LLC with the SEC on February 13, 2014. FMR LLC reported that Fidelity Management & Research Company, a wholly-owned subsidiary of FMR LLC and an investment adviser registered under Section 203 of the Investment Advisers Act of 1940, is the beneficial owner of 16,370,128 shares of common stock as a result of acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940. Edward C. Johnson 3d and FMR LLC, through its control of Fidelity Management & Research Company, and the funds each has sole power to dispose of the 16,370,128 shares owned by the funds. FMR LLC reported its address as 245 Summer Street, Boston, Massachusetts 02210.

(3) The information regarding Jennison Associates LLC (Jennison) is based solely on information included in Amendment No. 1 to its Schedule 13G filed with the SEC on February 7, 2014. Jennison furnishes investment advice to several investment companies, including separate accounts, and institutional clients. As a result of this role, Jennison may be deemed to be the beneficial owner of the shares held by such companies, accounts and clients. In addition, Prudential Financial, Inc. (Prudential) indirectly owns 100%

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of the equity interests of Jennison and as a result, Prudential may be deemed to have power to exercise or to direct the exercise of such voting and/or dispositive power that Jennison may have with respect to such shares.

(4) The information regarding Morgan Stanley is based solely on information included in Amendment No. 2 to its Schedule 13G filed by Morgan Stanley with the SEC on February 11, 2014. Morgan Stanley reported that the securities being reported on by Morgan Stanley as a parent holding company are owned, or may be deemed to be beneficially owned, by Morgan Stanley Investment Management Inc., an investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E) as amended. Morgan Stanley Investment Management Inc. is a wholly-owned subsidiary of Morgan Stanley. Morgan Stanley reported its address as 1585 Broadway, New York, New York 10036 and reported the address of Morgan Stanley Investment Management Inc. as 522 Fifth Avenue, New York, New York 10036.

(5) The information regarding The Vanguard Group (Vanguard) is based solely on information included in its Schedule 13G filed by Vanguard with the SEC on February 6, 2014. Vanguard reported its address as 100 Vanguard Blvd., Malvern, Pennsylvania 19355.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers to file reports of holdings and transactions in our common stock with the SEC. To facilitate compliance, we have undertaken the responsibility to prepare and file these reports on behalf of our officers and directors. Based on our records and other information, all reports were timely filed during 2013, except for a delay in reporting a sale of shares by William Mitchell, an executive officer, in November 2013. The failure to report this transaction on time was inadvertent and was corrected promptly upon discovery.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This section discusses the principles underlying our policies and decisions used to determine the compensation of our executive officers who are named in the 2013 Summary Compensation Table as well as the most important factors relevant to an analysis of those policies and decisions. Our named executive officers for fiscal 2013 are:

- Nigel Travis, Chairman and Chief Executive Officer
- Paul Carbone, Chief Financial Officer
- John Costello, President, Global Marketing and Innovation
- Paul Twohig, President, Dunkin Donuts U.S. and Canada and Dunkin Donuts and Baskin-Robbins Europe and Latin America
- Richard Emmett, Senior Vice President and Chief Legal and Human Resources Officer

Overview of Compensation and Fiscal 2013 Performance

Our compensation strategy focuses on providing a total compensation package that will attract and retain high-caliber executive officers and employees, incentivize them to achieve company and individual performance goals, and align management, employee and shareholder interests over both the short-term and long-term. Our approach to executive compensation reflects our focus on long-term value creation. We believe that by placing a significant equity opportunity in the hands of executives who are capable of driving and sustaining growth, our shareholders will benefit along with the executives who helped create this value.

Compensation philosophy

Our compensation philosophy centers upon:

- attracting and retaining industry-leading talent by targeting compensation levels that are competitive when measured against other companies within our industry;
- linking compensation actually paid to the achievement of our financial, operating and strategic goals;
- rewarding individual performance and contribution to our success; and
- aligning the interests of our executive officers with those of our shareholders by delivering a substantial portion of an executive officer s compensation through equity-based awards with a long-term value horizon.

Each of the key elements of our executive compensation program is discussed in more detail below. Our executive compensation program is designed to be complementary and to collectively serve the compensation objectives described above. We have not adopted any formal policies or guidelines for allocating compensation between short-term and long-term compensation, between cash and non-cash compensation, or among different forms of cash and non-cash compensation. The compensation levels of our named executive officers reflect, to a significant degree, the

varying roles and responsibilities of these executives.

Highlights of 2013 performance

We achieved strong financial performance in fiscal 2013, and we believe that our named executive officers were instrumental in helping us to achieve those results. Highlights of our fiscal 2013 performance include the following:

Grew worldwide sales: Grew global systemwide sales by 5.8% over fiscal 2012;

Drove positive comparable store sales in Dunkin Donuts U.S., Baskin-Robbins U.S. and Baskin-Robbins International: Increased Dunkin Donuts U.S. comparable store sales by 3.4% and Baskin-Robbins U.S. comparable store sales by 0.8%. Baskin-Robbins International comparable stores sales grew by 1.9% while Dunkin Donuts International comparable store sales ended at -0.4% versus 2012;

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Expanded global presence: Opened 790 net new Dunkin Donuts and Baskin-Robbins locations globally, bringing Dunkin Brands to 18,158 total points of distribution as of year-end 2013;

Increased revenue: Increased revenue from $658.2 million in fiscal 2012 to $713.8 million in fiscal 2013 for an 8.5% increase year-on-year;

Increased operating income: Increased operating income 27.3% to $304.7 million; adjusted operating income increased 10.8% year-on-year to $340.4 million;

Increased net income: Increased net income 35.6% to $146.9 million; adjusted net income increased 10.8% to $165.8 million; and

Increased adjusted earnings per share: Increased adjusted earnings per share by 19.5% versus 2012 to $1.53.

Based on our global adjusted operating income, the measure that determined our 2013 Dunkin Brands, Inc. Short-Term Incentive Plan (Annual Plan) funding, we achieved 90% of our target 2013 funding. Global adjusted operating income is a non-GAAP financial measure. In calculating global adjusted operating income we add back amortization and impairment charges to operating income. Global adjusted operating income also includes additional discretionary adjustments considered outside the scope of normal business operations. Both adjusted operating income and adjusted net income are non-GAAP financial measures. An explanation of how we calculate these measures is contained in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013, filed with the Securities and Exchange Commission.

At our 2013 annual meeting of shareholders, over 99% of the votes cast on our say on pay proposal were in favor of the compensation of our executive officers. The Compensation Committee considered this very positive support for our compensation practices and continued to make its compensation-related decisions consistent with the Company s stated executive compensation philosophy.

Compensation framework: policies and process

Roles of Compensation Committee and our Chairman and Chief Executive Officer in compensation decisions

The Compensation Committee oversees our executive compensation program, is responsible for approving the nature and amount of the compensation paid to our executive officers, approving any employment and related agreements entered into with our executive officers, approving equity awards granted to our executive officers and administering our equity compensation plans and awards. Our Chairman and Chief Executive Officer provides recommendations to the Compensation Committee with respect to salary adjustments, annual cash bonus targets and awards and equity incentive awards for our named executive officers and the other executive officers reporting to him. The Compensation Committee meets with our Chairman and Chief Executive Officer at least annually to discuss and review his compensation recommendations for our executive officers. In making compensation decisions for all of our named executive officers, including our Chairman and Chief Executive Officer, the Compensation Committee considers many factors, including the officer s experience, responsibilities, management abilities and job performance, the Company s performance as a whole, current market conditions and pay levels for similar positions at our peer companies listed below. Those factors are considered in a subjective manner without any specific formula or weighting. The Compensation Committee, as the ultimate body that approves the compensation of our executive officers, has the discretion, and has exercised this discretion, to increase or decrease the amounts of compensation recommended by our Chairman and Chief Executive Officer.

Competitive market data and use of compensation consultants

The Compensation Committee engaged Frederic W. Cook & Co., Inc. (Cook) on a limited basis in fiscal 2013 to update the Compensation Committee on trends in executive compensation and say on pay voting and to review our peer group, and to help establish compensation levels for our named executive officers in fiscal 2014. Cook

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had been engaged to review the competitiveness of our executive compensation and to provide recommendations for change, as appropriate, in fiscal 2012, and the Compensation Committee determined that it was not necessary to update that analysis for fiscal 2013, instead using the 2012 analysis to set pay levels for executives for fiscal 2013. This analysis included a study of senior executive total direct compensation levels and opportunities when compared to executives in similar positions at our peer group companies. This analysis also included a review of incentive plan design and annual share usage and the value transferred to executives in respect to long-term incentive compensation for this peer group. The peer group of companies used in Cook s analysis was reviewed and approved by the Compensation Committee. That group consisted of the 14 publicly-traded companies listed below. They were chosen because they are in a similar industry and/or possess a similar business model as the Company, are companies against which we compete for executive talent and are relatively similar in size and market capitalization to the Company. As of April 2011, when the peer group was established, our market capitalization was between the median and the 75th percentile of our peer group companies and our operating income approximated the median of those companies.

Brinker International	Darden Restaurants	Panera Bread	Wendy s Co.
Cheesecake Factory	DineEquity	Ruby Tuesday	Yum! Brands
Chipotle Mexican Grill	Domino s Pizza	Starbucks	
Cracker Barrel	Jack In The Box	Tim Horton s	

In fiscal 2013, the Compensation Committee undertook a comprehensive review of the composition of the peer group with the advice of Cook. Cook recommended a list of comparable companies for compensation comparisons primarily based on the following pre-defined selection criteria:

Comparable Industry/Business Model Quick service and restaurant industry focus; franchise-oriented business model

Peer Company Size Sizing factors included revenue, enterprise value and market capitalization

Statistical Reliability Peer group size of between 12 and 20 companies

Executive Talent Sources Companies with whom Dunkin Brands competes for talent

As a result of this review, the Compensation Committee deleted Jack In The Box and Ruby Tuesday and added Bloomin Brands, Burger King, and Green Mountain Coffee Roasters, creating a peer group of 15 companies. The Compensation Committee believes that the revised peer group reflects Dunkin Brands growth as a global organization and the scale of our operations. This revised group will be used for compensation discussions starting in fiscal 2014. The Compensation Committee intends to review this peer group periodically to ensure that it remains the appropriate comparable group.

Cook provided no other consulting services that were outside the scope of the Compensation Committee relationship. After consideration of the six independence assessment factors provided under the listing rules of NASDAQ, the Compensation Committee has determined that Cook, as advisor to the Committee, was independent and that the work performed by Cook did not raise any conflicts of interest in 2013 that would preclude the Committee from reviewing and considering Cook s analyses when making compensation decisions.

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Elements of named executive officer compensation

The following is a discussion of the primary elements of the compensation for each of our named executive officers. Compensation for our named executive officers consisted of the following elements for fiscal 2013:

Element	Description	Primary objectives
Base Salary	Fixed cash payment	Attract and retain talented individuals Recognize career experience and individual performance Provide competitive compensation
Short-Term Incentives	Performance-based annual cash incentives	Promote and reward achievement of the Company s annual financial and strategic objectives and individualized personal goals
Long-Term Incentives	Time-based stock options	Align executive interests with shareholder interests by tying value to long-term stock performance Attract and retain talented individuals
Retirement and Welfare Benefits	Medical, dental, vision, life insurance and disability insurance (STD & LTD)	Provide competitive benefits
	401(k) plan	Provide tax-efficient retirement savings
	Deferred Compensation Plan	Provide tax-efficient opportunity to supplement retirement savings
Executive Perquisites	Executive physical for Vice Presidents and above	Promote health and well-being of senior executives
	Supplemental LTD Insurance	Provide competitive benefits
Severance Benefits	Cash and non-cash payments and benefits upon a qualifying termination of employment	Retain and attract key employees Provide a level of protection in the event of an involuntary termination of employment

Base salary

We pay our named executive officers a base salary to provide them with a fixed, base level of compensation. The base salaries of our named executive officers are reviewed periodically by our Chairman and Chief Executive Officer (except with respect to his own base salary) and are approved by the Compensation Committee. They are intended to be competitive in light of the level and scope of the executive s position and responsibilities. Adjustments to base salaries are based on the level of an executive s responsibilities and his individual contributions, prior experience and sustained performance. Decisions regarding base salary increases may take into account the named executive officer s current salary, equity holdings, including stock options, and the amounts paid to individuals in comparable positions as determined through an analysis of our peer group and/or published data from industry surveys of similar companies. No formulaic base salary increases are provided to our named executive officers, in line with our strategy of offering total compensation that is cost-effective, competitive and based on the achievement of performance objectives.

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Short-term incentive plan

In addition to receiving base salaries, executives participate in the Annual Plan, our annual management incentive plan. We believe that annual incentives should be based upon actual performance against specific, measurable business objectives. Each year, the Compensation Committee reviews and establishes the performance metrics that will be used under the Annual Plan to help ensure that the program design appropriately motivates our executive officers to achieve important financial and operational goals. The funding of the Annual Plan in fiscal 2013 was based on the level of achievement against our global adjusted operating income target. For fiscal 2013, the Compensation Committee chose global adjusted operating income as the performance metric that would be used to establish the funding levels under the plan in order to ensure that we had a sufficient level of earnings to fund bonuses to be paid out of this plan. In addition, the use of global adjusted operating income provides a link between the compensation payable to our executives and the value we create for our shareholders. Global adjusted operating income is also a key metric used by us and by our shareholders to evaluate business performance.

The Compensation Committee set the global adjusted operating income target for fiscal 2013 at a level it believed was both challenging and achievable. By establishing a target that is challenging, the Compensation Committee believes that the performance of our employees, and therefore our performance, is maximized. By setting a target that is also achievable, the Compensation Committee believes that employees will remain motivated to perform at the high level required to achieve the target.

The potential Annual Plan payout for each eligible employee (based on the employee s target bonus) is aggregated to create an Annual Plan pool at target. The level of funding under the Annual Plan for fiscal 2013 ranged from 0% to 225% of that target pool based on our actual performance relative to the global adjusted operating income target, with a threshold funding level established by the Compensation Committee based on the minimum level of global adjusted operating income performance that would result in any funding under the Annual Plan.

The Compensation Committee approved a modification in the Annual Plan funding schedule in 2013 compared to that in place for fiscal 2012. This modification lowered the threshold for funding from 95% to 90% of global adjusted operating income performance, increased the maximum funding under the Annual Plan from 200% to 225% of target award and also changed the slope of the funding under the Annual Plan (as shown below). The Committee made this change to more appropriately align the level of funding under the Annual Plan with business performance.

