HEAT BIOLOGICS, INC.
Form 10-Q
November 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _______________ to _______________
Commission file number: 001-35994

Heat Biologics, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**26-2844103**
(State or Other Jurisdiction of	*(I.R.S. Employer*
Incorporation or Organization)	*Identification No.)*

801 Capitola Drive	
Durham, NC	**27713**
(Address of Principal Executive Offices)	*(Zip Code)*

(919) 240-7133

(Registrant s Telephone Number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes þ No o

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	þ	Smaller reporting company	þ
		Emerging growth company	þ

If an emerging growth company indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. þ

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

As of November 12, 2018, there were 23,257,144 shares of Common Stock, $0.0002 par value per share, outstanding.

HEAT BIOLOGICS, INC.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements, other than statements of historical facts, contained in this Quarterly Report on Form 10-Q, including statements regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans and objectives of management, are forward-looking statements. The words anticipate, believe, estimate, expect, intend, may, plan, predict, project, target, potential, will continue and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words.

Forward-looking statements are not guarantees of future performance and our actual results could differ materially from the results discussed in the forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, our ability to raise additional capital to support our clinical development program and other operations, our ability to develop products of commercial value and to identify, discover and obtain rights to additional potential product candidates, our ability to protect and maintain our intellectual property and the ability of our licensors to obtain and maintain patent protection for the technology or products that we license from them, the outcome of research and development activities, our reliance on third-parties, competitive developments, the effect of current and future legislation and regulation and regulatory actions, as well as other risks described more fully in this Quarterly Report on Form 10-Q and our other filings with the Securities and Exchange Commission (the SEC). Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict, including those identified below, under Part II, Item 1A. Risk Factors and elsewhere herein and those identified under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 2, 2018. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. We undertake no obligation to revise or update any forward-looking statements for any reason.

As a result of these and other factors, we may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. We do not assume any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

NOTE REGARDING COMPANY REFERENCES

Throughout this Quarterly Report on Form 10-Q, Heat Biologics, the Company, we and our refer to Heat Biologics Inc.

PART I FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

HEAT BIOLOGICS, INC.

Consolidated Balance Sheets

	September 30, 2018 (unaudited)	December 31, 2017
Current Assets		
Cash and cash equivalents	$ 20,962,319	$ 9,763,067
Accounts receivable	68,238	14,833
Prepaid expenses and other current assets	2,477,751	1,967,257
Total Current Assets	23,508,308	11,745,157
Property and Equipment, net	663,065	286,891
Other Assets		
Restricted cash		2,292
In-process R&D	5,866,000	5,866,000
Goodwill	2,189,338	2,189,338
Deposits	99,220	69,798
Deferred financing costs		30,000
Total Other Assets	8,154,558	8,157,428
Total Assets	$ 32,325,931	$ 20,189,476
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts payable	$ 976,090	$ 1,033,680
Deferred revenue	3,090,675	6,826,388
Contingent consideration	1,217,000	
Accrued expenses and other liabilities	1,530,820	2,276,431
Total Current Liabilities	6,814,585	10,136,499
Long Term Liabilities		
Other long term liabilities	188,482	160,559
Deferred tax liability	637,140	1,302,220
Deferred revenue, net of current portion	200,000	200,000

Contingent consideration, net of current portion		2,058,225		2,609,289
Total Liabilities		9,898,432		14,408,567
Commitments and Contingencies				
Stockholders Equity				
Common stock, $.0002 par value; 100,000,000 shares authorized, 23,235,596 and 4,200,310 shares issued and outstanding at September 30, 2018 (unaudited) and December 31, 2017, respectively		4,647		840
Additional paid-in capital		104,378,324		76,382,262
Accumulated deficit		(79,642,034)		(68,846,326)
Accumulated other comprehensive loss		(55,377)		(166,025)
Total Stockholders Equity Heat Biologics, Inc.		24,685,560		7,370,751
Non-Controlling Interest		(2,258,061)		(1,589,842)
Total Stockholders Equity		22,427,499		5,780,909
Total Liabilities and Stockholders Equity	$	32,325,931	$	20,189,476

See Notes to Financial Statements

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HEAT BIOLOGICS, INC.

Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

	Three Months Ended, September 30, 2018	Three Months Ended, September 30, 2017	Nine Months Ended, September 30, 2018	Nine Months Ended, September 30, 2017
Revenue:				
Grant and licensing revenue	$ 1,840,009	$ 470,823	$ 3,735,713	$ 906,313
Operating expenses:				
Research and development	4,403,759	1,823,922	10,756,485	5,788,755
General and administrative	1,585,600	1,188,476	4,727,105	4,298,072
Change in fair value of contingent consideration	114,838		665,936	
Total operating expenses	6,104,197	3,012,398	16,149,526	10,086,827
Loss from operations	(4,264,188)	(2,541,575)	(12,413,813)	(9,180,514)
Interest income	83,509	5,629	131,306	17,316
Other income, net	31,704	31,768	153,500	109,211
Total non-operating income, net	115,213	37,397	284,806	126,527
Net loss before income tax benefit	(4,148,975)	(2,504,178)	(12,129,007)	(9,053,987)
Income tax benefit	225,389		665,080	
Net loss	(3,923,586)	(2,504,178)	(11,463,927)	(9,053,987)
Net loss non-controlling interest	(265,024)	(203,371)	(668,219)	(344,328)
Net loss attributable to Heat Biologics,	$ (3,658,562)	$ (2,300,807)	$ (10,795,708)	$ (8,709,659)

Inc.								
Net loss per share attributable to Heat Biologics, Inc. basic and diluted	$	(0.16)	$	(0.64)	$	(0.75)	$	(2.66)
Weighted-average number of common shares used in net loss per share attributable to common stockholders basic and diluted		23,143,952		3,578,661		14,359,429		3,269,536
Other comprehensive loss:								
Net loss		(3,923,586)		(2,504,178)		(11,463,927)		(9,053,987)
Unrealized gain /(loss) on foreign currency translation		39,377		(24,707)		110,648		(100,742)
Total other comprehensive loss		(3,884,209)		(2,528,885)		(11,353,279)		(9,154,729)
Comprehensive loss attributable to non-controlling interest		(265,024)		(203,371)		(668,219)		(344,328)
Comprehensive loss	$	(3,619,185)	$	(2,325,514)	$	(10,685,060)	$	(8,810,401)

See Notes to Financial Statements

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HEAT BIOLOGICS INC.

Consolidated Statements of Stockholders Equity

(Unaudited)

	Common Stock	APIC	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non-Controlling Interest	Total Stockholders Equity
Balance at December 31, 2017	$ 840	$ 76,382,262	$ (68,846,326)	$ (166,025)	$ (1,589,842)	$ 5,780,909
Public offering, 14,375,000 shares, net of underwriters discount	2,875	20,697,122				20,699,997
Exercise of warrants, 3,054,667 shares	611	4,837,982				4,838,593
Issuance of common stock, 1,545,449 shares	309	3,866,096				3,866,405
Stock issuance costs		(2,057,872)				(2,057,872)
Stock-based compensation	12	652,734				652,746
Other comprehensive gain				110,648		110,648
Net loss			(10,795,708)		(668,219)	(11,463,927)
Balance at September 30, 2018	**$ 4,647**	**$ 104,378,324**	**$ (79,642,034)**	**$ (55,377)**	**$ (2,258,061)**	**$ 22,427,499**

See Notes to Financial Statements

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HEAT BIOLOGICS, INC.

Consolidated Statements of Cash Flows

(Unaudited)

	Nine months Ended September 30 2018		2017	
Cash Flows from Operating Activities				
Net loss	$	(11,463,927)	$	(9,053,987)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation		171,235		100,958
Stock-based compensation		652,746		546,321
Change in fair value of contingent consideration		665,936		
Increase (decrease) in cash arising from changes in assets and liabilities:				
Accounts receivable		(53,714)		81,185
Prepaid expenses and other current assets		(514,265)		(1,592,084)
Accounts payable		(55,384)		4,179
Deferred revenue		(3,735,713)		938,388
Accrued expenses and other liabilities		(743,519)		(475,350)
Deferred tax liability		(665,080)		
Deferred financing costs		30,000		(46,340)
Other long term liabilities		27,923		(11,464)
Deposits		(29,422)		
Net Cash Used in Operating Activities		(15,713,184)		(9,508,194)
Cash Flows from Investing Activities				
Purchase of Pelican, net of cash acquired				(468,801)
Purchase of property and equipment		(547,409)		(61,382)
Net Cash Used in Investing Activities		(547,409)		(530,183)
Cash Flows from Financing Activities				
Proceeds from public offering, net of underwriting discounts		20,699,997		4,183,000
Proceeds from the issuance of common stock, net of commissions		3,866,405		2,463,180
Proceeds from exercise of warrants		4,838,593		
Stock issuance costs		(2,057,872)		(239,617)
Net Cash Provided by Financing Activities		27,347,123		6,406,563
		110,430		(21,105)

