HEAT BIOLOGICS, INC.
Form 10-Q
May 11, 2017

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 March 31, 2017

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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	¨	Smaller reporting company	þ
(Do not check if smaller reporting company)		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 May 5, 2017 there were 35,619,846 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, 2016 filed with the SEC on March 31, 2017. 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.

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PART I FINANCIAL INFORMATION

ITEM 1.

FINANCIAL STATEMENTS

HEAT BIOLOGICS, INC.

Consolidated Balance Sheets

	March 31, 2017 (unaudited)	December 31, 2016
Current Assets		
Cash and cash equivalents	$ 11,129,932	$ 7,842,667
Accounts receivable	2,008	82,305
Prepaid expenses and other current assets	279,892	338,049
Total Current Assets	11,411,832	8,263,021
Property and Equipment, net	332,034	359,592
Other Assets		
Restricted cash	101,176	101,171
Deposits	69,798	69,798
Related party receivable	103,017	103,017
Total Other Assets	273,991	273,986
Total Assets	$ 12,017,857	$ 8,896,599
Liabilities and Stockholders Equity		
Current Liabilities		
Accounts payable	$ 734,306	$ 290,058
Accrued expenses and other liabilities	754,219	1,305,173
Total Current Liabilities	1,488,525	1,595,231
Long Term Liabilities		
Other long term liabilities	421,514	461,434
Total Liabilities	1,910,039	2,056,665
Commitments and Contingencies		
Stockholders Equity		
	6,539	4,926

Common stock, $.0002 par value; 50,000,000 shares authorized, 34,288,790 and 26,204,390 shares issued and outstanding at March 31, 2017 (unaudited) and December 31, 2016, respectively				
Additional paid-in capital		72,441,915		65,868,541
Accumulated deficit		(60,194,592)		(57,004,655)
Accumulated other comprehensive loss		(138,606)		(72,231)
Total Stockholders Equity Heat Biologics, Inc.		12,115,256		8,796,581
Non-Controlling Interest		(2,007,438)		(1,956,647)
Total Stockholders Equity		10,107,818		6,839,934
Total Liabilities and Stockholders Equity	$	12,017,857	$	8,896,599

See Notes to Financial Statements

HEAT BIOLOGICS, INC.

Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

	Three Months Ended, March 31,	
	2017	**2016**
Revenue:		
Licensing Revenue	$ 24,240	$
Operating expenses:		
Research and development	1,812,901	3,658,008
General and administrative	1,527,015	1,031,158
Total operating expenses	3,339,916	4,689,166
Loss from operations	(3,315,676)	(4,689,166)
Non-operating income (expenses)		
Interest income	5,221	11,101
Other income, net	69,727	79,701
Interest expense		(136,122)
Total non-operating income (expenses), net	74,948	(45,320)
Net loss	(3,240,728)	(4,734,486)
Net loss non-controlling interest	(50,791)	(174,883)
Net loss attributable to Heat Biologics, Inc.	$ (3,189,937)	$ (4,559,603)
Net loss per share attributable to Heat Biologics, Inc. basic and diluted	$ (0.12)	$ (0.50)
Weighted-average number of common shares used in net loss per share attributable to common stockholders - basic and diluted	26,957,620	9,124,641
Other comprehensive loss:		
Net loss	(3,240,728)	(4,734,486)
Unrealized loss on foreign currency translation	(66,375)	(75,807)
Total other comprehensive loss	(3,307,103)	(4,810,293)
Comprehensive loss attributable to non-controlling interest	(50,791)	(174,883)
Comprehensive loss	$ (3,256,312)	$ (4,635,410)

See Notes to Financial Statements

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, 2016	$ 4,926	$ 65,868,541	$ (57,004,655)	$ (72,231)	$ (1,956,647)	$ 6,839,934
Public offering, 5,750,000 shares, net of underwriters discounts	1,150	4,181,850				4,183,000
Issuance of common stock, 2,196,727 shares	439	2,357,040				2,357,479
Stock issuance costs		(214,237)				(214,237)
Stock-based compensation	24	248,721				248,745
Other comprehensive loss				(66,375)		(66,375)
Net loss			(3,189,937)		(50,791)	(3,240,728)
Balance at March 31, 2017	**$ 6,539**	**$ 72,441,915**	**$ (60,194,592)**	**$ (138,606)**	**$ (2,007,438)**	**$ 10,107,818**

See Notes to Financial Statements

HEAT BIOLOGICS, INC.