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The graph below illustrates the differences between the funding slopes for 2012 and 2013:

Once our global adjusted operating income performance is determined after the close of the fiscal year, the funding level for the Annual Plan is established. The Annual Plan funding is then allocated to participants in the plan based on the achievement of relevant financial or operational business goals such as revenue, comparable store sales and net development (i.e., the number of new store openings minus the number of store closings). These specific goals are chosen due to their impact on our profitability. These goals are categorized into three categories: Primary, Secondary and Personal. Primary business goals are financial goals which are influenced or impacted by the activities of the broader organization/group. The Primary business goals are shared among all executives in order to encourage cross-functional collaboration. Secondary business goals are key financial goals that relate most directly to the executive based on his role within the Company and his ability to impact certain aspects of our business. Personal goals are measurable operational or business goals that relate directly to the duties and responsibilities of the individual executive. Performance against each goal category is measured separately. The goals are weighted as follows: Primary (35%), Secondary (30%) and Personal (35%). This weighting allows each set of goals to be taken into account in a manner that is generally equal, with more weight placed on the achievement of relevant company performance metrics. The achievement of Personal goals is taken into account solely on a discretionary basis. During the year, regular communication takes place within the Company to ensure that all executives are aware of progress against their goals.

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The table below lists the 2013 Primary and Secondary business goals for each named executive officer:

Name and Title	Goal type	Metric
Nigel Travis	Primary	Dunkin Brands Inc. Global Total Revenue
Chairman and Chief Executive Officer	Secondary	Dunkin Brands Inc. Global Comparable Sales (80%)
		Dunkin Donuts U.S. Net Development (20%)
Paul Carbone	Primary	Dunkin Brands Inc. Global Total Revenue
Chief Financial Officer	Secondary	Dunkin Brands Inc. Global Comparable Sales (80%)
		Dunkin Donuts U.S. Net Development (20%)
John Costello	Primary	Dunkin Brands Inc. Global Total Revenue
President, Global Marketing and Innovation	Secondary	Dunkin Brands Inc. Global Comparable Sales (80%)
		Dunkin Donuts U.S. Net Development (20%)
Paul Twohig	Primary	Dunkin Brands Inc. Global Total Revenue
President, Dunkin Donuts U.S. and Canada and Dunkin Donuts and Baskin-Robbins Europe and Latin America	Secondary	Dunkin Brands Inc. U.S. Comparable Sales (60%)
		Dunkin Donuts U.S. Net Development (40%)
Richard Emmett	Primary	Dunkin Brands Inc. Global Total Revenue
Senior Vice President & Chief Legal and Human Resources Officer	Secondary	Dunkin Brands Inc. Global Comparable Sales (80%)
		Dunkin Donuts U.S. Net Development (20%)

Personal goals for fiscal 2013 were the relevant strategic and operational goals for the respective named executive officer described below:

- creating greater shareholder value by maximizing earnings per share;
- increasing franchisee profitability;
- driving Dunkin Donuts digital/mobile/loyalty strategy to improve the customer experience and increase brand loyalty;
- achieving successful roll-out of store development agreements in California; and
- increasing customer satisfaction scores.

The achievement of Personal goals under the Annual Plan is reviewed after the close of the relevant fiscal year and is taken into account by the Compensation Committee on a discretionary basis.

At the conclusion of the fiscal year, global adjusted operating income results are determined by our finance department based on our audited financial results. These results are presented to the Compensation Committee for consideration and approval. The Compensation Committee retains the discretion to adjust (upwards or downwards) global adjusted operating income results for the occurrence of extraordinary events affecting global adjusted operating income performance. In addition, in setting the global adjusted operating income thresholds and determining

our achievement of such thresholds, the Compensation Committee may exclude certain revenues and expenses related to our business as it deems appropriate. In 2013, the Compensation Committee approved the exclusion of a one-time charge related to a volume guarantee with the franchisee-owned supply chain cooperative regarding the sale of cooler beverages in our restaurants and costs associated with the closure of our

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Peterborough, Ontario manufacturing plant. After the Compensation Committee sets the bonus pool under the Annual Plan based on its determination of the level of our global adjusted operating income achieved, our Chairman and Chief Executive Officer then recommends amounts payable to each named executive officer (other than himself) under the Annual Plan based on performance against his respective Primary, Secondary and Personal goals. The Compensation Committee makes all determinations with respect to Mr. Travis s bonus. Annual Plan awards may be adjusted based on considerations deemed appropriate by the Compensation Committee, including personal performance.

Long-term equity incentive program

The primary goals of our equity incentive program are to align the interests of our named executive officers with the interests of our shareholders and to encourage executive retention through the use of service-based vesting requirements. As discussed below, the Compensation Committee awarded time-based stock options to all named executive officers in 2013 consistent with the terms of our annual long-term equity incentive award program adopted in fiscal 2012.

We consider stock options to be performance-based because no value is created unless the value of our common stock appreciates after grant and the same value is created for our shareholders. Because value is tied to long-term stock performance, we believe that stock options are the best vehicle to align executive interests with shareholder interests.

Prior to our IPO, we granted each of our named executive officers options consisting of time-based options (30% of each grant) and time and performance-based options (70% of each grant), which remain outstanding. The combination of time- and performance-vesting of these awards was designed to compensate executives for their long-term commitment to the Company, while incentivizing sustained increases in our financial performance and helping to ensure that the private equity sponsors that previously owned the Company received an appropriate return on their invested capital before executives received significant value from these grants.

Our pre-IPO time-based options generally vest in equal installments of 20% on each of the first five anniversaries of the vesting commencement date, which is typically the date the option grants were approved by the Compensation Committee. Our pre-IPO performance-based options generally become eligible to vest in tandem with the vesting of our pre-IPO time-based options, but do not actually vest unless a pre-established performance condition has achieved. Because that condition has been satisfied, to the extent unvested based on service, those options are only subject to the optionee s continued employment to the Company through the applicable vesting date.

The Compensation Committee retains discretion to grant stock options or other equity-based awards to employees at any time, including in connection with a promotion, to reward an employee, for retention purposes or in other circumstances. The Compensation Committee will continue to evaluate the structure and terms of our equity compensation program and may make adjustments going forward.

Fiscal 2013 compensation

Base salaries

Except with respect to our Chairman and Chief Executive Officer, our Compensation Committee determined that it was appropriate to keep the base salary levels of our named executive officers in fiscal 2013 unchanged from fiscal 2012. Consistent with the philosophy of linking compensation actually paid to the achievement of our financial, operating and strategic goals, the Committee opted to approve a proposal to increase their respective Annual Plan targets rather than increasing the base salaries of the other named executive officers.

The Compensation Committee determined that it was appropriate to increase the base salary of Mr. Travis effective March 28, 2013 by 10.3% to $950,000. Prior to this increase, Mr. Travis had not received a base salary

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increase since commencing employment with the Company in January 2009, with the exception of an $11,000 per year base salary adjustment in May 2011 to compensate him for the elimination of his $20,000 per year car allowance. As a result, his base salary was determined by the Committee to be substantially below market for his position. After his base salary increase was implemented, Mr. Travis s base salary was determined to be between the 25th and 50th percentile of Chief Executive Officer base salaries in the 2012 Dunkin Brands peer group.

Short-term incentive awards

The threshold, target and maximum incentive levels (as a percentage of base salary and as described more fully below) established under the Annual Plan and payable to each named executive officer if achievement relative to the 2013 global adjusted operating income target resulted in a fully funded plan and, if applicable, the named executive officer achieved each of his Primary, Secondary and Personal goals were:

	Target annual cash bonus as a % of base salary		
Named executive officer	**Threshold %**	**Target %**	**Maximum %**
Nigel Travis	25%	100%	225%
Paul Carbone(1)	15%	60%	135%
John Costello(1)	15%	60%	135%
Paul Twohig(1)	15%	60%	135%
Richard Emmett(2)	13.75%	55%	123.75%

(1) The incentive target for Messrs. Carbone, Costello and Twohig was increased from 50% to 60% effective January 1, 2013.
(2) Mr. Emmett s incentive target was increased from 50% to 55% effective January 1, 2013.

Full funding (100% of target funding) for the Annual Plan was contingent on achievement of our global adjusted operating income target of $343.8 million. The funding threshold level (25% of target funding) was contingent on achievement of 90% of the global adjusted operating income target, meaning that if global adjusted operating income performance achievement fell below $309.4 million, no funding would be achieved under the plan and no payments would be made under it. The maximum funding level for the Annual Plan (225% of target funding) was contingent on the achievement of 110% of the global adjusted operating income target, or achievement of $378.2 million of global adjusted operating income.

Our 2013 global adjusted operating income performance under the Annual Plan was $340.4 million, or 99% of our adjusted operating income target. This translated to a funding level of 90% of target in accordance with the funding schedule set forth in the Annual Plan. In determining the size of the 2013 Annual Plan pool for allocation among plan participants, including our named executive officers, the Compensation Committee considered the Company s performance as a whole against all of the primary and secondary goals set forth at the beginning of 2013, as well as the funding level established under the Annual Plan, and approved an Annual Plan pool for allocation to plan participants in the amount of $15.3 million, or 96% of target funding. In addition, in order to further reward those individuals who had the most significant impact on the Company s results in 2013, the Committee approved a supplemental discretionary pool of $1.0 million for allocation to a limited number of high performing employees, including our named executive officers.

Once the funding level for the Annual Plan pool was approved, our Chairman and Chief Executive Officer recommended to the Compensation Committee amounts to be paid to each named executive officer under the Annual Plan based on performance against each individual s Primary, Secondary and Personal goals. The determination of the amount that each individual received that was based upon achievement of the Primary and Secondary business goals was formulaic, as shown in the table below. The determination of the amount that each individual received that was based on the achievement of Personal goals was based on the Compensation Committee s assessment (after consideration of the Chairman and Chief Executive Officer s recommendation) of the individual s performance against his individual goals. When assessing the amount of the bonus that each executive was entitled to earn, the Compensation Committee applied the same principles to our Chairman and Chief Executive Officer as it did to the other named executive officers.

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For 2013, each named executive officer was determined to have achieved his Personal goals in full. In addition, after considering our strong overall results particularly, relative to the quick service restaurant sector as a whole and the role each respective named executive officer played in achieving those results, our Chairman and Chief Executive Officer recommended to the Compensation Committee that each named executive officer s award, other than his own, be supplemented with an additional bonus from the $1.0 million discretionary pool approved by the Compensation Committee. The Compensation Committee approved an additional discretionary bonus for each of our named executive officers to recognize the contributions he made to our strong performance during fiscal 2013 in the amount set forth in the table below. The table below lists the payouts to each named executive officer as a percentage of eligible base salary earnings and as a percentage of his target award.

Named executive officer	Target Annual Plan % payout (% of base salary)	Actual award % (% of base salary)	Actual award % (% of target award)
Nigel Travis	100%	102.2%	102.2%
Paul Carbone	60%	63.3%	105.5%
John Costello	60%	61.1%	101.8%
Paul Twohig	60%	70.5%	117.6%
Richard Emmett	55%	60.2%	109.4%

Primary and Secondary Business Goals(1)	Target Performance	Actual Performance	% Earned
Dunkin Brands Inc. Global Total Revenue ($MM)	$ 706.3	$ 711.7	105%
Dunkin Brands Inc. Global Comparable Sales	4.09%	2.76%	66.3%
Dunkin Donuts U.S. Net Development, comprised of:			153.8%
Dunkin Donuts U.S. Net New Stores (50% weight)	340	371	120.0%
Dunkin Donuts New First Year Sales ($MM) (50% weight)	$ 134.45	$ 158.03	187.5%
Dunkin Brands Inc. Comparable Sales U.S.	4.03%	3.18%	77.5%

(1) Each metric is as defined under the Annual Plan or award agreements granted thereunder.

Named executive officer	Weighted Contribution Toward Annual Plan Payout: Primary and Secondary Business Goals (65% of total opportunity)(1)	Personal Goals and Annual Plan funding (35% of total opportunity)(2)	Adjustment to Personal Goals(3)	Actual award % (% of target award)
Nigel Travis	61.9%	31.5%	8.8%	102.2%
Paul Carbone	61.9%	31.5%	12.2%	105.5%
John Costello	61.9%	31.5%	8.4%	101.8%
Paul Twohig	69.2%	31.5%	16.9%	117.6%
Richard Emmett	61.9%	31.5%	16.0%	109.4%

(1) Represents the earned portion of the award with respect to each of our named executive officer s Primary and Secondary business goals based on performance results described in the preceding table and the applicable weightings described above under Compensation Discussion and Analysis Elements of named executive officer compensation Short-term incentive plan .
(2) Represents the adjusted operating income-based funding level (90%) multiplied by the remaining portion of the award (35%).
(3) Represents the additional discretionary bonus approved by the Compensation Committee for each of our named executive officers.

Long-term equity incentive awards

In 2013, each of our named executive officers received equity awards in the form of stock options. In determining the size of the long-term equity grants awarded to our named executive officers, the Compensation

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Committee took into account a number of factors such as long-term incentive values typically awarded to executives holding positions in similarly-situated cm: Black 2.5pt double; text-align: left">$4,036,474 $7,914,572 $14,344,664

8. Stockholders' Equity

On May 31, 2016, the Company entered into a Securities Purchase Agreement (the "SPA") with certain purchasers providing for the sale and issuance in a registered public offering of an aggregate of 2,127,660 shares of the Company's common stock and warrants to purchase 1,063,830 shares of the Company's common stock. Each share of common stock was sold together with a warrant to purchase 0.50 of a share of common stock at a combined purchase price of $2.35 per unit, for aggregate gross proceeds to the Company of $5.0 million. The offering closed on June 3, 2016. The warrants have an exercise price of $2.25 per share, were exercisable immediately upon issuance and expire five years following the date of issuance. The Company received net proceeds from the offering of approximately $4.2 million after deducting placement agent fees and other offering expenses payable by the Company.

Pursuant to a Placement Agent Agreement dated May 31, 2016, by and between the Company and Roth Capital Partners, LLC ("Roth") and Griffin Securities, Inc. ("Griffin"), Roth and Griffin acted as co-placement agents for the offering. The Company agreed to pay an aggregate cash fee for placement agent services equal to 7% of the gross proceeds of the offering (the "Placement Agent Fee"), as well as a non-refundable legal reimbursement fee of $75,000.

The Company evaluated the warrants issued in the offering and determined the warrant instruments do not qualify for the scope exception in ASC 815, due to certain net cash settlement provisions in the warrant agreement. The Company recorded a derivative liability for the estimated fair value of the warrants issued in connection with the offering in the amount of $1.8 million (based on a Black-Scholes Option Pricing Model assuming no dividend yield, volatility of 123%, and a risk-free interest rate of 1.23%). The remaining balance of $3.2 million, after deducting for the fair value of the warrants, was allocated to the value of the common stock. Offering costs directly allocable to the offering totaled $0.8 million, including placement agent fees and legal expenses. Of this amount, $0.2 million was allocable to the warrants and recorded as other expense on the Company's Statements of Operations based on the relative fair value of the warrant to the common stock.

The derivative liability for the warrants was marked-to-market at June 30, 2016, with the decrease in fair value of $0.5 million recorded as a component of change in fair value of derivative liability on the Company's Statements of Operations (see Note 4).