Effect of exchange rate changes on cash, cash equivalents and restricted cash				
Net Increase/(Decrease) in Cash, Cash Equivalents and Restricted Cash		11,196,960		(3,652,919)
Cash, Cash Equivalents and Restricted Cash Beginning of Period		9,765,359		7,943,838
Cash, Cash Equivalents and Restricted Cash End of Period	$	20,962,319	$	4,290,919
Supplemental Disclosure for Cash Flow Information				
Issuance of common stock for purchase of Pelican	$		$	1,052,000

See Notes to Financial Statements

HEAT BIOLOGICS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

On January 19, 2018, the Company announced a reverse stock split of its shares of common stock at a ratio of one-for-ten. The reverse stock split took effect at 11 p.m. ET on January 19, 2018, and the Company s common stock began to trade on a post-split basis at the market open on January 22, 2018. During the Company s annual stockholders meeting held June 29, 2017, stockholders approved the Company s reverse stock split and granted the board of directors the authority to implement and determine the exact split ratio within a specified range. When the reverse stock split became effective, every 10 shares of the Company s issued and outstanding common stock were combined into one share of common stock. Effecting the reverse stock split reduced the number of issued and outstanding common stock from approximately 42 million shares to approximately 4.2 million. It also subsequently adjusted outstanding options issued under the Company s equity incentive plan and outstanding warrants to purchase common stock.

The accompanying unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial reporting. However, certain information or footnote disclosures normally included in complete financial statements prepared in accordance with U.S. GAAP have been condensed, or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). In the opinion of the Company s management, the unaudited consolidated financial statements in this Quarterly Report on Form 10-Q include all normal and recurring adjustments necessary for the fair statement of the results for the interim periods presented. The results for the nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2018.

The consolidated financial statements as of and for the nine months ended September 30, 2018 and 2017 included in this Quarterly Report on Form 10-Q are unaudited. The balance sheet as of December 31, 2017 is derived from the audited consolidated financial statements as of that date. The accompanying unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes, together with Management s Discussion and Analysis of Financial Condition and Results of Operations, contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 2, 2018 (the 2017 Annual Report).

On April 28, 2017, the Company completed the acquisition of an 80% controlling interest in Pelican Therapeutics, Inc. (Pelican), a related party prior to acquisition. Operations of Pelican are included in the consolidated statements of operations and comprehensive loss from the acquisition date.

The accompanying consolidated financial statements as of and for the nine months ended September 30, 2018 and 2017 include the accounts of Heat Biologics, Inc. (the Company), and its subsidiaries, Heat Biologics I, Inc. (Heat I), Heat Biologics III, Inc. (Heat III), Heat Biologics IV, Inc. (Heat IV), Heat Biologics GmbH, Heat Biologics Australia Pty Ltd. and Zolovax. Additionally, as of the nine months ended September 30, 2018 the accompanying consolidated financials include Pelican. The functional currency of the entities located outside the United States is the applicable local currency (the foreign entities). Assets and liabilities of the foreign entities are translated at period-end exchange rates. Statement of operations accounts are translated at the average exchange rate during the period. The effects of foreign currency translation adjustments are included in other comprehensive loss, which is a component of accumulated other comprehensive loss in stockholders equity. All significant intercompany accounts and transactions have been eliminated in consolidation. At December 31, 2017 and September 30, 2018, the Company held a 92.5% controlling interest in Heat I and an 80% controlling interest in Pelican. All other subsidiaries are wholly owned. For the nine months ended September 30, 2018 the Company recognized $223,487 in net loss non-controlling interest for Heat I and $444,732 in net loss non-controlling interest for Pelican. The Company accounts for its less than 100% interest in these subsidiaries in the consolidated financial statements in accordance with U.S. GAAP. Accordingly, the Company presents non-controlling interests as a component of stockholders equity on its consolidated balance sheets and reports non-controlling interest net loss under the heading net loss non-controlling interest in the consolidated statements of operations and comprehensive loss.