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended March 31,	
	2017	**2016**
Cash Flows from Operating Activities		
Net loss	$ (3,240,728)	$ (4,734,486)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	33,113	32,361
Amortization of deferred financing costs and debt issuance costs		25,740
Amortization of held to maturity investment premium		28,009
Stock-based compensation	248,745	211,717
Increase (decrease) in cash arising from changes in assets and liabilities:		
Accounts receivable	80,555	
Prepaid expenses, restricted cash and other current assets	61,606	231,553
Accounts payable	442,007	(494,277)
Accrued expenses and other liabilities	(551,369)	(352,563)
Other long term liabilities	(39,920)	109,420
Net Cash Used in Operating Activities	(2,965,991)	(4,942,526)
Cash Flows from Investing Activities		
Proceeds from maturities of short-term investments		4,801,837
Purchase of property and equipment	(5,555)	(30,995)
Net Cash (Used in) Provided by Investing Activities	(5,555)	4,770,842
Cash Flows from Financing Activities		
Proceeds from public offering, net of underwriting discounts	4,183,000	6,287,250
Proceeds from the issuance of common stock, net of commissions	2,357,479	
Stock issuance costs	(214,237)	(190,768)
Payments on long term debt		(806,562)
Net Cash Provided by Financing Activities	6,326,242	5,289,920
Effect of exchange rate changes on cash and cash equivalents	(67,431)	(82,501)
Net Increase in Cash and Cash Equivalents	3,287,265	5,035,735

Cash and Cash Equivalents	**Beginning of Period**		7,842,667		4,939,955
Cash and Cash Equivalents	**End of Period**	$	11,129,932	$	9,975,690
Supplemental Disclosure for Cash Flow Information					
Interest paid		$		$	110,377

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

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 three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2017.

The consolidated financial statements as of and for the three months ended March 31, 2017 and 2016 included in this Quarterly Report on Form 10-Q are unaudited. The balance sheet as of December 31, 2016 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, 2016 filed with the SEC on March 31, 2017 (the 2016 Annual Report).

The accompanying consolidated financial statements as of and for the three months ended March 31, 2017 and 2016 include the accounts of Heat Biologics, Inc. 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 Inc. 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, 2016 and March 31, 2017, Heat held a 92.5% controlling interest in

Heat I and accounts for its less than 100% interest 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.

The accompanying consolidated financial statements have been prepared on a going concern basis. The Company has an accumulated deficit of approximately $60.2 million as of March 31, 2017 and a net loss of approximately $3.2 million for the quarter ended March 31, 2017, and has not generated significant revenue or positive cash flows from operations. These factors raise substantial doubt about the Company s ability to continue as a going concern within one year after the financial statements are issued. The accompanying consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts of liabilities that might result from the outcome of this uncertainty. To meet its capital needs, the Company is considering multiple alternatives, including, but not limited to, additional equity financings (including through the at-the-market Issuance Sales Agreement (the FBR Sales Agreement) that it entered into with FBR Capital Markets & Co. (FBR) in August 2016, debt financings, partnerships, collaborations and other funding transactions. There can be no assurance that the Company will be able to meet the requirements for use of the FBR Sales Agreement or to complete any such transactions on acceptable terms or otherwise. In March 2017, the Company entered into a stock purchase agreement with Pelican Therapeutics, Inc. (Pelican) a related party, to acquire an 80% controlling interest in Pelican. On April 28, 2017 the 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. If the Company is unable to obtain the necessary capital required to maintain operations, it will need to pursue a plan to license or sell its assets, seek to be acquired by another entity and/or cease operations.

HEAT BIOLOGICS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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 January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 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. The Company is currently evaluating the impact of adopting this guidance on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation-Stock Compensation* (*Topic 718*): *Improvements to Employee Share-Based Payment Accounting (ASU 2016-09).* Under ASU 2016-09, the tax effects of stock compensation will be recognized as income tax expense or benefit to the Company s income statement and the tax effects of exercised or vested awards will be treated as discrete items in the reporting period in which they occur. Along with other income tax cash flows, excess tax benefits will be classified as operating activities, and cash paid by the Company when directly withholding shares for tax withholding purposes will be classified as financing activities. The Company has elected to continue to account for forfeitures when they occur. The adoption of ASU 2016-09 did not have a material impact to the Company s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, requiring lessees to recognize for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee s obligation to make lease payments arising from a lease, measured on a discounted basis, and (2) a right-of-use (ROU) asset, which is an asset that represents the lessee s right to use, or control the use of, a specified asset for the lease term. The

update is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Company currently anticipates that upon adoption of the new standard, ROU assets and lease liabilities will be recognized in amounts that will be immaterial to the consolidated balance sheets.