On March 16, 2015, the Company issued and sold 1,575,758 shares of common stock in a private placement at a price of $8.25 per share, for aggregate proceeds of $13.0 million. In conjunction with this private placement, the Company issued warrants to purchase an aggregate of 393,939 shares of common stock at an exercise price of $10.75 per share

to the purchasers of the common stock. The Company paid $833,000 in fees to its placement agents, along with the issuance of warrants to purchase an aggregate of 94,545 shares of common stock at an exercise price of $10.75 per share. The Company valued these warrants as liability instruments and recorded a liability of $4,210,000 as of March 16, 2015. In the first quarter of 2015, the Company recorded $213,000 of other expenses representing the portion of the initial warrant value of the placement agent warrants related to the initial fair value of the warrants issued to the purchasers of the common stock. The remainder of the initial fair value of the warrants of $3,996,000 was treated as a reduction of additional paid-in-capital. In addition, $218,000 of the fees paid to a placement agent were expensed as other expenses in the six months ended June 30, 2015 as they also represented issuance costs related to the initial fair value of the warrants issued to the purchasers of the common stock.

9. Stock-Based Compensation

Share-based Compensation

In June 2016, the Company's stockholders approved the 2016 Equity Incentive Plan (the 2016 Plan). The plan provides for the issuance of incentive awards in the form of non-qualified and incentive stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards and performance-based stock awards. 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 or to a subsidiary of the Company. The exercise price for stock options must not be less than the fair market value of the underlying shares on the date of grant. Stock options expire no later than ten years from the date of grant and generally vest and typically become exercisable over a four-year period following the date of grant. Upon the exercise of stock options, the Company issues the resulting shares from shares reserved for issuance under the Stock Incentive Plan. With the approval of the 2016 Plan, 1,000,000 new shares were added and the remaining unallocated shares from the Company's 2013 Stock Incentive Plan were allocated to the 2016 Plan.

The Company accounts for stock options and restricted stock units related to its 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 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 the Company has elected to use the straight-line method of amortization. The assumptions used in the Black-Scholes option valuation model for the three months ended June 30, 2016 are set forth below.

- *Expected Dividend*: The Company does not anticipate paying any dividends on its common stock.
- *Expected Life*: The expected life represents the period that the Company expects its stock-based awards to be outstanding. The Company's expected life assumption was based on the simplified method set forth in the SEC Staff Accounting Bulletin 110. The Company's estimation of the expected life for stock options granted to parties other than employees or directors is the contractual term of the option award.
- *Expected Volatility:* Expected volatility is the measure by which the Company's stock price is expected to fluctuate during the expected term of an option. The Company's expected volatility represents the weighted average historical volatility of the shares of its common stock.
- *Risk-Free Interest Rate*: The Company bases 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 its stock-based awards does not correspond with the terms for which interest rates are quoted, the Company performs a straight-line interpolation to determine the rate from the available term maturities.
- *Forfeiture Rate*: The Company applies an estimated forfeiture rate that is derived from historical forfeited shares. If the actual number of forfeitures differs from our estimates, the Company may record additional adjustments to

compensation expense in future periods.

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 for the six months ended June 30, 2016:

	June 30, 2016	
Risk-free interest rate	1.46 to 1.63	%
Expected volatility	113 to 115	%
Expected term (in years)	6.0	
Expected dividend yield	0.0	%

Stock-based compensation expense is reduced by an estimated forfeiture rate derived from historical employee termination behavior. If the actual number of forfeitures differs from the Company's estimates, the Company may record adjustments to increase or decrease compensation expense in future periods.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
Research and development	$ 26,000	$ 30,000	$ 52,000	$ 59,000
General and administrative	522,000	22,000	1,312,000	46,000
Total stock-based compensation	$ 548,000	$ 52,000	$ 1,364,000	$ 105,000

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The following table summarizes stock option activity for the six months ended June 30, 2016:

		Options Outstanding			
	Shares Available For Grant	Shares	Weighted Average Exercise Price	Average Remaining Contractual Term (Years)	Intrinsic Value
Balance, December 31, 2015	723,431	669,769	$ 8.68	9.29	$ -
Granted	(224,208)	224,208	2.85	-	-
Exercised	-	-	-	-	-
Forfeited	150,956	(150,856)	9.03	-	-
Expired	-	(4,100)	14.39	-	-
Shares authorized	1,000,000	-	-	-	-
Balance, June 30, 2016	1,650,179	739,021	$ 6.81	8.99	$ -
Vested or expected to vest at June 30, 2016		612,640	$ 7.18	8.91	$ -
Exercisable at June 30, 2016		154,312	$ 8.93	7.91	$ -

The intrinsic value of options exercisable as of June 30, 2016 was $0.0, based on the Company’s closing stock price of $1.55 per share and the exercise price of the options.

During the six months ended June 30, 2016, the Company issued 224,208 common stock options to its employees and an executive with an average exercise price of $2.85 per share. Included in this amount were 99,919 stock options, with an exercise price of $2.85, to its Chief Financial Officer, pursuant to his employment agreement dated January 18, 2016. There were no grants of stock options to employees or directors during the three and six months ended June 30, 2015.

As of June 30, 2016, there was $2.2 million of total unrecognized compensation expense related to unvested stock options, which the Company expects to recognize over the weighted average remaining period of 2.75 years.

Shares Reserved For Future Issuance

As of June 30, 2016, the Company had reserved shares of its common stock for future issuance as follows:

	Shares Reserved
Stock options outstanding	739,021
Available for future grants under the 2016 Plan	1,650,179
Warrants	2,443,479
Total shares reserved	4,832,679

Employee Stock Purchase Plan (ESPP)

On June 20, 2016, the Company's stockholders approved the Company's 2016 Employee Stock Purchase Plan (the "ESPP"). The ESPP allows eligible employees on a voluntary basis to purchase shares of the Company's common stock. The shares are sold to participants at a price equal to the lesser of 85% of the fair market value of the Company's common stock at the (i) beginning of the six month offering period, or (ii) end of the six month purchase period. The ESPP provides for four six month purchase periods during each 24 month term. The initial shares provided for under the plan are 120,000, and automatically increase annually as allowed for under the ESPP, beginning January 1, 2017 and through January 1, 2026.

As of the six months ended June 30, 2016, no shares have been issued under the ESPP.

10. Collaborative and Other Agreements

In June 2013, the Company entered into a Collaborative Research and Development Agreement with the United States Army Medical Research and Materiel Command and the Walter Reed Army Institute of Research. The Collaborative Research and Development Agreement is focused on developing and commercializing bacteriophage therapeutics to treat *S. aureus* infections. During the three and six months ended June 30, 2016 and 2015, the Company recorded no payments to Walter Reed Army Institute of Research under the Collaborative Research and Development Agreement.

In March 2013, the Company entered into an Exclusive Channel Collaboration Agreement with Intrexon Corporation (the "ECC Agreement"). This agreement allowed the Company to utilize Intrexon's synthetic biology platform for the identification, development and production of bacteriophage-containing human therapeutics. The Company paid a one-time technology access fee in 2013 to Intrexon of $3,000,000 in common stock. Pursuant to the agreement, the Company was required to pay Intrexon, in cash or stock, milestone fees of $2,500,000 for the initiation and 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 was required to pay, in cash, tiered royalties on a quarterly basis based on net sales of AmpliPhi Products, calculated on a product-by-product basis. No milestones have been met and no milestone payments have been paid to Intrexon through June 30, 2016. During the three and six months ended June 30, 2016, the Company recorded $22,000 and $76,000, respectively, in expenses under the Exclusive Channel Collaboration Agreement, with cash payments totaling $60,000 and $117,000, respectively. During the three and six months ended June 30, 2015, the Company recorded $22,000 and $44,000, respectively, in expenses under the Exclusive Channel Collaboration Agreement, with cash payments for the three and six months ended June 30, 2015 and totaling $31,000 and $35,000, respectively. On April 13, 2016, the Company provided written notice to Intrexon of its election to voluntarily terminate the ECC Agreement. The effective date of the termination was July 12, 2016. As of June 30, 2016, the Company had a liability of $15,000 recorded for amounts due to Intrexon. The Company did not incur any early termination penalties as a result of the termination of the ECC Agreement.

In April 2013, the Company entered into a collaboration agreement with the University of Leicester to develop a phage therapy that targets and kills all toxin types of *C. difficile.* In August 2013, the Company entered into a collaboration agreement with both the University of Leicester and the University of Glasgow to carry out certain animal model development work. Under these agreements, which are referred to collectively as the Leicester Development Agreements, the Company provides payments to the University of Leicester to carry out *in vitro* and to the University of Glasgow to carry out animal model development work on the University of Leicester's development of a bacteriophage therapeutic to resolve *C. difficile* infections. The Company licensed related patents, materials and know-how from the University of Leicester. Under the Leicester Development Agreements, the University of Leicester will provide the bacteriophage and act as overall project coordinator for the development work. All rights, title and interest to any intellectual property developed under the Leicester Development Agreements belong to the Company. Under the Leicester License Agreement, the Company has exclusive rights to certain background intellectual property of the University of Leicester, for which it will pay the University of Leicester royalties based on product sales and make certain milestone payments based on product development. In November 2015, the Company renewed this collaboration, effective as of November 12, 2015. This agreement expires November 12, 2018. During the three and six months ended June 30, 2016, the Company recorded $43,000 and $86,000, respectively, in expenses to the University of Leicester under the Leicester Development Agreements, with cash payments totaling $94,000 and $140,000, respectively. During the three and six months ended June 30, 2015, the Company recorded $53,000 and $88,000, respectively, in expenses to the University of Leicester under the Leicester Development Agreements, with cash payments in the amount of $115,000 and $165,000, respectively. During the three and six months ended June 30, 2016, the Company recognized no expense and made no payments to the University of Glasgow under the Leicester Development Agreements. During the three and six months ended June 30, 2015, the Company recorded $0 and $13,000, respectively in expenses to the University of Glasgow under the Leicester Development Agreements, with cash payments totaling $0 and $61,000, respectively.

In September 2015, the Company entered into a non-exclusive patent license agreement with Takara Bio Inc. (the Takara Agreement). Under this agreement Takara licensed certain patents from the Company related to AAV1 Vector gene delivery systems, for which the Company is an exclusive licensor with the University of Pennsylvania. The Company received a $40,000 non-refundable, up-front licensing payment and is entitled to receive royalties from Takara of 12.0% of net license product sales and 6.0% of service revenues associated with the licensed products. The agreement calls for minimum annual royalties of $15,000 commencing on February 28, 2016. In addition, the Takara Agreement provides milestone fees to the Company of $30,000 of the first $1,000,000 of licensed product revenues by Takara and an additional $40,000 when cumulative net sales of the licensed product by Takara exceed $2,000,000. During the three and six months ended June 30, 2016 the Company recognized revenue of $4,000 and $8,000, respectively, under the Takara Agreement.

11. Severance Charge

In September of 2014 and 2015 two executives separated from the Company. The Company recorded severance expenses in the respective periods and accrued severance related to the cash portion due over time.

The severance accrual as of December 31, 2015 and June 30, 2016 is as follows:

Accrued severance, December 31, 2015	$308,000
Cash payments in 2016	(236,000)
Accrued severance, June 30, 2016	$72,000

12. Legal Proceedings

On April 14, 2016, NRM VII Holdings I, LLC (“NRM”), filed a complaint against the Company and the current members of the Company’s Board of Directors in the Superior Court of California, County of San Diego, which complaint was amended on July 25, 2016. NRM, together with its affiliates, is one of the principal stockholders of the Company. The amended complaint (the “complaint”) alleges that the Company breached the implied covenant of good faith and fair dealing by entering into a scheme to force NRM to convert its Series B Shares into shares of common stock. The complaint further alleges that the members of the Board who are named as defendants breached their fiduciary duty of good faith and loyalty owed to NRM, as one of the Company’s stockholders, by participating in this alleged scheme. The complaint seeks unspecified monetary damages and other relief. The Company plans to vigorously defend against the claims advanced.

The Company determines whether it should accrue an estimated loss for a contingency in a particular legal proceeding by assessing whether a loss is deemed probable and whether the amount can be reasonably estimated. Claim estimates that are probable and can be reasonably estimated are reflected as liabilities. Legal proceedings are inherently unpredictable and the matters in which the Company may be involved often will present complex legal and factual issues. Because of the uncertainties related to the Company's pending litigation, investigations, inquiries or claims, management is currently unable to predict the ultimate outcome of any litigation, investigation, inquiry or claim, determine whether a liability has been incurred, or make an estimate regarding the possible loss or range of loss that could result from an unfavorable outcome. It is reasonably possible that some of the matters which may be asserted could be decided unfavorably to the Company. An adverse ruling or outcome in any lawsuit involving the Company could materially affect its business, liquidity, consolidated financial position or results of operations. In view of the unpredictable nature of such matters, the Company cannot provide any assurances regarding the outcome of any litigation, investigation, inquiry or claim to which it is a party of the impact on the Company of an adverse ruling on such matters.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q, and the audited financial statements and notes thereto as of and for the year ended December 31, 2015 included in our Annual Report on Form 10-K filed with the SEC.

Statements contained in this report that are not statements of historical fact are forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, without limitation, statements concerning product development plans, the use of bacteriophages to kill bacterial pathogens, having resources sufficient to fund our operations into the fourth quarter of 2016, future funding sources, general and administrative expenses, clinical trial and other research and development expenses, capital resources, capital expenditures, tax credits and carry-forwards, and additional financings and litigation-related matters. Words such as "believe," "anticipate," "plan," "expect," "intend," "will," "goal," "potential" and similar expressions are intended to id forward-looking statements, though not all forward-looking statements necessarily contain these identifying words. These statements are subject to risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth below under Part II, Item 1A, "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. These forward-looking statements speak only as of the date on which they were made, and we undertake no obligation to update any forward-looking statements.

Overview

We are a biotechnology company focused on the discovery, development and commercialization of novel phage therapeutics. Phage therapeutics use bacteriophages, a family of viruses, to kill pathogenic bacteria. Phages have powerful and highly selective mechanisms of action that permit them to target and kill specific bacteria. We believe that phages represent a promising means to treat bacterial infections, especially those that have developed resistance to current therapies including the so-called multi-drug-resistant or "superbug" strains of bacteria.

Our goal is to be the leading developer of phage therapeutics. We are combining our expertise in the manufacture of drug-quality bacteriophages and our proprietary approach and expertise in identifying, characterizing and developing naturally occurring bacteriophages with that of our collaboration partners in bacteriophage biology, synthetic biology and manufacturing, to develop second-generation bacteriophage products.

Our lead product candidate is AB-SA01 for the treatment of *S. aureus* infections, including methicillin-resistant *S. aureus*, or MRSA. We also have AB-PA01 for the treatment of *P. aeruginosa* infections in development, and AB-CD01 for the treatment of *C. difficile* infections in preclinical development.

We have generally incurred net losses since our inception and our operations to date have been primarily limited to research and development and raising capital. Since the shift in our focus to novel therapeutics in February 2011 through June 30, 2016, we have received approximately $46.1 million in net proceeds from the issuance of our equity securities and convertible debt securities. As of June 30, 2016, we had an accumulated deficit of $369.5 million. We anticipate that a substantial portion of our capital resources and efforts in the foreseeable future will be focused on completing the development and obtaining regulatory approval of our product candidates.