HEAT BIOLOGICS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Company has an accumulated deficit of approximately $79.6 million as of September 30, 2018 and a net loss of approximately $11.5 million for the nine months ended September 30, 2018 and has not generated significant revenue or positive cash flows from operations. The Company expects to incur significant expenses and continued losses from operations for the foreseeable future. The Company expects its expenses to increase in connection with its ongoing activities, particularly as the Company continues its research and development and advances its clinical trials of, and seek marketing approval for, its product candidates and as the Company continues to fund the Pelican matching funds required in order to access the CPRIT Grant. In addition, if the Company obtains marketing approval for any of its product candidates, the Company expects to incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution. Accordingly, the Company will need to obtain substantial additional funding in connection with its continuing operations. Adequate additional financing may not be available to the Company on acceptable terms, or at all. If the Company is unable to raise capital when needed or on attractive terms, it would be forced to delay, reduce or eliminate its research and development programs or any future commercialization efforts. To meet its capital needs, the Company intends to continue to consider multiple alternatives, including, but not limited to, additional equity financings such as sales of its common stock under the H.C. Wainwright Sales Agreement if available, debt financings, partnerships, collaborations and other funding transactions. This is based on the Company s current estimates, and the Company could use its available capital resources sooner than it currently expects. The Company is continually evaluating various cost-saving measures in light of its cash requirements in order to focus resources on its product candidates. The Company will need to generate significant revenues to achieve profitability, and it may never do so. As of September 30, 2018, the Company had approximately $21.0 million in cash and cash equivalents and has sufficient cash on hand to fund its operations one year from date of this filing.

In May 2018, through a public offering, the Company raised approximately $18.8 million, net of underwriting discounts and commissions and other estimated offering expenses, and an additional $4.8 million through the exercise of 3,054,667 warrants. On April 28, 2017, the acquisition of an 80% controlling interest in Pelican, a related party prior to acquisition, was completed. Pelican has been awarded a $15.2 million grant to fund preclinical and some clinical activities from the Cancer Prevention and Research Institute of Texas (CPRIT). The CPRIT grant is subject to customary CPRIT funding conditions. The Company believes the acquisition aligns its strategic focus and strengthens its position in the T-cell activation arena.

Cash Equivalents and Restricted Cash

The Company considers all highly liquid instruments with an original maturity of three months or less to be cash equivalents. Restricted cash consists of deposits held by the US Patent and Trademark Office.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates are used for, but not limited to, useful lives of fixed assets, income taxes and stock-based compensation. Actual results may differ from those estimates.

Segments

The Company has one reportable segment - the development of immunotherapies designed to activate and expand a patient's T-cell mediated immune system against cancer.

Business Combinations

The Company accounts for acquisitions using the acquisition method of accounting, which requires that all identifiable assets acquired and liabilities assumed be recorded at their estimated fair values. The excess of the fair value of purchase consideration over the fair values of identifiable assets and liabilities is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions.

Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows from acquired patented technology. Management s estimates of fair value are based upon assumptions believed to be reasonable, but are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed (see Note 2).

HEAT BIOLOGICS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Goodwill and In-Process Research and Development

The Company classifies intangible assets into three categories: (1) intangible assets with definite lives subject to amortization, (2) intangible assets with indefinite lives not subject to amortization and (3) goodwill. The Company determines the useful lives of definite-lived intangible assets after considering specific facts and circumstances related to each intangible asset. Factors the Company considers when determining useful lives include the contractual term of any agreement related to the asset, the historical performance of the asset, and other economic facts; including competition and specific market conditions. Intangible assets that are deemed to have definite lives are amortized, primarily on a straight-line basis, over their estimated useful lives.

Intangible assets that are deemed to have indefinite lives, including goodwill, are reviewed for impairment annually on the anniversary of the acquisition, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test for indefinite-lived intangibles, other than goodwill, consists of a comparison of the fair value of the intangible asset with its carrying amount. If the carrying amount exceeds the fair value, an impairment charge is recognized in an amount equal to that excess. Indefinite-lived intangible assets, such as goodwill, are not amortized. The Company will qualitatively test the carrying amounts of goodwill for recoverability on an annual basis or when events or changes in circumstances indicate evidence a potential impairment exists, using a fair value-based test. No impairment existed at September 30, 2018.

In-process research and development, or IPR&D, assets are considered to be indefinite-lived until the completion or abandonment of the associated research and development projects. IPR&D assets represent the fair value assigned to technologies that the Company acquires, which at the time of acquisition have not reached technological feasibility and have no alternative future use. During the period that the assets are considered indefinite-lived, they are tested for impairment on an annual basis, or more frequently if the Company becomes aware of any events occurring or changes in circumstances that indicate that the fair value of the IPR&D assets are less than their carrying amounts. If and when development is complete, which generally occurs upon regulatory approval and the ability to commercialize products associated with the IPR&D assets, these assets are then deemed definite-lived and are amortized based on their estimated useful lives at that point in time. If development is terminated or abandoned, the Company may have a full or partial impairment charge related to the IPR&D assets, calculated as the excess of carrying value of the IPR&D assets over fair value. No impairment existed at September 30, 2018.