2. Fair Value of Financial Instruments

The carrying amount of certain of the Company s financial instruments, including cash and cash equivalents, restricted cash, related party receivable, accounts payable and accrued expenses and other payables approximate fair value due to their short maturities.

As a basis for determining the fair value of certain of the Company s financial instruments, the Company utilizes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level I Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level II Observable inputs, other than Level I prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level III Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

HEAT BIOLOGICS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the entire fair value measurement requires management to make judgments and consider factors specific to the asset or liability. The majority of the Company's cash equivalents and investments are classified within Level II of the fair value hierarchy.

3. Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives, ranging generally from five to seven years. Expenditures for maintenance and repairs are charged to expense as incurred.

Property and equipment consisted of the following:

	March 31, 2017	December 31, 2016
Furniture and fixtures	$ 55,883	$ 55,883
Computers	36,217	38,903
Lab equipment	594,721	587,366
Total	686,821	682,152
Accumulated depreciation	(354,787)	(322,560)
Property and equipment, net	$ 332,034	$ 359,592

Depreciation expense was $33,113 and $32,361 for the three months ended March 31, 2017 and 2016, respectively.

4. Accrued Expenses and other payables

Accrued expenses and other payables consist of the following:

	March 31, 2017	December 31, 2016
Accrued clinical trial expenses	$ 633,419	$ 580,218
Compensation and related benefits	36,926	642,532
Deferred rent	38,874	42,423
Patent fees	45,000	40,000
	$ 754,219	$ 1,305,173

5. Stock-Based Compensation

Common Stock Warrants

In connection with the March 23, 2016 public offering the Company issued warrants to purchase 6,825,000 shares of common stock with an exercise price of $1.00 per share and expire five years from the issuance date. In connection with our July 23, 2013 initial public offering, the Company issued warrants to the underwriters for 125,000 shares of common stock issuable at $12.50 per share upon exercise and expire five years from the issuance date. On March 10, 2011, the Company issued warrants to purchase shares of common stock to third parties in consideration for a private equity placement transaction. The warrants have an exercise price of $0.48 per share and expire ten years from the issuance date. During the three months ended March 31, 2017 and 2016 no warrants were exercised. As of March 31, 2017 the Company has outstanding warrants to purchase 2,961,571 shares of common stock issuable at $1.00 per share; warrants to purchase 125,000 shares of common stock issuable at $12.50 per share; and warrants to purchase 17,392 shares of common stock issuable at $0.48 per share. These warrants do not meet the criteria required to be classified as liability awards and therefore are treated as equity awards.

HEAT BIOLOGICS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Stock Options

The following is a summary of the stock option activity for the three months ended March 31, 2017:

	Shares	Weighted Average Exercise Price
Outstanding, December 31, 2016	1,136,753	$ 3.93
Granted	1,032,000	$ 0.87
Forfeited	(14,688)	$ 5.53
Outstanding, March 31, 2017	2,154,065	$ 2.45

The weighted average grant-date fair value of stock options granted during the three months ended March 31, 2017 was $0.60. The fair value of each stock option was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions for stock options granted during the three months ended March 31, 2017:

Dividend yield	0.0%
Expected volatility	76.35%
Risk-free interest rate	1.93%
Expected lives (years)	6.25

The risk-free interest rate is based on U.S. Treasury interest rates at the time of the grant whose term is consistent with the expected life of the stock options. The Company used an average historical stock price volatility based on an analysis of reported data for a peer group of comparable companies that have issued stock options with substantially similar terms, as the Company did not have any trading history for its common stock. Expected term represents the period that the Company s stock option grants are expected to be outstanding. The Company elected to utilize the simplified method to estimate the expected term. Under this approach, the weighted-average expected life is presumed to be the average of the vesting term and the contractual term of the option.

Expected dividend yield was considered to be 0% in the option pricing formula since the Company had not paid any dividends and had no plans to do so in the future. The forfeiture rate was considered to be none as the options vest on a monthly basis.

The Company recognized $121,725 and $210,434 in stock-based compensation expense for the three months ended March 31, 2017 and 2016, respectively for the Company s stock option awards.