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

We may also use a portion of our existing cash and cash equivalents for the potential acquisition of, or investment in, product candidates, technologies, formulations or companies that complement our business, although we have no current understandings, commitments or agreements to do so. Our existing cash and cash equivalents will not be sufficient to enable us to complete all necessary development of any potential product candidates. Accordingly, we will be required to obtain further funding through one or more other public or private equity offerings, debt financings, collaboration or 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 acceptable terms, we may be required to defer, reduce or eliminate significant planned expenditures, restructure, curtail or eliminate some or all of our development programs or other operations, dispose of assets, enter into arrangements that may require us to relinquish rights to certain of our product candidates, technologies or potential markets, file for bankruptcy or cease operations altogether. Any of these events could have a material adverse effect on our business, financial condition and results of operations and result in a loss of investment by our stockholders.

Recent Events

On June 2016, we completed a registered public offering of an aggregate of 2,127,660 shares of our common stock and warrants to purchase 1,063,830 shares of our common stock. Each share of common stock was sold together with a warrant to purchase 0.50 of a share of common stock at a combined purchase price of $2.35, resulting in aggregate net proceeds to us of approximately $4.2 million after deducting placement agent fees and other offering expenses

payable by us.

In connection with the foregoing offering, in June 2016 we also issued an aggregate of 750,206 shares of our common stock, for no additional consideration, to certain former holders of our Series B redeemable convertible preferred stock pursuant to the terms of our Common Stock Issuance Agreement dated April 8, 2016 with such holders.

In August 2016, we completed patient enrollment in our Phase 1 clinical trial to evaluate the safety of AB-SA01, a bacteriophage targeting *S. aureus* infections, administered topically to the intact skin of healthy adults. The trial is being conducted under our collaborative research and development agreement with the U.S. Army at the Walter Reed Army Institute of Research Clinical Trials Center in Silver Spring, Maryland. The double-blind, ascending dose study is designed to evaluate the safety of AB-SA01 administered topically to the skin of twelve healthy adult volunteers between the ages of 18 and 60 years in each of two dose cohorts. Participants in the low- and high-dose cohorts will receive either 3 x 108 or 3 x 109 PFU/mL of AB-SA01, respectively, administered topically to the forearm with an occlusive bandage. Placebo will be administered to the opposite forearm, allowing each participant to serve as his or her own control. Participants will receive AB-SA01 and placebo daily for three consecutive days and will be followed for 10-14 days after the final treatment.

Results of Operations

Comparison of three and six months ended June 30, 2016 and 2015

Revenue

For each of the quarters and each of the six months ended June 30, 2016 and 2015 we recognized $0.1 million and $0.2 million, respectively, in revenue related to our former gene therapy program.

Research and Development Expenses

Research and development expenses for the quarter ended June 30, 2016 totaled $1.2 million compared to $1.1 million for the same period of 2015. The increase of $0.1 million was primarily related to increased personnel costs as other costs remained consistent between the periods.

Research and development expenses for the six months ended June 30, 2016 totaled $3.2 million compared to $2.0 million incurred in the same period of 2015. This increase of $1.2 million was primarily related to higher compensation costs of $0.4 million, $0.1 million of professional recruiting fees, and $0.4 million for the expense recorded related to the assets acquired from Novolytics.

We anticipate that research and development spending to remain relatively flat in the second half of 2016 as compared to the first half of 2016, but may increase in future periods as we initiate non-clinical research studies, hire additional research and development staff, advance our clinical trials, and continue our discovery efforts.

General and Administrative Expenses

General and administrative expenses for the quarter ended June 30, 2016 were $2.5 million compared to $1.6 million for the same period of 2015. The $0.9 million increase was primarily attributable to $0.6 million of increases in compensation including $0.5 million of non-cash stock-based compensation related to two new executives.

General and administrative expenses for the six months ended June 30, 2016 were $5.1 million compared to $3.0 million for the same period of 2015. The $2.1 million increase was primarily attributable to $1.6 million of compensation, including $1.2 million of non-cash stock-based compensation related to two new executives, $0.1 million for professional recruitment fees and $0.1 million in increased director compensation.

We expect our general and administrative expenses to remain relatively flat in the second half of 2016 as compared to the first half of 2016.

Other Income (Expense)

We recorded a net loss of $35,000 for the three months ended June 30, 2016 related to the change to the fair value of our derivative liabilities. The net loss was the result of a gain of $508,000 related primarily to the change in fair value of our derivative liability for warrants issued in June 2016, a gain of $91,000 related to the change in fair value of our Series B preferred stock derivative liability, and a loss of $634,000 related to the change in fair value of our dilutive financing derivative liability.

We recorded a net gain of $1.4 million for the six months ended June 30, 2016 related to the change to the fair value of our derivative liabilities. The net gain was the result of a gain of $0.5 million related primarily to the change in fair value of our derivative liability for warrants issued in June 2016, a gain of $1.5 million related to the change in fair value of our Series B preferred stock derivative liability, and a loss of $0.6 million related to the change in fair value

of our dilutive financing derivative liability established during the quarter ended June 30, 2016.

We recorded a net gain of $13.4 million for the three months ended June 30, 2015 related to the change to the fair value of our derivative liabilities. The net gain was the result of a gain of $4.6 million related to the change in fair value of our derivative liability for warrants issued in 2011, and a gain of $8.8 million related to the change in fair value of our Series B preferred stock derivative liability.

We recorded a net gain of $1.6 million for the six months ended June 30, 2015 related to the change to the fair value of our derivative liabilities. The net gain was the primarily the result of a gain of $1.7 million related to the change in fair value of our Series B preferred stock derivative liability.

We will continue to adjust the liability related to our outstanding warrant derivative liabilities to fair value until the earlier of exercise or expiration of the warrants or until terms of the warrants no longer require them to be accounted for as liability instruments. We will continue to adjust the liability related to our dilutive financing derivative until the obligation to issue additional shares in the event of a future dilutive financing is met or expires.

We recorded expenses of $0.2 million for the six months ended June 30, 2016 consisting of placement agent fees and other offering costs from our June 2016 registered public offering of common stock and warrants. We recorded expenses of $0.4 million for the six months ended June 30, 2015 consisting of placement agent costs from our March 2015 private placement of common stock, which related to placement agent fees and the initial fair value of warrants issued to the placement agents.

Liquidity and Capital Resources

We have incurred net losses since inception through June 30, 2016 of $369.5 million, of which $315.5 million was incurred as a result of our prior focus on gene therapy in fiscal years 2010 and earlier. We have not generated any product revenues and do not expect to generate revenue from product candidates in the near term.

We had cash and cash equivalents of $7.1 million and $9.4 million at June 30, 2016 and December 31, 2015, respectively.

Net cash used in operating activities for the six months ended June 30, 2016 was $6.0 million, as compared to $5.0 million for the six months ended June 30, 2015. Net loss recorded during the six months ended June 30, 2016 was $7.0 million, inclusive of a $1.4 million non-cash gain on derivative liabilities. Net loss recorded during the six months ended June 30, 2015 was $3.7 million, inclusive of a $1.6 million non-cash gain on derivative liability. The

net increase in cash used in operating activities of $1.0 million, in addition to the effect of the non-cash derivative liability effects noted above, are primarily related to an increase in research and development efforts, compensation costs, as well as an increase in professional services.

Net cash used in investing activities was $0.2 million and $0.0 million for the six months ended June 30, 2016 and June 30, 2015, respectively, and was primarily attributable to purchases of property and equipment.

Cash provided by financing activities for the six months ended June 30, 2016 was comprised of net proceeds of $4.2 million from the June 2016 offering of common stock and warrants to purchase common stock, after deducting placement agent fees and other expenses related to the issuance of approximately $0.8 million. Cash provided by financing activities for the six months ended June 30, 2015 was comprised of gross proceeds of $13.0 million from the March 2015 private placement of common stock and warrants to purchase common stock, less commissions and other expenses related to the issuance of approximately $0.6 million.

We will need to raise additional capital to continue to fund our future operations. Our future funding requirements will depend on many factors, including:

- the costs and timing of our research and development activities;
- the progress and cost of our clinical trials and other research and development activities;
- the cost and timing of securing manufacturing capabilities for our clinical product candidates and commercial products, if any;
- the terms and timing of any collaborative, licensing, acquisition or other arrangements that we may establish;
- the costs and timing of seeking regulatory approvals;
- the costs of filing, prosecuting and enforcing any patent applications, claims, patents and other intellectual property rights; and
- the costs of lawsuits involving us or our product candidates.

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

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

We believe our existing resources are sufficient to fund our planned operations into the fourth quarter of 2016. This estimate is based on our current product development calendar, projected staffing expenses, working capital requirements, and capital expenditure plans.

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Our ability to raise additional funds will depend in part on the success of our preclinical studies and clinical trials and other product development activities, regulatory events, our ability to identify and enter into in-licensing or other strategic arrangements, and other events or conditions that may affect our value or prospects, as well as, 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 acceptable terms. If we are unable to secure additional funds on a timely basis or on acceptable terms we may be required to defer, reduce or eliminate significant planned expenditures, restructure, curtail or eliminate some or all of our development programs or other operations, dispose of technology or assets, pursue an acquisition of our company by a third party at a price that may result in a loss on investment for our stockholders, enter into arrangements that may require us to relinquish rights to certain of our product candidates, technologies or potential markets, file for bankruptcy or cease operations altogether. Any of these events could have a material adverse effect on our business, financial condition and results of operations. Moreover, if we are unable to obtain additional funds on a timely basis, there will be substantial doubt about our ability to continue as a going concern and increased risk of insolvency and loss of investment by our stockholders. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of such securities could result in dilution to our existing stockholders.

Off-Balance Sheet Arrangements

As of June 30, 2016, we did not have off-balance sheet arrangements.

Recent Accounting Pronouncements

Refer to *Note 3* of the Condensed Consolidated Notes to the Consolidated Financial Statements contained elsewhere in this report.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are not required to provide the information required under this item.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this report. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable and not absolute assurance of achieving the desired control objectives. In reaching a reasonable level of assurance, management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. In addition, the design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective disclosure controls system, misstatements due to error or fraud may occur and not be detected.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer, have concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of the end of the period covered by this report as a result of the material weakness identified in our internal control over financial reporting as of December 31, 2015, as described further below.

Changes in Internal Control Over Financial Reporting

An evaluation was also performed under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of any change in our internal control over financial reporting that occurred during our last fiscal quarter and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. That evaluation did not identify any change in our internal control over financial reporting that occurred during our latest fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Remediation of Material Weakness

As of December 31, 2015, our management identified a material weakness in our internal controls over financial reporting and concluded that, as of such date, we did not maintain adequate and effective internal control in the area of complex and non-routine transactions and in the application of Accounting Standards Codification No. 260, “Earnings Per Share,” and consequently our internal control over financial reporting was not effective at a reasonable assurance level. Based on that conclusion, we continue to review, document and test our internal control over financial

reporting. We also continue to take steps to remediate certain identified deficiencies in our internal control over financial reporting as of December 31, 2015 in the area of complex and non-routine transactions. Steps taken during the last fiscal quarter that resulted in improvements to our internal control over financial reporting included the following:

- the addition of and training of qualified personnel to identify and evaluate complex and non-routine transactions;
- the development of specific procedures for the evaluation, documentation and review of complex and non-routine transactions; and
- continued implementation of standardized financial control and reporting processes.

The remediation actions will be monitored by the Audit Committee of our Board of Directors.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On April 14, 2016, NRM VII Holdings I, LLC ("NRM"), filed a complaint against us and the current members of our Board of Directors in the Superior Court of California, County of San Diego, which complaint was amended on July 25, 2016. NRM, together with its affiliates, is one of our principal stockholders. The amended complaint (the "complaint") alleges that we breached the implied covenant of good faith and fair dealing by entering into a scheme to force NRM to convert its shares of Series B redeemable convertible preferred stock into shares of our common stock. The complaint further alleges that the members of the Board who are named as defendants breached their fiduciary duty of good faith and loyalty owed to NRM, as one of our stockholders, by participating in this alleged scheme. The complaint seeks unspecified monetary damages and other relief. We plan to vigorously defend against the claims advanced.

Claim estimates that are probable and can be reasonably estimated are reflected as liabilities. Because of the uncertainties related to our pending litigation, investigations, inquiries or claims, management is currently unable to predict the ultimate outcome of any litigation, investigation, inquiry or claim, determine whether a liability has been incurred, or make an estimate regarding the possible loss or range of loss that could result from an unfavorable outcome. It is reasonably possible that some of the matters, which are pending or may be asserted, could be decided unfavorably to us. Although we maintain liability insurance coverage to protect our assets from losses arising out of or involving activities associated with ongoing and normal business operations, our insurance may not adequately cover, any liabilities that we incur. An adverse ruling or outcome in any lawsuit involving us could materially affect our business, liquidity, consolidated financial position or results of operations. In view of the unpredictable nature of such matters, we cannot provide any assurances regarding the outcome of any litigation, investigation, inquiry or claim to which we are a party or the impact on us of an adverse ruling of such matters.

Item 1A. Risk Factors

You should consider carefully the following information about the risks described below, together with the other information contained in this Quarterly Report and in our other public filings in evaluating our business. The risk factors set forth below that are marked with an asterisk (*) did not appear as separate risk factors in, or contain changes to the similarly titled risk factors included in, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015. If any of the following risks actually occur, our business, financial condition, 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.

Risks Related to Our Financial Condition and Need for Additional Capital

We have incurred losses since our inception and anticipate that we will continue to incur significant losses for the foreseeable future, and our future profitability is uncertain.*

We have incurred losses in each year since our inception in 1992. Prior to our merger with Biocontrol in January 2011, our accumulated deficit was $315.5 million. Since January 2011 through June 30, 2016, we have incurred an accumulated deficit of $54.0 million, and we expect to incur losses for the foreseeable future. We have devoted, and will continue to devote for the foreseeable future, substantially all of our resources to research and development of our product candidates. For the three and six months ended June 30, 2016 we had an operating loss of $3.6 million and $8.1 million, respectively. Additional information regarding our results of operations may be found in our consolidated financial statements and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this report.

Clinical trials and activities associated with discovery research are costly. We do not expect to generate any revenue from the commercial sales of our product candidates in the near term, and we expect to continue to have significant losses for the foreseeable future.

To attain ongoing profitability, we will need to develop products successfully and market and sell them effectively, or rely on other parties to do so. We cannot predict when we will achieve ongoing profitability, if at all. We have never generated revenue from the commercial sales of our product candidates, and there is no guarantee that we will be able to do so in the future. If we fail to become profitable, or if we are unable to fund our continuing losses, our business, financial condition and results of operations may be materially adversely impacted and our stock price could decline.

We have never generated any revenue from product sales and may never be profitable.