Contingent Consideration

Consideration paid in a business combination may include potential future payments that are contingent upon the acquired business achieving certain milestones in the future (contingent consideration). Contingent consideration liabilities are measured at their estimated fair value as of the date of acquisition, with subsequent changes in fair value recorded in the consolidated statements of operations. The Company estimates the fair value of the contingent consideration as of the acquisition date using the estimated future cash outflows based on the probability of meeting future milestones. The milestone payments will be made upon the achievement of clinical and commercialization milestones as well as single low digit royalty payments and payments upon receipt of sublicensing income. Subsequent to the date of acquisition, the Company will reassess the actual consideration earned and the probability-weighted future earn-out payments at each balance sheet date. Any adjustment to the contingent consideration liability will be recorded in the consolidated statements of operations (see Note 2).

Revenue Recognition

Effective January 1, 2018, the Company has adopted on a modified retrospective basis Accounting Standards Codification (ASC) Topic 606.

The Company s sole source of current revenue is grant revenue related to the CPRIT Contract, which is being accounted for under ASC 606. ASC 606 introduces a new framework for analyzing potential revenue transactions by identifying the contract with a customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when (or as) the Company satisfies a performance obligation.

HEAT BIOLOGICS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The performance obligations of the CPRIT Contract include developing a human TNFRSF25 agonist antibody for use in cancer patients through research and development efforts and a noncommercial license from CPRIT-funded research to CPRIT and other government agencies and institutions of higher education in Texas.

Management has concluded that the license and R&D services should be combined into a single performance obligation as both are highly interdependent - a license cannot be effectively granted without the corresponding research basis and CPRIT cannot benefit from the license without the R&D services and are therefore not capable of being distinct.

The CPRIT grant covers a period from June 1, 2017 through October 31, 2019, for a total grant award of up to $15.2 million. CPRIT advances grant funds upon request by the Company consistent with the agreed upon amounts and schedules as provided in the contract. The first tranche of funding of $1.8 million was received in May 2017, and a second tranche of funding of $6.5 million was received in October 2017. The next tranche of funding is expected to be requested and received in the next few months. Funds received are reflected in deferred revenue as a liability until revenue is earned. Grant revenue is recognized when qualifying costs are incurred.

Deferred Revenue

As of September 30, 2018, deferred revenue balance is $3.1 million received from CPRIT for which the costs have not been incurred or the conditions of the award have not been met and $0.2 million of grant funds received from an economic development grant agreement with the City of San Antonio (Economic Development Grant), for the purpose of defraying costs toward the purchase of laboratory equipment. As of September 30, 2018, $5.2 million was recognized as revenue from CPRIT since the CPRIT contract inception.

Prepaid Expenses and Other Current Assets

The Company s prepaid expenses and other current assets consists primarily of the amount paid in advance for cGMP production of Pelican s PTX-35 antibody and other Tumor Necrosis Factor Receptor Super Family member

25(TNFRSF25) target biologics, as well as Chemistry Manufacturing and Control (CMC) material for the Company s clinical trial studies for HS-110.

Income Taxes

The Company accounts for income taxes using the asset and liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance to the extent that utilization is not presently more likely than not.

Significant Accounting Policies

The significant accounting policies used in preparation of these interim financial statements are disclosed in the Company's Form 10-K and have not changed significantly since such filing.

Recently Issued Accounting Pronouncements

In June 2018, the FASB issued ASU 2018-07: *Compensation Stock Compensation (Topic 718)*: Improvements to Nonemployee Share-Based Payment Accounting. This ASU expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees, and as a result, the accounting for share-based payments to non-employees will be substantially aligned. ASU 2018-07 is effective for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year, early adoption is permitted but no earlier than an entity s adoption date of Topic 606. The Company has not determined the impact of this standard and does not plan early adoption of this standard.

HEAT BIOLOGICS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805)* to clarify the definition of a business, which is fundamental in the determination of whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses combinations. The updated guidance requires that in order to be considered a business the integrated set of assets and activities acquired must include, at a minimum, an input and process that contribute to the ability to create output. If substantially all of the fair value of the assets acquired is concentrated in a single identifiable asset or group of similar assets, it is not considered a business, and therefore would not be considered a business combination. The update is effective for fiscal years beginning after December 15, 2018, and interim periods with fiscal years beginning after December 15, 2019, with early adoption permitted. The Company has not determined the impact of this standard and does not plan early adoption of this standard.

In August 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) Restricted Cash. ASU 2016-18 requires the statement of cash flows to be a reconciliation between beginning and ending cash balances inclusive of restricted cash balances. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017 and is to be applied using a retrospective transition method to each period presented. The Company adopted this ASU for the year ending December 31, 2018. The adoption of this standard resulted in the removal of changes in Restricted Cash from the Con