The following table summarizes information about stock options outstanding at March 31, 2017:

Options Outstanding			Options Vested and Exercisable		
Balance as of 3/31/2017	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Balance as of 3/31/2017	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
2,154,065	8.6	$2.45	803,403	7.1	$4.42

As of March 31, 2017, the unrecognized stock-based compensation expense related to unvested stock options was $1,646,338, which is expected to be recognized over a weighted average period of approximately 18.4 months.

Restricted Stock

The Company recognized $116,520 and $0 in stock-based compensation expense for employees related to restricted stock awards during the three months ended March 31, 2017 and 2016, respectively. The Company recognized $10,500 and $1,283 in share-based compensation expense related to issuance of shares of restricted stock to non-employees (i.e., consultants) in exchange for services during the three months ended March 31, 2017 and 2016, respectively. As of March 31, 2017 there were 503,500 restricted stock awards granted to employees, of which 377,625 were unvested.

HEAT BIOLOGICS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Total stock-based compensation expense, including restricted stock and stock options was $248,745 and $211,717 for the three months ended March 31, 2017 and 2016, respectively.

6. Financing

The Company may sell shares of its common stock through FBR by any method permitted that is deemed an at the market offering as defined in Rule 415 under the Securities Act of 1933, as amended (the Securities Act), including sales made directly on or through the NASDAQ Capital Market, the existing trading market for the Company s common stock, sales made to or through a market maker other than on an exchange or otherwise, in negotiated transactions at market prices, and/or any other method permitted by law. Sales of shares of common stock are made pursuant to the Company s effective shelf registration statement on Form S-3 (File No. 333-199274) filed with the U.S. Securities and Exchange Commission (SEC), the base prospectus, dated October 23, 2014, filed as part of such registration statement and the prospectus supplement, dated August 15, 2016. FBR is entitled to compensation at a fixed commission rate up to 3.0% of the gross proceeds per share sold through it as sales agent under the sales agreement. Beginning in August 2016 and through December 31, 2016, the Company sold 4,791,377 shares of common stock under the FBR Sales Agreement resulting in net proceeds of approximately $6.8 million. As of March 31, 2017, the Company has sold an additional 2,196,727 shares of common stock under the Sales Agreement resulting in net proceeds of approximately $2.2 million after FBR s commission and other expenses.

Public Offering

On March 28, 2017, the Company sold pursuant to the terms of an Underwriting Agreement (the Underwriting Agreement) that it entered into on March 23, 2017 with Aegis Capital Corp. (Aegis), as representative of the several underwriters named therein (the Underwriters), 5,000,000 shares of the Company s common stock, and 750,000 additional shares of the common stock to cover over-allotments at an offering price of $0.80 per share (the Offering). The net proceeds to the Company from the Offering were approximately $4.1 million, after deducting underwriting discounts, commissions, and other third party offering expenses. The Underwriting Agreement contains customary representations, warranties, and agreements by the Company, customary conditions to closing, indemnification obligations of the Company and the Underwriters, including for liabilities under the Securities Act of 1933, as amended (the Securities Act), other obligations of the parties and termination provisions.

7. Net Loss Per Share

Basic and diluted net loss per common share is calculated by dividing net loss applicable to Heat Biologics, Inc. by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. The Company s potentially dilutive shares, which include outstanding stock options and warrants, are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive. The following table reconciles net loss to net loss attributable to Heat Biologics, Inc.:

	Three Months Ended March 31,	
	2017	**2016**
Net loss	$ (3,240,728)	$ (4,734,486)
Net loss: Non-controlling interest	(50,791)	(174,883)
Net loss attributable to Heat Biologics, Inc.	$ (3,189,937)	$ (4,559,603)
Weighted-average number of common shares used in net loss per share attributable to Heat Biologics, Inc. basic and diluted	26,957,620	9,124,641
Net loss per share attributable to Heat Biologics, Inc. basic and diluted	$ (0.12)	$ (0.50)

HEAT BIOLOGICS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following potentially dilutive securities were excluded from the calculation of diluted net loss per share due to their anti-dilutive effect:

	For the Three Months Ended March 31,	
	2017	**2016**
Outstanding stock options	2,154,065	1,574,484
Outstanding restricted stock units	125,875	
Outstanding common stock warrants	3,103,963	6,967,382

8. Income Tax

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, operating loss carryforwards, and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In accordance with FASB ASC 740, *Accounting for Income Taxes*, the Company reflects in the accompanying unaudited condensed consolidated financial statements the benefit of positions taken in a previously filed tax return or expected to be taken in a future tax return only when it is considered more-likely-than-not that the position taken will be sustained by a taxing authority. As of March 31, 2017 and December 31, 2016, the Company had no unrecognized income tax benefits and correspondingly there is no impact on the Company s effective income tax rate associated with these items. The Company s policy for recording interest and penalties relating to uncertain income tax positions is to record them as a component of income tax expense in the accompanying statements of operations and comprehensive loss. As of March 31, 2017 and December 31, 2016, the Company had no such accruals.