Our ability to generate meaningful revenue and achieve profitability depends on our ability, and the ability of any third party with which we may partner, to successfully complete the development of, and obtain the regulatory approvals necessary to, commercialize our product candidates. We do not anticipate generating revenues from product sales for the foreseeable future, if ever. If any of our product candidates fail in clinical trials or if any of our product candidates do not gain regulatory approval, or if any of our product candidates, if approved, fail to achieve market acceptance, we may never become profitable. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods. Our ability to generate future revenues from product sales depends heavily on our success in:

- completing research and preclinical and clinical development of our product candidates;
- seeking and obtaining regulatory and marketing approvals for product candidates for which we complete clinical trials;
- developing a sustainable, scalable, reproducible, and transferable manufacturing process for our product candidates;
- launching and commercializing product candidates for which we obtain regulatory and marketing approval, either by establishing a sales force, marketing and distribution infrastructure, or by collaborating with a partner;
- obtaining market acceptance of any approved products;
- addressing any competing technological and market developments;
- implementing additional internal systems and infrastructure, as needed;
- identifying and validating new product candidates;
- negotiating favorable terms in any collaboration, licensing or other arrangements into which we may enter;
- maintaining, protecting and expanding our portfolio of intellectual property rights, including patents, trade secrets and know-how; and
- attracting, hiring and retaining qualified personnel.

Even if one or more of the product candidates that we develop is approved for commercial sale, we anticipate incurring significant costs associated with commercializing any approved product. Our expenses could increase beyond expectations if we are required by the U.S. Food and Drug Administration, or FDA, the European Medicines Agency, or EMA, or other foreign regulatory authorities to perform clinical trials and other studies in addition to those that we currently anticipate. Even if we are able to generate revenues from the sale of any approved products, we may not become profitable and may need to obtain additional funding to continue operations.

We will need to raise additional capital to continue operations.*

Our consolidated financial statements for the quarter ended June 30, 2016 were prepared under the assumption that we would continue our operations as a going concern. However, we have had recurring losses from operations, negative operating cash flow and an accumulated deficit.

We do not generate any cash from operations and must raise additional funds in order to continue operating our business. We expect to continue to fund our operations primarily through equity and debt financings in the future. If additional capital is not available to us when needed or on acceptable terms, we may not be able to continue to operate our business pursuant to our business plan or we may have to discontinue our operations entirely. As of June 30, 2016, we had cash and cash equivalents of $7.1 million. We believe that our existing resources will be sufficient to fund our planned operations into the fourth quarter of 2016.

Developing drugs and conducting clinical trials is expensive. Our future funding requirements will depend on many factors, including:

- the costs and timing of our research and development activities;
- the progress and cost of our clinical trials and other research and development activities;
- the cost and timing of securing manufacturing capabilities for our clinical product candidates and commercial products, if any;
- the terms and timing of any collaborative, licensing, acquisition or other arrangements that we may establish;
- the costs and timing of seeking regulatory approvals;
- the costs of filing, prosecuting, defending and enforcing any patent applications, claims, patents and other intellectual property rights; and
- the costs of lawsuits involving us or our product candidates.

We will need to raise additional capital to support our product development activities in 2016 and beyond. We may seek funds through arrangements with collaborators or others that may require us to relinquish rights to the products candidates that we might otherwise seek to develop or commercialize independently. We cannot be certain that we will be able to enter into any such arrangements on reasonable terms, if at all.

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

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

Any additional fundraising efforts may divert our management from their day-to-day activities, which may adversely affect our ability to develop and commercialize our product candidates. Our ability to raise additional funds will depend, in part, the success of our preclinical studies and clinical trials and other product development activities, regulatory events, our ability to identify and enter into in-licensing or other strategic arrangements, and other events or conditions that may affect our value or prospects, as well as 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 acceptable terms, if at all. Raising additional capital through the sale of securities could cause significant dilution to our stockholders. If we are unable to secure additional funds on a timely basis or on acceptable terms, we may be required to defer, reduce or eliminate significant planned expenditures, restructure, curtail or eliminate some or all of our development programs or other operations, dispose of technology or assets, pursue an acquisition of our company by a third party at a price that may result in a loss on investment for our stockholders, enter into arrangements that may require us to relinquish rights to certain of our product candidates, technologies or potential markets, file for bankruptcy or cease operations altogether. Any of these events could have a material adverse effect on our business, financial condition and results of operations. Moreover, if we are unable to obtain additional funds on a timely basis, there will be substantial doubt about our ability to continue as a going concern and increased risk of insolvency and loss of investment by our stockholders.

A complaint has been filed against us and the members of our Board of Directors by one of our principal stockholders.*

On April 8, 2016, certain holders (the “Holders”) of over two-thirds of our then-outstanding shares of Series B redeemable convertible preferred stock (“Series B Preferred”) elected to automatically convert all outstanding shares of Series B Preferred into shares of Common Stock in accordance with Section 4.4.4(b)(ii) of our Amended and Restated Articles of Incorporation, as amended (the “Conversion”). As a result of the Conversion, the 7,527,853 shares of Series B Preferred outstanding as of immediately prior to the Conversion were automatically converted into an aggregate of 1,505,560 shares of our common stock. On April 8, 2016, we entered into a Common Stock Issuance Agreement (the “CSIA”) with the Holders pursuant to which we issued to the Holders an aggregate of 853,465 shares of our Common Stock (the “Shares”) and amended the common stock warrants issued to the Holders pursuant to that certain Subscription Agreement, dated June 25, 2013, in order to reduce the exercise price of such warrants from $7.00 per share to $4.05 per share and extend the expiration date thereof from June 26, 2018 to March 31, 2021 (the “Warrant Amendments”). As consideration for the Shares and the Warrant Amendments, the Holders waived their right to receive approximately $2.2 million in aggregate cash payments to which they were entitled upon the Conversion in respect of accrued dividends on their former shares of Series B Preferred.

On April 14, 2016, NRM VII Holdings I, LLC (“NRM”), which was not a party to the CSIA, filed a complaint against us and each of the current members of our Board of Directors in the Superior Court of California, County of San Diego, which complaint was amended on July 25, 2016. Prior to the Conversion, NRM held approximately 28.5% of our outstanding shares of Series B Preferred. The complaint alleges that we breached the implied covenant of good faith and fair dealing by entering into a scheme to force NRM to convert its Series B Preferred into common stock. The complaint further alleges that the current members of our Board of Directors breached their fiduciary duty of good faith and loyalty owed to NRM, as one of our stockholders, by participating in this alleged scheme. The

complaint seeks unspecified monetary damages and other relief. We plan to vigorously defend against the claims advanced.

Litigation is subject to inherent uncertainties, and an adverse result in the matter described above or other matters that may arise from time to time could have a material adverse effect on our business, results of operations and financial condition. Any litigation to which we are subject may be costly and, further, could require significant involvement of our senior management and may divert management's attention from our business and operations. In addition, our share price may be negatively impacted due to the negative publicity, expenses incurred in connection with our defense, management distraction, and/or other factors related to this litigation. In addition, litigation of this nature may negatively impact our ability to attract and retain strategic partners, as well as qualified board members and management personnel.

There is substantial doubt about our ability to continue as a going concern, which may affect our ability to obtain future financing and may require us to curtail our operations.*

Our financial statements as of June 30, 2016 were prepared under the assumption that we will continue as a going concern. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty. At June 30, 2016, we had cash and cash equivalents of $7.1 million. Our ability to continue as a going concern depends on our ability to raise substantial additional funds through public or private equity offerings, collaborative or licensing arrangements and/or debt financing.

Taxing authorities could reallocate our taxable income among our subsidiaries, which could increase our overall tax liability.

We are organized in the United States, and we currently have subsidiaries in the United Kingdom, Australia and Slovenia. If we succeed in growing our business, we expect to conduct increased operations through our subsidiaries in various tax jurisdictions pursuant to transfer pricing arrangements between us and our subsidiaries. If two or more affiliated companies are located in different countries, the tax laws or regulations of each country generally will require that transfer prices be the same as those between unrelated companies dealing at arm's length and that appropriate documentation is maintained to support the transfer prices. While we believe that we operate in compliance with applicable transfer pricing laws and intend to continue to do so, our transfer pricing procedures are not binding on applicable tax authorities.

If tax authorities in any of these countries were to successfully challenge our transfer prices as not reflecting arm's length transactions, they could require us to adjust our transfer prices and thereby reallocate our income to reflect these revised transfer prices, which could result in a higher tax liability to us. In addition, if the country from which the income is reallocated does not agree with the reallocation, both countries could tax the same income, resulting in double taxation. If tax authorities were to allocate income to a higher tax jurisdiction, subject our income to double taxation or assess interest and penalties, it would increase our consolidated tax liability, which could adversely affect

our financial condition, results of operations and cash flows.

Our ability to use our net operating tax loss carryforwards and certain other tax attributes may be limited.*

Our ability to utilize our net operating loss carryforwards and certain other tax attributes may be limited under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the "Code"). These limitations apply if an "ownership change," as defined by Section 382 of the Code, occurs. If we have experienced an "ownership change" at any time since our formation, we may already be subject to limitations on our ability to utilize our existing net operating losses and other tax attributes to offset taxable income. In addition, future changes in our stock ownership (including in connection with future private or public offerings, as well as changes that may be outside of our control), may trigger an "ownership change" and, consequently, limitations under Sections 382 and 383 of the Code. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carryforwards and other pre-change tax attributes to offset U.S. federal taxable income may be subject to limitations, which could potentially result in increased future tax liability to us. In addition, at the state level, there may be periods during which the use of NOLs is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed. We have not completed a study to assess whether an "ownership change" has occurred or whether there have been multiple "ownership changes" since our formation, due to the complexity and cost associated with such a study, and the fact that there may be additional ownership changes in the future.

If we fail to maintain proper and effective internal control over financial reporting, our ability to produce accurate financial statements on a timely basis could be impaired and our public reporting may be unreliable.*

We are required to maintain internal control over financial reporting adequate to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements in accordance with generally accepted accounting principles. In connection with the restatement of our consolidated financial statements for the second quarter of 2015 and for the quarterly and annual periods of 2014, we determined that we had a material weakness as of December 31, 2014 and December 31, 2015, namely that our internal control over financial reporting, including control over the evaluation and review of complex and non-routine transactions, were not effective. A material weakness means a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis.

We do not expect that our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. Over time, controls may become inadequate because changes in conditions or deterioration in the degree of compliance with policies or procedures may occur. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. As a result, we cannot assure you that significant deficiencies or material weaknesses in our internal control over financial reporting will not be

identified in the future.

We are taking steps to remediate the material weakness in our internal control over financial reporting, including the addition of and training of qualified personnel to identify and evaluate complex and non-routine transactions and the development of specific procedures, processes and internal controls related to complex and non-routine transactions. However, we cannot assure you that these efforts will remediate our material weakness in a timely manner, or at all, or that we will be able to maintain effective controls and procedures even if we remediate our material weakness. If we are unable to successfully remediate our material weakness, implement and maintain effective controls and procedures, or identify any future material weaknesses, the accuracy and timing of our financial reporting may be adversely affected, we may be unable to maintain compliance with securities law requirements regarding timely filing of periodic reports and we may experience a loss of public confidence, which could have an adverse effect on our business, financial condition and the market price of our common stock and other securities.

We incur significant costs as a result of operating as a public company, and our management is required to devote substantial time to compliance initiatives.

As a public company, we incur significant legal, accounting and other expenses. We are subject to the reporting requirements of the Exchange Act, which require, among other things, that we file with the SEC annual, quarterly and current reports with respect to our business and financial condition. In addition, the Sarbanes-Oxley Act, as well as rules subsequently adopted by the SEC and the NYSE MKT to implement provisions of the Sarbanes-Oxley Act, imposes significant requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. Further, in July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was enacted. There are significant corporate governance and executive compensation related provisions in the Dodd-Frank Act that require the SEC to adopt additional rules and regulations in these areas such as “say on pay” and proxy access. Recent legislation permits emerging growth companies to implement many of these requirements over a longer period and up to five years following their initial public offering. We intend to take advantage of this new legislation but cannot guarantee that we will not be required to implement these requirements sooner than expected and thereby incur unexpected expenses.

We expect the rules and regulations applicable to public companies to result in us continuing to incur substantial legal and financial compliance costs. These costs will decrease our net income or increase our net loss, and may require us to reduce costs in other areas of our business.

Risks Related to Our Business

We are seeking to develop antibacterial agents using bacteriophage technology, a novel approach, which makes it difficult to predict the time and cost of development. No bacteriophage products have been approved in the United States or elsewhere.

We are developing our product candidates with bacteriophage technology. We have not, nor to our knowledge has any other company, received regulatory approval from the FDA or equivalent foreign agencies for a pharmaceutical drug based on this approach. While *in vitro* studies have characterized the behavior of bacteriophages in cell cultures and there exists a body of literature regarding the use of phage therapy in humans, the safety and efficacy of phage therapy in humans has not been extensively studied in well-controlled modern clinical trials. Most of the prior research on phage-based therapy was conducted in the former Soviet Union prior to and immediately after World War II and lacked appropriate control group design or lacked control groups at all. Furthermore, the standard of care has changed substantially during the ensuing decades since those studies were performed, diminishing the relevance of prior claims of improved cure rates. We cannot be certain that our approach will lead to the development of approvable or marketable drugs.

Developing phage-based therapies on a commercial scale will also require developing new manufacturing processes and techniques. We and our third-party collaborators may experience delays in developing manufacturing capabilities for our product candidates, and may not be able to do so at the scale required to efficiently conduct the clinical trials required to obtain regulatory approval of our product candidates, or to manufacture commercial quantities of our products, if approved.

In addition, the FDA or other regulatory agencies may lack experience in evaluating the safety and efficacy of drugs based on these approaches, which could lengthen the regulatory review process, increase our development costs and delay or prevent commercialization of our product candidates.

Delays in our clinical trials could result in us not achieving anticipated developmental milestones when expected, increased costs and delay our ability to obtain regulatory approval for and commercialize our product candidates.

Delays in our ability to commence or enroll patients for our clinical trials could result in us not meeting anticipated clinical milestones and could materially impact our product development costs and delay regulatory approval of our product candidates. Planned clinical trials may not be commenced or completed on schedule, or at all. Clinical trials can be delayed for a variety of reasons, including:

- delays in the development of manufacturing capabilities for our product candidates to enable their consistent production at clinical trial scale;
- failures in our internal manufacturing operations that result in our inability to consistently and timely produce bacteriophages in sufficient quantities to support our clinical trials;
- the availability of financial resources to commence and complete our planned clinical trials;
- delays in reaching a consensus with clinical investigators on study design;
- delays in reaching a consensus with regulatory agencies on trial design or in obtaining regulatory approval to commence a trial;
- delays in obtaining clinical materials;
- slower than expected patient recruitment for participation in clinical trials;
- failure by clinical trial sites, other third parties, or us to adhere to clinical trial agreements;
- delays in reaching agreement on acceptable clinical trial agreement terms with prospective sites or obtaining institutional review board approval; and
- adverse safety events experienced during our clinical trials.