9. Subsequent Events

Acquisitions

On March 7, 2017, the Company entered into a Stock Purchase Agreement (the Purchase Agreement) with Pelican Therapeutics, Inc., a related party, and certain stockholders in Pelican (the Majority Pelican Stockholders) to purchase outstanding capital stock of Pelican (the Acquisition). Pelican is a biotechnology company focused on the development and commercialization of monoclonal antibody and fusion protein-based therapies that are designed to activate the immune system. Under the Purchase Agreement, it was a condition to closing that holders of at least 80% of the outstanding capital stock of Pelican on a fully diluted basis participate in the Acquisition. On April 28, 2017 the acquisition was completed in which Heat acquired 80% of Pelican common stock.

Settlement

On April 11, 2017, the Company entered into a settlement agreement and mutual release with a former independent consultant. In agreeing to the settlement, the Company agreed to pay $290,000 to resolve the matter in which the Company paid in full as of May 1, 2017.

ITEM 2.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes included in this Quarterly Report on Form 10-Q. The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those discussed below and elsewhere in this Quarterly Report. This discussion should be read in conjunction with the accompanying unaudited consolidated financial statements and the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the Securities and Exchange Commission on March 31, 2017 (the 2016 Annual Report). This discussion may contain forward-looking statements that involve risks and uncertainties. See Forward-Looking Statements.

OVERVIEW

We are an immuno-oncology company developing novel therapies designed to activate a patient s immune system against cancer. We have generated highly specific T cell-stimulating therapeutic vaccine platform technologies, *ImPACT*® (Immune Pan-Antigen Cytotoxic Therapy) and *ComPACT* (Combination Pan-Antigen Cytotoxic Therapy). Our platform technologies address two synergistic mechanisms of action: activation and proliferation of CD8+ T cells, or killer T cells; and T cell co-stimulation. Most recently, we have also acquired two T cell costimulators through the acquisition of Pelican Therapeutics Inc. (Pelican), which serve to broaden our pipeline and potentially enhance durability of responses. We believe the use of these technologies in combination with other immunotherapies has the potential to dramatically improve patient outcomes.

Using our *ImPACT*® platform technology, we have developed product candidates that consist of live, genetically-modified, irradiated human cancer cells which secrete a broad spectrum of tumor-associated antigens (TAAs) together with a potent immune response stimulator called gp96. The secreted antigen-gp96/TAA complexes are designed to activate a patient s immune system to recognize and kill cancer cells that express the TAAs included in the product candidates, which we have selected to address the most prevalent TAAs present in the tumor signature of a specific cancer.

Our *ComPACT* platform technology enables us to combine a pan-antigen T cell activating vaccine and a T cell co-stimulator in a single product, offering the potential benefits of combination immunotherapy without the need for multiple independent biologic products. Using *ComPACT* , we have engineered new product candidates that

incorporate various ligand fusion proteins targeting co-stimulatory receptors (OX40, ICOS, GITR, TL1A, etc.) into the gp96-Ig expression vector, resulting in a single product candidate that includes both a pan-antigen T cell priming vaccine and a T cell co-stimulator.

Using our platform technologies, we produce product candidates from allogeneic cell lines selected to express the broadest array of commonly shared tumor antigens for a specified type of cancer. Unlike autologous or personalized therapeutic vaccine approaches that require the extraction of blood or tumor tissue from each patient and the creation of an individualized treatment, our product candidates are fully allogeneic and do not require extraction of individual patient s material or custom manufacturing. As a result, our product candidates can be mass-produced and readily available for immediate patient use. Because each patient receives the same treatment, we believe that our immunotherapy approach offers logistical, manufacturing and other cost benefits compared to patient-specific or precision medicine approaches.

Our wholly-owned subsidiary, Zolovax, Inc. (Zolovax), is in preclinical studies to develop therapeutic and preventative vaccines to treat infectious diseases based on our gp96 vaccine technology, with a current focus on the development of a Zika vaccine in collaboration with the University of Miami. Other infectious diseases of interest include HIV, West Nile virus, Dengue and yellow fever.

Using our *ImPACT*® platform technology, we have developed two product candidates: HS-110 (viagenpumatucel-L) as a potential treatment for patients with non-small cell lung cancer (NSCLC), currently in combination with an anti-PD-1 checkpoint inhibitor, and HS-410 (vesigenurtacel-L) as a product candidate to treat non-muscle invasive bladder cancer (NMIBC). To date, we have administered in excess of 1,000 doses of HS-410 and HS-110 collectively in almost 200 patients, generating a favorable safety profile and low toxicities. We are currently conducting a Phase 2 trial of HS-110, in combination with nivolumab (Opdivo®), a Bristol-Myers Squibb PD-1 checkpoint inhibitor, to treat patients with NSCLC and a Phase 2 trial of HS-410 in patients with NMIBC.

On April 28, 2017, we completed the acquisition of 80% of Pelican s common stock. Pelican is a biotechnology company focused on the development and commercialization of monoclonal antibody and fusion protein-based therapies that are designed to activate the immune system. Pelican has been awarded a $15.2 million grant to fund preclinical and some clinical activities from the CPRIT. The CPRIT grant is subject to customary CPRIT funding conditions.

HS-110 Non-Small Cell Lung Cancer (NSCLC)

HS-110 (viagenpumatucel-L) is a biologic product candidate comprising a cancer cell line that has been genetically modified using our *ImPACT*® technology platform to secrete a wide range of cancer-associated antigens related to lung cancer bound to gp96 proteins. We believe that HS-110 has the potential to activate a T cell-mediated pan-antigen immune response that could be an effective treatment for patients with NSCLC.

We are conducting a Phase 2 clinical trial evaluating HS-110 in combination with nivolumab (Opdivo®), a Bristol-Myers Squibb anti-PD-1 checkpoint inhibitor, to treat patients with NSCLC. The multicenter, open-label trial was initially expected to enroll 18 patients evaluable for baseline biopsy and was designed to accommodate cohort expansion up to 30 patients per arm (approximately 60 patients). In March 2017, we expanded this trial from a Phase 1b clinical trial to a Phase 2 clinical trial after the Data Monitoring Committee concluded that the positive safety profile, mechanistic evidence and encouraging signs of synergistic efficacy warranted expansion to a Phase 2 and our announcement that five out of 15 patients treated with the HS-110/nivolumab combination had 20% or greater tumor reduction. Patients with increased levels of TIL at 10 weeks appeared to have a durable benefit, with six out of eight of these patients (75%) alive at the one-year follow-up point. The purpose of the trial is to evaluate the safety and efficacy of HS-110 in combination with nivolumab, an FDA approved anti-PD-1 checkpoint inhibitor, in patients with NSCLC whose cancers have progressed after first-line therapy. Primary and secondary trial endpoints include safety and tolerability, immune response, overall response rate and progression-free survival. Trial enrollment is currently ongoing.

On March 21, 2017, we reported positive interim results for the Phase 2 trial evaluating HS-110 in combination with Bristol-Myers Squibb s anti-PD-1 checkpoint inhibitor, nivolumab (Opdivo®), for the treatment of non-small cell lung cancer (NSCLC). Fifteen patients have completed the HS-110/nivolumab combination to-date and 12 of these 15 patients were evaluable for ELISPOT analysis. ELISPOT results suggest that HS-110 plays an integral role in tumor reduction and may enhance efficacy of checkpoint inhibitors in lung cancer patients. Immune responses to HS-110 were observed in all 5 patients that exhibited tumor reductions. No tumor reductions were observed in patients that did not mount an immune response to HS-110. The timing of immune response to HS-110 corresponded to the timing of observed clinical responses, and those responses appear to be sustained. Furthermore, to-date 5 patients have been enrolled in the low tumor infiltrating lymphocytes (TIL) cohort. Three of these 5 patients (60%) have experienced significant tumor reduction, which is higher than the 10% response rate of low TIL patients reported by Teng et al, Cancer Research 75(11) June 1, 2015 for existing data on nivolumab alone.