If we do not successfully commence or complete our clinical trials on schedule, the price of our common stock may decline.

Completion of clinical trials depends, among other things, on our ability to enroll a sufficient number of patients, which is a function of many factors, including:

- the therapeutic endpoints chosen for evaluation;
- the eligibility criteria defined in the protocol;
- the perceived benefit of the product candidate under study;
- the size of the patient population required for analysis of the clinical trial’s therapeutic endpoints;
- our ability to recruit clinical trial investigators and sites with the appropriate competencies and experience;
- our ability to obtain and maintain patient consents; and
- competition for patients from clinical trials for other treatments.

We may experience difficulties in enrolling patients in our clinical trials, which could increase the costs or affect the timing or outcome of these clinical trials. This is particularly true with respect to diseases with relatively small patient populations.

We have not completed formulation development of any of our product candidates.

The development of our bacteriophage product candidates requires that we isolate, select and combine a number of bacteriophages that target the desired bacteria for that product candidate. The selection of bacteriophages for any of our product candidates is based on a variety of factors, including without limitation the ability of the selected phages, in combination, to successfully kill the targeted bacteria, the degree of cross-reactivity of the individual phages with the same part of the bacterial targets, the ability of the combined phages to satisfy regulatory requirements, our ability to manufacture sufficient quantities of the phages, intellectual property rights of third parties, and other factors. While we have selected an initial formulation of AB-SA01 for the treatment of *S. aureus* infections, there can be no assurance that this will be the final formulation of AB-SA01 for commercialization. In addition, we have initiated final phage selection for AB-PA01, our *P. aeruginosa* product. AB-CD01, which is our *C. difficile* product, is at an earlier stage. If we are unable to complete formulation development of our product candidates in the time frame that we have anticipated, then our product development timelines, and the regulatory approval of our product candidates, could be delayed.

Our product candidates must undergo rigorous clinical testing, such clinical testing may fail to demonstrate safety and efficacy and any of our product candidates could cause undesirable side effects, which would substantially delay or prevent regulatory approval or commercialization.

Before we can obtain regulatory approval for a product candidate, we must undertake extensive clinical testing in humans to demonstrate safety and efficacy to the satisfaction of the FDA or other regulatory agencies. Clinical trials of new drug candidates sufficient to obtain regulatory marketing approval are expensive and take years to complete.

We cannot be certain of successfully completing clinical testing within the time frame we have planned, or at all. We may experience numerous unforeseen events during, or as a result of, the clinical trial process that could delay or prevent us from receiving regulatory approval or commercializing our product candidates, including the following:

- our clinical trials may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical and/or preclinical testing or to abandon programs;
- the results obtained in earlier stage clinical testing may not be indicative of results in future clinical trials;
- clinical trial results may not meet the level of statistical significance required by the FDA or other regulatory agencies;
- we, or regulators, may suspend or terminate our clinical trials if the participating patients are being exposed to unacceptable health risks; and
- our product candidates may have unintended or undesirable effects on patients that may delay or preclude regulatory approval of our product candidates or limit their commercial use, if approved.

Results from preclinical studies and Phase 1 or 2 clinical trials of our product candidates may not be predictive of the results of later stage human clinical trials.

Preclinical studies, including studies of our product candidates in animal disease models, may not accurately predict the result of human clinical trials of those product candidates. In particular, promising animal studies suggesting the efficacy of prototype phage products in the treatment of bacterial infections, such as *P. aeruginosa* and *S. aureus,* may not predict the ability of these products to treat similar infections in humans. Our phage technology may be found not to be efficacious in treating bacterial infections alone or in combination with other agents, when studied in human clinical trials.

To satisfy FDA or foreign regulatory approval standards for the commercial sale of our product candidates, we must demonstrate in adequate and controlled clinical trials that our product candidates are safe and effective. Success in early clinical trials, including Phase 2 trials, does not ensure that later clinical trials will be successful. Our initial results from early stage clinical trials also may not be confirmed by later analysis or subsequent larger clinical trials. A number of companies in the pharmaceutical industry have suffered significant setbacks in advanced clinical trials, even after obtaining promising results in earlier clinical trials and most product candidates that commence clinical trials are never approved for commercial sale.

We must continue to develop manufacturing processes for our product candidates and any delay in or our inability to do so would result in delays in our clinical trials.

We are developing novel manufacturing processes for our product candidates at our facility in Ljubljana, Slovenia. The manufacturing processes for our product candidates, and the scale up of such processes for clinical trials, is novel, and there can be no assurance that we will be able to complete this work in a timely manner, if at all. Any delay in the development or scale up of these manufacturing processes could delay the start of clinical trials and harm our business. Our facility in Slovenia must also undergo ongoing inspections by JAZMP, the Slovenian agency that regulates and supervises pharmaceutical products in Slovenia, for compliance with their and the European Medicines Agency’s, or EMA’s, current good manufacturing practice regulations, or cGMP regulations, before the respective product candidates can be approved for use in clinical trials or commercialization. In the event these facilities do not receive a satisfactory cGMP inspection for the manufacture of our product candidates, we may need to fund additional modifications to our manufacturing process, conduct additional validation studies, or find alternative manufacturing facilities, any of which would result in significant cost to us as well as a delay of up to several years in obtaining approval for such product candidate.

Our manufacturing facility will be subject to ongoing periodic inspection by the European regulatory authorities, including JAZMP, and the FDA for compliance with European and FDA cGMP regulations. Compliance with these regulations and standards is complex and costly, and there can be no assurance that we will be able to comply. Any failure to comply with applicable regulations could result in sanctions being imposed (including fines, injunctions and civil penalties), failure of regulatory authorities to grant marketing approval of our product candidates, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of product candidates or products, operating restrictions and criminal prosecution.

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We may conduct clinical trials for our products or product candidates outside the United States and the FDA may not accept data from such trials.

We are currently conducting an investigator-sponsored clinical trial of AB-SA01 at the University of Adelaide in Australia for chronic rhinosinusitis, and may seek to conduct one or more other clinical trials in the future outside the United States. Although the FDA may accept data from clinical trials conducted outside the United States, acceptance of such study data by the FDA is subject to certain conditions. For example, the study must be well designed and conducted and performed by qualified investigators in accordance with ethical principles. The study population must also adequately represent the U.S. population, and the data must be applicable to the U.S. population and U.S. medical practice in ways that the FDA deems clinically meaningful. Generally, the patient population for any clinical studies conducted outside of the United States must be representative of the population for whom we intend to label the product in the United States. In addition, such studies would be subject to the applicable local laws and FDA acceptance of the data would be dependent upon its determination that the studies also complied with all applicable U.S. laws and regulations. There can be no assurance the FDA will accept data from trials conducted outside of the United States. If the FDA does not accept any such data, it would likely result in the need for additional trials, which would be costly and time consuming and delay aspects of our business plan.

We may need to license additional intellectual property rights.

The development and commercialization of phage-based antibacterial agents may require us to obtain rights to intellectual property from third parties. For example, pursuant to our Collaborative Research and Development Agreement with the United States Army Medical Research and Materiel Command and the Walter Reed Army Institute of Research, we are currently focusing on developing bacteriophage therapeutics to treat *S. aureus* infections. To the extent the intellectual property is generated from the United States Army Medical Research and Materiel Command or Walter Reed Army Institute of Research that is used in a commercial product, we may be obligated to make payments such as royalties, licensing fees and milestone payments. We may also determine that it is necessary or advisable to license other intellectual property from third parties. There can be no assurance that such intellectual property rights would be available on commercially reasonable terms, if at all.

We are conducting an investigator-sponsored clinical trial of AB-SA01 at the University of Adelaide. To the extent that intellectual property is generated as a result of the study that is used in a commercial product, we may be obligated to make payments, such as royalties, licensing fees, and milestone payments. There can be no assurance that such intellectual property rights would be available on commercially reasonable terms, if at all.

We are subject to significant regulatory approval requirements, which could delay, prevent or limit our ability to market our product candidates.

Our research and development activities, preclinical studies, clinical trials and the anticipated manufacturing and marketing of our product candidates are subject to extensive regulation by the FDA and other regulatory agencies in the United States and by comparable authorities in Europe and elsewhere. There can be no assurance that our manufacturing facilities will satisfy the requirements of the FDA or comparable foreign authorities. We require the approval of the relevant regulatory authorities before we may commence commercial sales of our product candidates in a given market. The regulatory approval process is expensive and time-consuming, and the timing of receipt of regulatory approval is difficult to predict. Our product candidates could require a significantly longer time to gain regulatory approval than expected, or may never gain approval. We cannot be certain that, even after expending substantial time and financial resources, we will obtain regulatory approval for any of our product candidates. A delay or denial of regulatory approval could delay or prevent our ability to generate product revenues and to achieve profitability.

Changes in regulatory approval policies during the development period of any of our product candidates, changes in, or the enactment of, additional regulations or statutes, or changes in regulatory review practices for a submitted product application may cause a delay in obtaining approval or result in the rejection of an application for regulatory approval.

Regulatory approval, if obtained, may be made subject to limitations on the indicated uses for which we may market a product. These limitations could adversely affect our potential product revenues. Regulatory approval may also require costly post-marketing follow-up studies. In addition, the labeling, packaging, adverse event reporting, storage, advertising, promotion and record-keeping related to the product will be subject to extensive ongoing regulatory requirements. Furthermore, for any marketed product, its manufacturer and its manufacturing facilities will be subject to continual review and periodic inspections by the FDA or other regulatory authorities. Failure to comply with applicable regulatory requirements may, among other things, result in fines, suspensions of regulatory approvals, product recalls, product seizures, operating restrictions and criminal prosecution.

A variety of risks associated with our international operations could materially adversely affect our business.

In addition to our U.S. operations, we have operations and subsidiaries in the United Kingdom, Australia and Slovenia. We face risks associated with our international operations, including possible unfavorable regulatory, pricing and reimbursement, political, tax and labor conditions, which could harm our business. We are subject to numerous risks associated with international business activities, including:

- compliance with differing or unexpected regulatory requirements for the development, manufacture and, if approved, commercialization of our product candidates;

- difficulties in staffing and managing foreign operations;
- foreign government taxes, regulations and permit requirements;
- U.S. and foreign government tariffs, trade restrictions, price and exchange controls and other regulatory requirements;
- anti-corruption laws, including the Foreign Corrupt Practices Act, or the FCPA;
- economic weakness, including inflation, natural disasters, war, events of terrorism or political instability in particular foreign countries;
- fluctuations in currency exchange rates, which could result in increased operating expenses and reduced revenues, and other obligations related to doing business in another country;
- compliance with tax, employment, immigration and labor laws, regulations and restrictions for employees living or traveling abroad;
- workforce uncertainty in countries where labor unrest is more common than in the United States;
- production shortages resulting from any events affecting raw material supply or manufacturing capabilities abroad;
- changes in diplomatic and trade relationships; and
- challenges in enforcing our contractual and intellectual property rights, especially in those foreign countries that do not respect and protect intellectual property rights to the same extent as the United States.

These and other risks associated with our international operations may materially adversely affect our business, financial condition and results of operations.

We do not have a sales force and do not currently have plans to develop one.

The commercial success of any of our product candidates will depend upon the strength of sales and marketing efforts for them. We do not have a sales force and have no experience in sales, marketing or distribution. To successfully commercialize our product candidates, we will need to develop such a capability ourselves or seek assistance from a third party with a large distribution system and a large direct sales force. We may be unable to put such a plan in place. In addition, if we arrange for others to market and sell our products, our revenues will depend upon the efforts of those parties. Such arrangements may not succeed. Even if one or more of our product candidates is approved for marketing, if we fail to establish adequate sales, marketing and distribution capabilities, independently or with others, our business will be materially harmed.

Our success depends in part on attracting, retaining and motivating our personnel.*

Our success depends on our continued ability to attract, retain and motivate highly qualified management, clinical and scientific personnel and on our ability to develop and maintain important relationships with leading academic institutions, clinicians and scientists. As of August 8, 2016, we had 32 employees. Our success will depend on our ability to retain and motivate personnel and hire additional qualified personnel when required. Competition for qualified personnel in the biotechnology field is intense. We face competition for personnel from other biotechnology

and pharmaceutical companies, universities, public and private research institutions and other organizations. We also face competition from other more well-funded and well-established businesses and we may also be viewed as a riskier choice from a job stability perspective due to our relative newer status than longer existing biotech and pharmaceutical companies. We may not be able to attract and retain qualified personnel on acceptable terms given the competition for such personnel. If we are unsuccessful in our retention, motivation and recruitment efforts, we may be unable to execute our business strategy.

We must manage a geographically dispersed organization.*

While we are a small company, we currently have operations in the United States, Australia and Slovenia. In the future, we may also locate facilities in other locations based on proximity to personnel with the expertise needed to research, develop and manufacture phage-based therapeutics, costs of operations or other factors. Managing our organization across multiple locations and multiple time zones may reduce our efficiency, increase our expenses and increase the risk of operational difficulties in the execution of our plans.

Risks Related to Our Reliance on Third Parties

We rely on third parties for aspects of product development.

We rely on third parties such as the University of Leicester and the U.S. Army for certain aspects of product development. We are working with the University of Leicester for research and development of product candidates to treat *C. difficile* infections. We are working with the U.S. Army for research and development of product candidates to treat *S. aureus* infections. Because we rely on third parties to conduct these activities, we have less control over the success of these programs than we would if we were conducting them on our own. Factors beyond our control that could impact the success of these programs include the amount of resources devoted to the programs by the applicable third party, the staffing of those projects by third-party personnel, and the amount of time such personnel devote to our programs compared to other programs. Failure of our third-party collaborators to successfully complete the projects that we are working on with them could result in delays in product development and the need to expend additional resources, increasing our expenses beyond current expectations.

We will rely on third parties to conduct our clinical trials, and their failure to perform their obligations in a timely or competent manner may delay development and commercialization of our product candidates.

We expect to use third parties, such as clinical research organizations or the U.S. Army, to assist in conducting our clinical trials. However, we may face delays outside of our control if these parties do not perform their obligations in a timely or competent fashion or if we are forced to change service providers. This risk is heightened for clinical trials conducted outside of the United States, where it may be more difficult to ensure that clinical trials are conducted in

compliance with FDA requirements. Any third party that we hire to conduct clinical trials may also provide services to our competitors, which could compromise the performance of their obligations to us. If we experience significant delays in the progress of our clinical trials and in our plans to submit Biologics License Applications, the commercial prospects for product candidates could be harmed and our ability to generate product revenue would be delayed or prevented.

Risks Related to Our Intellectual Property

We are dependent on patents and proprietary technology. If we fail to adequately protect this intellectual property or if we otherwise do not have exclusivity for the marketing of our products, our ability to commercialize products could suffer.

Our commercial success will depend in part on our ability to obtain and maintain patent protection sufficient to prevent others from marketing our product candidates, as well as to defend and enforce these patents against infringement and to operate without infringing the proprietary rights of others. Protection of our product candidates from unauthorized use by third parties will depend on having valid and enforceable patents cover our product candidates or their manufacture or use, or having effective trade secret protection. If our patent applications do not result in issued patents, or if our patents are found to be invalid, we will lose the ability to exclude others from making, using or selling the inventions claimed therein. We have a limited number of patents and pending patent applications.

The patent positions of biotechnology companies can be uncertain and involve complex legal and factual questions. This is due to inconsistent application of policy and changes in policy relating to examination and enforcement of biotechnology patents to date on a global scale. The laws of some countries may not protect intellectual property rights to the same extent as the laws of countries having well-established patent systems, and those countries may lack adequate rules and procedures for defending our intellectual property rights. Also, changes in either patent laws or in interpretations of patent laws may diminish the value of our intellectual property. We are not able to guarantee that all of our patent applications will result in the issuance of patents and we cannot predict the breadth of claims that may be allowed in our patent applications or in the patent applications we may license from others.

Central provisions of The Leahy-Smith America Invents Act, or the America Invents Act went into effect on September 16, 2012 and on March 16, 2013. The America Invents Act includes a number of significant changes to U.S. patent law. These changes include provisions that affect the way patent applications are being filed, prosecuted and litigated. For example, the America Invents Act enacted proceedings involving post-issuance patent review procedures, such as inter partes review, or IPR, and post-grant review, that allow third parties to challenge the validity of an issued patent in front of the United States PTO Patent Trial and Appeal Board. Each proceeding has different eligibility criteria and different patentability challenges that can be raised. IPRs permit any person (except a party who has been litigating the patent for more than a year) to challenge the validity of the patent on the grounds that it was anticipated or made obvious by prior art. Patents covering pharmaceutical products have been subject to attack in IPRs from generic drug companies and from hedge funds. If it is within nine months of the issuance of the challenged patent, a third party can petition the United States PTO for post-grant review, which can be based on any invalidity grounds and is not limited to prior art patents or printed publications.

In post-issuance proceedings, United States PTO rules and regulations generally tend to favor patent challengers over patent owners. For example, unlike in district court litigation, claims challenged in post-issuance proceedings are given their broadest reasonable meaning, which increases the chance a claim might be invalidated by prior art or lack support in the patent specification. The United States Supreme Court is currently reviewing whether it is proper for the United States PTO to give claims their broadest reasonable meaning in post-issuance proceedings. As another example, unlike in district court litigation, there is no presumption of validity for an issued patent, and thus, a challenger's burden to prove invalidity is by a preponderance of the evidence, as opposed to the heightened clear and convincing evidence standard. As a result of these rules and others, statistics released by the United States PTO show a high percentage of claims being invalidated in post-issuance proceedings. Moreover, with few exceptions, there is no standing requirement to petition the United States PTO for inter partes review or post-grant review. In other words, companies that have not been charged with infringement or that lack commercial interest in the patented subject matter can still petition the United States PTO for review of an issued patent. Thus, even where we have issued patents, our rights under those patents may be challenged and ultimately not provide us with sufficient protection against competitive products or processes.

The degree of future protection for our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage. For example:

- we might not be the first to file patent applications for our inventions;
- others may independently develop similar or alternative product candidates to any of our product candidates that fall outside the scope of our patents;
- our pending patent applications may not result in issued patents;
- our issued patents may not provide a basis for commercially viable products or may not provide us with any competitive advantages or may be challenged by third parties;
- others may design around our patent claims to produce competitive products that fall outside the scope of our patents;
- we may not develop additional patentable proprietary technologies related to our product candidates; and
- we are dependent upon the diligence of our appointed agents in national jurisdictions, acting for and on our behalf, which control the prosecution of pending domestic and foreign patent applications and maintain granted domestic and foreign patents.

An issued patent does not guarantee us the right to practice the patented technology or commercialize the patented product. Third parties may have blocking patents that could be used to prevent us from commercializing our patented products and practicing our patented technology. Our issued patents and those that may be issued in the future may be challenged, invalidated or circumvented, which could limit our ability to prevent competitors from marketing the same or related product candidates or could limit the length of the term of patent protection of our product candidates. Moreover, because of the extensive time required for development, testing and regulatory review of a potential product, it is possible that, before any of our product candidates can be commercialized, any related patent may expire or remain in force for only a short period following commercialization, thereby reducing any advantage of the patent. Patent term extensions may not be available for these patents.

We rely on trade secrets and other forms of non-patent intellectual property protection. If we are unable to protect our trade secrets, other companies may be able to compete more effectively against us.

We rely on trade secrets to protect certain aspects of our technology, including our proprietary processes for manufacturing and purifying bacteriophages. Trade secrets are difficult to protect, especially in the pharmaceutical industry, where much of the information about a product must be made public during the regulatory approval process. Although we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our information to competitors. Enforcing a claim that a third party illegally obtained and is using our trade secret information is expensive and time-consuming, and the outcome is unpredictable. In addition, courts outside the United States may be less willing to or may not protect trade secrets. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how.

If we are sued for infringing intellectual property rights of third parties or if we are forced to engage in an interference proceeding, it will be costly and time-consuming, and an unfavorable outcome in that litigation or interference would have a material adverse effect on our business.

Our ability to commercialize our product candidates depends on our ability to develop, manufacture, market and sell our product candidates without infringing the proprietary rights of third parties. Numerous United States and foreign patents and patent applications, which are owned by third parties, exist in the general field of anti-infective products or in fields that otherwise may relate to our product candidates. If we are shown to infringe, we could be enjoined from use or sale of the claimed invention if we are unable to prove that the patent is invalid. In addition, because patent applications can take many years to issue, there may be currently pending patent applications, unknown to us, which may later result in issued patents that our product candidates may infringe, or which may trigger an interference proceeding regarding one of our owned or licensed patents or applications. There could also be existing patents of which we are not aware that our product candidates may inadvertently infringe or which may become involved in an interference proceeding.

The biotechnology and pharmaceutical industries are characterized by the existence of a large number of patents and frequent litigation based on allegations of patent infringement. For so long as our product candidates are in clinical trials, we believe our clinical activities fall within the scope of the exemptions provided by 35 U.S.C. Section 271(e) in the United States, which exempts from patent infringement liability activities reasonably related to the development and submission of information to the FDA. As our clinical investigational drug product candidates progress toward commercialization, the possibility of a patent infringement claim against us increases. While we attempt to ensure that our active clinical investigational drugs and the methods we employ to manufacture them, as well as the methods for their use we intend to promote, do not infringe other parties' patents and other proprietary rights, we cannot be certain they do not, and competitors or other parties may assert that we infringe their proprietary rights in any event.

We may be exposed to future litigation based on claims that our product candidates, or the methods we employ to manufacture them, or the uses for which we intend to promote them, infringe the intellectual property rights of others. Our ability to manufacture and commercialize our product candidates may depend on our ability to demonstrate that the manufacturing processes we employ and the use of our product candidates do not infringe third-party patents. If third-party patents were found to cover our product candidates or their use or manufacture, we could be required to pay damages or be enjoined and therefore unable to commercialize our product candidates, unless we obtained a license. A license may not be available to us on acceptable terms, if at all.

Risks Related to Our Industry

If our competitors are able to develop and market products that are more effective, safer or more affordable than ours, or obtain marketing approval before we do, our commercial opportunities may be limited.

Competition in the biotechnology and pharmaceutical industries is intense and continues to increase. Some companies that are larger and have significantly more resources than we do are aggressively pursuing antibacterial development programs, including traditional therapies and therapies with novel mechanisms of action. In addition, other companies are developing phage-based products for non-therapeutic uses, and may elect to use their expertise in phage development and manufacturing to try to develop products that would compete with ours.

We also face potential competition from academic institutions, government agencies and private and public research institutions engaged in the discovery and development of drugs and therapies. Many of our competitors have significantly greater financial resources and expertise in research and development, preclinical testing, conducting clinical trials, obtaining regulatory approvals, manufacturing, sales and marketing than we do. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established pharmaceutical companies.

Our competitors may succeed in developing products that are more effective, have fewer side effects and are safer or more affordable than our product candidates, which would render our product candidates less competitive or noncompetitive. These competitors also compete with us to recruit and retain qualified scientific and management personnel, establish clinical trial sites and patient registration for clinical trials, as well as to acquire technologies and technology licenses complementary to our programs or advantageous to our business. Moreover, competitors that are able to achieve patent protection, obtain regulatory approvals and commence commercial sales of their products before we do, and competitors that have already done so, may enjoy a significant competitive advantage.

The Generating Antibiotics Incentives Now Act is intended to provide incentives for the development of new, qualified infectious disease products. These incentives may result in more competition in the market for new antibiotics, and may cause pharmaceutical and biotechnology companies with more resources than we have to shift their efforts towards the development of products that could be competitive with our product candidates.

There is a substantial risk of product liability claims in our business. If we do not obtain sufficient liability insurance, a product liability claim could result in substantial liabilities.

Our business exposes us to significant potential product liability risks that are inherent in the development, manufacturing and marketing of human therapeutic products. Regardless of merit or eventual outcome, product liability claims may result in:

- delay or failure to complete our clinical trials;
- withdrawal of clinical trial participants;
- decreased demand for our product candidates;
- injury to our reputation;
- litigation costs;
- substantial monetary awards against us; and
- diversion of management or other resources from key aspects of our operations.

If we succeed in marketing products, product liability claims could result in an FDA investigation of the safety or efficacy of our products, our manufacturing processes and facilities or our marketing programs. An FDA investigation could also potentially lead to a recall of our products or more serious enforcement actions, or limitations on the indications, for which they may be used, or suspension or withdrawal of approval.

We have product liability insurance that covers our clinical trials up to a $10.0 million annual per claim and aggregate limit. We intend to expand our insurance coverage to include the sale of commercial products if marketing approval is

obtained for our product candidates or any other compound that we may develop. However, insurance coverage is expensive and we may not be able to maintain insurance coverage at a reasonable cost or at all, and the insurance coverage that we obtain may not be adequate to cover potential claims or losses.

Even if we receive regulatory approval to market our product candidates, the market may not be receptive to our product candidates upon their commercial introduction, which would negatively affect our ability to achieve profitability.

Our product candidates may not gain market acceptance among physicians, patients, healthcare payors and the medical community. The degree of market acceptance of any approved products will depend on a number of factors, including:

- the effectiveness of the product;
- the prevalence and severity of any side effects;
- potential advantages or disadvantages over alternative treatments;
- relative convenience and ease of administration;
- the strength of marketing and distribution support;
- the price of the product, both in absolute terms and relative to alternative treatments; and
- sufficient third-party coverage or reimbursement.

If our product candidates receive regulatory approval but do not achieve an adequate level of acceptance by physicians, healthcare payors and patients, we may not generate product revenues sufficient to attain profitability.

Foreign governments tend to impose strict price controls, which may adversely affect our future profitability.

In some foreign countries, particularly in the European Union, prescription drug pricing is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our product candidate to other available therapies. If reimbursement of our products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our profitability will be negatively affected.

We may incur significant costs complying with environmental laws and regulations, and failure to comply with these laws and regulations could expose us to significant liabilities.

Our research and development activities use biological and hazardous materials that are dangerous to human health and safety or the environment. We are subject to a variety of federal, state and local laws and regulations governing the use, generation, manufacture, storage, handling and disposal of these materials and wastes resulting from these materials. We are also subject to regulation by the Occupational Safety and Health Administration, or OSHA, state and federal environmental protection agencies and to regulation under the Toxic Substances Control Act. OSHA, state governments or federal Environmental Protection Agency, or EPA, may adopt regulations that may affect our research and development programs. We are unable to predict whether any agency will adopt any regulations that could have a material adverse effect on our operations. We have incurred, and will continue to incur, capital and operating expenditures and other costs in the ordinary course of our business in complying with these laws and regulations.

Although we believe our safety procedures for handling and disposing of these materials comply with federal, state and local laws and regulations, we cannot entirely eliminate the risk of accidental injury or contamination from the use, storage, handling or disposal of hazardous materials. In the event of contamination or injury, we could be held liable for any resulting damages, and any liability could significantly exceed our insurance coverage.

Risks Related to Our Common Stock

The price of our common stock has been and may continue to be volatile.

The stock markets in general, the markets for biotechnology stocks and, in particular, the stock price of our common stock, have experienced extreme volatility. The market for our common stock is characterized by significant price volatility when compared to the shares of larger, more established companies that trade on a national securities exchange and have large public floats, and we expect that our share price will continue to be more volatile than the shares of such larger, more established companies for the indefinite future. The volatility in our share price is attributable to a number of factors. Our common shares are, compared to the shares of such larger, more established companies, sporadically and thinly traded. As a consequence of this limited liquidity, the trading of relatively small quantities of shares by our stockholders may disproportionately influence the price of those shares in either direction. The price for our shares could, for example, decline precipitously in the event that a large number of shares of our common stock are sold on the market without commensurate demand. We are also a speculative or “risky” investment due to the early stage of our drug development programs and our lack of profits to date, and uncertainty of future market acceptance for our potential products. As a consequence of this enhanced risk, more risk-adverse investors may, under the fear of losing all or most of their investment in the event of negative news or lack of progress, be more inclined to sell their shares on the market more quickly and at greater discounts than would be the case with the stock of a larger, more established company that has a large public float and broader stockholder base. Many of these factors are beyond our control and may decrease the market price of our common stock, regardless of our operating performance. We cannot make any predictions or projections as to what the prevailing market price for our common shares will be at any time, including as to whether our common stock will sustain their current market prices, or as to what effect that the sale of shares or the availability of common stock for sale at any time will have on the prevailing market price.

Price declines in our common stock could also result from general market and economic conditions and a variety of other factors, including:

- adverse results or delays in our clinical trials;
- adverse actions taken by regulatory agencies with respect to our product candidates, clinical trials or the manufacturing processes of our product candidates;

- announcements of technological innovations, patents or new products by our competitors;
- regulatory developments in the United States and foreign countries;
- any lawsuit involving us or our product candidates;
- announcements concerning our competitors, or the biotechnology or pharmaceutical industries in general;
- developments concerning any strategic alliances or acquisitions we may enter into;
- actual or anticipated variations in our operating results;
- changes in recommendations by securities analysts or lack of analyst coverage;
- deviations in our operating results from the estimates of analysts;
- sales of our common stock by our executive officers, directors and principal stockholders or sales of substantial amounts of common stock; and
- loss of any of our key scientific or management personnel.

In the past, following periods of volatility in the market price of a particular company's securities, litigation has often been brought against that company. Any such lawsuit could consume resources and management time and attention, which could adversely affect our business.

We may be required to issue a significant number of additional shares of common stock for no additional consideration to certain of our stockholders.*

We may be required to issue a significant number of additional shares of common stock for no additional consideration to the Holders. Pursuant to the CSIA, we agreed that if in the future we conduct one or more bona fide equity financings in which we sell shares of our common stock or preferred stock at a price of less than $4.05 per share, we will issue to the Holders, for no additional consideration, a number of additional shares of common stock ("Additional Shares") based on a specified formula (such rights of the Holders to receive Additional Shares, the "Additional Issuance Rights"). Specifically, in the event we conduct such a financing, the Holders will be entitled to receive (absent consideration of any applicable restrictions on the number of shares that can be issued in a non-public offering under NYSE MKT rules and interpretations without stockholder approval) in the aggregate a number of Additional Shares equal to (A) the product of (x) 1,037,053 multiplied by (y) a fraction, the numerator of which is $4.05 and the denominator of which is the lowest price per share paid by investors in such Dilutive Financing (the "Effective Price") less (B) 1,037,053 and all Additional Shares issued previously to the Holders pursuant to the Additional Issuance Rights. The CSIA includes a provision intended to limit our obligation to issue Additional Shares to the extent such Additional Shares would exceed the 20% limit on the number of shares that can be issued without stockholder approval pursuant to Section 713(a) of the NYSE MKT Company Guide.

Pursuant to Section 713(a) of the NYSE MKT Company Guide, stockholder approval is generally required prior to the issuance of common stock or common stock equivalents in connection with a transaction other than a public offering involving the sale, issuance, or potential issuance by the issuer of common stock or common stock equivalents equal to 20% or more of the outstanding shares of common stock as of immediately prior to the transaction for less than the greater of book or market value of the stock. At our 2016 annual meeting of shareholders on June 20, 2016, our stockholders approved the issuance by us of up to 1,037,053 Additional Shares, for purposes of Section 713(a) of the NYSE MKT Company Guide, to the extent required to satisfy the Additional Issuance Rights. On June 3, 2016, we completed a registered public offering of common stock and warrants to purchase common stock at a combined price per share and associated warrant of $2.35. As a result of this offering, we issued to the Holders an aggregate of 750,206 Additional Shares. Under Section 713(a) of the NYSE MKT Company Guide, we are permitted to issue without further shareholder approval up to 286,846 Additional Shares to the Holders if and to the extent required by the terms of the CSIA, and we may become required to issue this full amount to the Holders, or a greater amount, if in the future we sell shares of our common stock in a bona fide equity financing at a price of less than $2.35 per share.

Stockholders will incur dilution of their percentage ownership interest in our common stock to the extent we issue Additional Shares to the Holders pursuant to the Additional Issuance Rights. In addition, because the Additional Shares will be issued for no additional consideration, any such issuance would reduce our net tangible book value per share.

Any issuance or potential issuance of Additional Shares could adversely affect our stock price, make it more difficult for us to raise capital on favorable terms, or at all, and have a material adverse effect on our business, results of operations and financial condition.

A significant number of shares of our common stock are subject to issuance upon exercise of outstanding warrants and which upon such exercise may result in dilution to our security holders.*

As of June 30, 2016, we had outstanding warrants to purchase an aggregate of 2,443,479 shares of our common stock at a weighted average exercise price of $5.87 per share, and outstanding options to purchase 739,021 shares of our common stock at a weighted average exercise price of $6.81 per share. The exercise price and/or the number of shares of common stock issuable upon exercise of the warrants may be adjusted in certain circumstances, including certain issuances of securities at a price equal to or less than the then current exercise price, subdivisions and stock splits, stock dividends, combinations, reorganizations, reclassifications, consolidations, mergers or sales of properties and assets and upon the issuance of certain assets or securities to holders of our common stock, as applicable. Although we cannot determine when these warrants or options will ultimately be exercised, it is reasonable to assume that such warrants and options will be exercised only if the exercise price is below the market price of our common stock. To the extent any of our outstanding warrants or options are exercised, additional shares of our common stock will be issued that will generally be eligible for resale in the public market (subject to limitations under Rule 144 under the Securities Act for certain of our warrants and with respect to shares held by our affiliates), which will result in dilution to our security holders. The issuance of additional securities could also have an adverse effect on the market price of

our common stock.

Our principal stockholders and management beneficially own a significant percentage of our stock and will be able to exert significant influence over matters subject to stockholder approval. *

As of June 30, 2016, our executive officers, directors, principal stockholders and their affiliates beneficially owned a significant portion of our outstanding voting stock. Therefore, these stockholders will have the ability to influence us through this ownership position. These stockholders may be able to significantly affect matters requiring stockholder approval, including elections of directors, amendments of our organizational documents, and approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may believe are in your best interest as one of our stockholders.

Provisions of Washington law and our current articles of incorporation and bylaws may discourage another company from acquiring us and may prevent attempts by our stockholders to replace or remove our current management.*

Provisions of Washington law and our current articles of incorporation and bylaws may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace or remove our board of directors. These provisions include:

- authorizing the issuance of “blank check” preferred stock without any need for action by stockholders;
- providing for a classified board of directors with staggered terms;
- requiring supermajority stockholder voting to effect certain amendments to our articles of incorporation and bylaws; and
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

In addition, because we are incorporated in Washington, we are governed by the provisions of Chapter 23B.19 of the Washington Business Corporation Act, which, among other things, restricts the ability of stockholders owning 10% or more of our outstanding voting stock from merging or combining with us. These provisions could discourage potential acquisition attempts and could reduce the price that investors might be willing to pay for shares of our common stock in the future and result in the market price being lower than it would without these provisions.

Although we believe these provisions collectively provide for an opportunity to receive higher bids by requiring potential acquirers to negotiate with our board of directors, they would apply even if an offer may be considered beneficial by some stockholders. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management.

We have never paid dividends on our common stock, and we do not anticipate paying any cash dividends on our common stock in the foreseeable future.*

We have never declared or paid cash dividends on our common stock. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain all available funds and any future earnings to fund the development and growth of our business. As a result, capital appreciation, if any, of our common stock will be our stockholders' sole source of gain for the foreseeable future.

Maintaining and improving our financial controls and the requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act and the rules of the NYSE MKT. The requirements of these rules and regulations increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and place strain on our personnel, systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. Ensuring that we have adequate internal financial and accounting controls and procedures in place is a costly and time-consuming effort that needs to be re-evaluated frequently.

We currently do not have an internal audit group, and we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Implementing any appropriate changes to our internal controls may require specific compliance training for our directors, officers and employees, entail substantial costs to modify our existing accounting systems, and take a significant period of time to complete. Such changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent fraud.

In accordance with NYSE MKT rules, we are required to maintain a majority independent board of directors. The various rules and regulations applicable to public companies make it more difficult and more expensive for us to maintain directors' and officers' liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to maintain coverage. If we are unable to maintain adequate directors' and officers' insurance, our ability to recruit and retain qualified officers and directors will be significantly curtailed.

If securities or industry analysts do not publish research or publish unfavorable research about our business, our stock price and trading volume could decline.*

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We currently have three securities analysts and may never obtain additional research coverage by other securities and industry analysts. If no additional securities or industry analysts commence coverage of our company, the trading price for our stock could be negatively impacted. If we obtain additional securities or industry analyst coverage and if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

We are an "emerging growth company" and we cannot be certain if the reduced disclosure requirements applicable to "emerging growth companies" will make our common stock less attractive to investors.

We are an "emerging growth company," as defined under the JOBS Act. For so long as we are an "emerging growth company," we intend to take advantage of certain exemptions from reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, compliance with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We could be an "emerging growth company" for up to five years, although we may lose such status earlier, depending on the occurrence of certain events. We will remain an "emerging growth company" until the earliest to occur of (i) the last day of the fiscal year (a) following the fifth anniversary of our initial public offering conducted after we became a reporting company under the Exchange Act pursuant to our registration statement on Form 10 (File No. 000-23930), (b) in which we have total annual gross revenue of at least $1.0 billion or (c) in which we are deemed to be a "large accelerated filer" under the Exchange Act, which means that the market value of our common stock that is held by non-affiliates exceeds $700 million as of June 30th of the prior year, and (ii) the date on which we have issued more than $1.0 billion in non-convertible debt securities during the prior three-year period.

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We cannot predict if investors will find our common stock less attractive or our company less comparable to certain other public companies because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Under the JOBS Act, "emerging growth companies" can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards, and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not "emerging growth companies."

Sales of a substantial number of shares of our common stock in the public market by our existing stockholders could cause our stock price to decline.*

Sales of a substantial number of shares of our common stock in the public market or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that sales may have on the prevailing market price of our common stock.

Certain holders of our common stock are entitled to rights with respect to the registration of their shares under the Securities Act. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act, except for shares held by our affiliates as defined in Rule 144 under the Securities Act. Any sales of securities by these stockholders could have a material adverse effect on the trading price of our common stock.

In Amendment No. 1 to Schedule 13D filed with the Securities and Exchange Commission by Third Security, LLC ("Third Security") on April 15, 2016, Third Security and its affiliates, including NRM and Intrexon Corporation, declared their intention to liquidate their holdings in our equity securities. The timing and actual liquidation of securities by such persons is subject to compliance with applicable law. Furthermore, such declaration is not binding upon Third Security and its affiliates and thus such liquidation may never occur.

Future sales and issuances of our common stock or rights to purchase common stock by us, including pursuant to our equity incentive plans, could result in additional dilution of the percentage ownership of our stockholders and could cause our stock price to decline.

We expect that significant additional capital will be needed in the future to continue our planned operations, including conducting clinical trials, commercialization efforts, expanded research and development activities and costs associated with operating as a public company. To the extent we raise additional capital by issuing equity or convertible securities, our stockholders may experience substantial dilution. We may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. If we sell common stock, convertible securities or other equity securities in more than one transaction, investors may be materially diluted by subsequent sales. Such sales may also result in material dilution to our existing stockholders, and new investors could gain rights superior to our existing stockholders.

Pursuant to our 2016 Equity Incentive Plan, or the 2016 plan, our management is authorized to grant stock options and other equity-based awards to our employees, directors and consultants. The number of shares available for future grant under the 2016 plan will automatically increase on January 1st of each year by up to 5% of all shares of our capital stock outstanding as of December 31 of the preceding calendar year, subject to the ability of our board of directors to take action to reduce the size of the increase in any given year. In addition, we may grant or provide for the grant of rights to purchase shares of our common stock pursuant to our Employee Stock Purchase Plan, or ESPP. The number of shares of our common stock reserved for issuance under the ESPP will automatically increase on January 1st of each calendar year by the lessor of 1% of the total number of shares of our common stock outstanding on December 31st of the preceding calendar year and 300,000 shares, subject to the ability of our board of directors to take action to reduce the size of the increase in any given year. Currently, we plan to register the increased number of shares available for issuance under the 2016 Plan and ESPP each year. Increases in the number of shares available for future grant or purchase may result in additional dilution, which could cause our stock price to decline.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See the Exhibit Index following the signature page of this report, which is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMPLIPHI BIOSCIENCES CORPORATION

Date: August 15, 2016 By/s/ Michael Scott Salka
Name: Michael Scott Salka
Title: Chief Executive Officer
(Principal Executive Officer)

By/s/ Steve R. Martin
Name: Steve R. Martin
Title: Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Number	Description
3.1	Amended and Restated Articles of Incorporation of the Registrant, as amended (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q, filed on November 16, 2015).
3.2	Amended and Restated Bylaws of the Registrant, as amended (incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q, filed on November 16, 2015).
4.1	Reference is made to Exhibits 3.1 and 3.2.
4.2	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form 10 (File No. 000-23930), filed December 16, 2013, as amended).
4.3	Form of Warrant to Purchase Shares of Common Stock issued to purchasers in June 2013, July 2013 and December 2013 in connection with private placements (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form 10 (File No. 000-23930), filed December 16, 2013, as amended).
4.4	Subscription Agreement to Purchase Series B Preferred Stock and Common Stock Warrants, dated June 26, 2013 (incorporated by reference to Exhibit 4.3 to the Registration Statement on Form 10 (File No. 000-23930), filed December 16, 2013, as amended).
4.5	Registration Rights Agreement, dated December 16, 2013, by and among the Registrant and certain purchasers of the Registrant's Common Stock (incorporated by reference to Exhibit 4.4 to the Registration Statement on Form 10 (File No. 000-23930), filed December 16, 2013, as amended).
4.6	Subscription Agreement to Purchase Common Stock and Warrants, dated December 16, 2013 (incorporated by reference to Exhibit 4.5 to the Registration Statement on Form 10 (File No. 000-23930), filed December 16, 2013, as amended).
4.7	Subscription Agreement to Purchase Common Stock and Warrants, dated March 10, 2015 (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed March 19, 2015).
4.8	Form of Common Stock Warrant issued to purchasers in March 2015 private placement (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed March 19, 2015).
4.9	Registration Rights Agreement, dated March 10, 2015, by and among the Registrant and certain purchasers of the Registrant's Common Stock (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K, filed March 19, 2015).
4.10	Form of Amendment to Warrants to Purchase Shares of Common Stock issued to purchasers in June 2013, July 2013 and December 2013 in connection with private placements (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on May 15, 2015).
4.11	

	Form of Warrant to Purchase Shares of Common Stock issued in connection with the Registrant's acquisition of Biocontrol Ltd in December 2011 (incorporated by reference to Exhibit 4.11 to the Annual Report on Form 10-K, filed on March 30, 2016).
4.12	Form of Warrant to Purchase Shares of Common Stock issued in connection with the issuance of convertible notes of the Registrant in February 2013, March 2013, April 2013 and May 2013 (incorporated by reference to Exhibit 4.12 to the Annual Report on Form 10-K, filed on March 30, 2016).
4.13	Form of Warrant to Purchase Shares of Common Stock issued in connection with the Registrant's acquisition of certain assets of Novolytics Limited in February 2016 (incorporated by reference to Exhibit 4.13 to the Annual Report on Form 10-K, filed on March 30, 2016).
4.14	Common Stock Issuance Agreement, dated April 8, 2016, by and among the Registrant and the persons and entities listed on Exhibit A thereto (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed on April 8, 2016).
4.15	Form of Warrant to Purchase Common Stock issued to purchasers in May 2016 registered direct offering (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K, filed on June 1, 2016).
10.1	Placement Agency Agreement, dated as of May 31, 2016, by and among the Registrant, Roth Capital Partners, LLC and Griffin Securities, Inc. (incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K, filed on June 1, 2016).
10.2	Form of Securities Purchase Agreement (incorporated by reference to Exhibit 99.3 to the Current Report on Form 8-K, filed on June 1, 2016).
10.3+	AmpliPhi Biosciences Corporation 2016 Equity Incentive Plan (incorporated by reference to Exhibit 99.1 to the Registration Statement on Form S-8, filed on June 22, 2016).
10.4+	Form of Stock Option Grant Notice, Option Agreement and Notice of Exercise under the AmpliPhi Biosciences Corporation 2016 Equity Incentive Plan (incorporated by reference to Exhibit 99.2 to the Registration Statement on Form S-8, filed on June 22, 2016).
10.5+	AmpliPhi Biosciences Corporation 2016 Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.3 to the Registration Statement on Form S-8, filed on June 22, 2016).
31.1	Certification of the Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a).

31.2	Certification of Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certification of the Principal Executive Officer Required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.
32.2	Certification of the Principal Financial Officer Required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.

+ Indicates management contract or compensatory plan.