Heat also conducted a Phase 2 randomized, controlled trial using HS-110 in combination with cyclophosphamide versus chemotherapy alone in third-line and fourth-line NSCLC patients. This trial, which enrolled 66 of 123 patients, was discontinued in 2015 to allow Heat to instead focus on combinations with checkpoint inhibitors. Data from the Phase 2 clinical trial continues to accrue and is expected to be reported in 2017.

HS-410 Bladder Cancer

HS-410 (vesigenurtacel-L) is a biologic product candidate comprising a cancer cell line genetically modified using our *ImPACT*® technology platform to secrete a wide range of cancer antigens related to bladder cancer bound to gp96 molecules. We believe that HS-410 has the potential to activate a T cell mediated pan-antigen immune response that could be an effective treatment for patients with NMIBC.

We conducted a Phase 2 trial evaluating HS-410 alone or in combination with intravesical standard of care, Bacillus Calmette-Guérin (BCG), for the treatment of high-risk NMIBC. Our Phase 2 trial examined safety, tolerability, immune response and preliminary clinical activity of HS-410. The primary endpoint was one-year disease free survival.

On November 30, 2016, we announced that we presented topline data from the 94-patient Phase 2 trial at the Society of Urology Annual Meeting in San Antonio, Texas. Researchers reported that there were encouraging signs of anti-tumor activity as HS-410 generated a robust antigen-specific immune response to multiple tumor-associated peptides in treated patients, while there were no immune responses of this type in the placebo. However, these responses did not translate into clinical outcomes, and there was no statistically significant difference in the primary endpoint between the vaccine and placebo arms of the trial.

As a result of encouraging data from our interim results for the Phase 2 trial evaluating HS-110 in combination with Bristol-Myers Squibb s anti-PD-1 checkpoint inhibitor, nivolumab (Opdivo®) for the treatment of non-small cell lung cancer (NSCLC) and our recent acquisition of Pelican, we are discontinuing programs where we do not see an opportunity to immediately combine with checkpoints, such as our non-muscle invasive bladder cancer program, and will instead reallocate those resources to fund current and future checkpoint and T cell co-stimulator combination programs.

Additional Indications

We continue to evaluate other potential indications for our *ImPACT*® and *ComPACT* platform technologies. Specifically, using *ComPACT* , we have developed cell lines for several other cancers with the first product candidate being a second-generation therapy for non-small cell lung cancer (HS-120). Our decision to further pursue these product candidates or any additional product candidates other than our lead product candidate will be based in part upon available funding and partnering opportunities.

In April 2017, we announced new preclinical data from our collaboration with OncoSec, Researchers combined intratumoral electroporation of *ComPACT* DNA (expressing Gp96-Ig and FC-OX40L) directly into a tumor, with cell-based *ComPACT* vaccination, to explore the effects of an intratumoral plus vaccination approach in a preclinical mouse model of melanoma. Results confirmed that this combination approach led to increased antigen-specific CD8+ T cells, enhanced anti-tumor response and improved overall survival compared to individual treatments. These findings provide initial proof-of-principle and warrant further investigation.

Recent Developments

On March 28, 2017, we completed an underwritten public offering of 5,000,000 shares of our common stock at a price to the public of $0.80 per share for gross proceeds of $4.0 million and estimated net proceeds to us of approximately $3.5 million after deducting underwriting discounts and commissions and other estimated offering expenses. In addition, on March 30, 2017, we issued 750,000 additional shares of common stock at the public offering price of $0.80 per share in connection with the underwriter s exercise of their over-allotment option for gross proceeds of $600,000 and estimated net proceeds to us of approximately $548,000 after deducting underwriting discounts and commissions.

On April 28, 2017, we consummated the acquisition of 80% of the outstanding equity of Pelican, a related party, and Pelican became a majority owned subsidiary of ours. Pelican is a biotechnology company focused on the development and commercialization of monoclonal antibody and fusion protein-based therapies that are designed to

activate the immune system. In exchange for 80% of the outstanding capital stock of Pelican on a fully diluted basis, we paid to the Pelican Stockholders that executed the Stock Purchase Agreement (the Participating Pelican Stockholders) an aggregate of $500,000 (the Cash Consideration), and issued to the Participating Pelican Stockholders 1,331,056 shares of our restricted common stock representing 4.99% of the outstanding shares of our common stock on the date of the initial execution of the Purchase Agreement (the Stock Consideration). The Cash Consideration will be reduced by the amount by which certain of Pelican s accrued liabilities are not satisfied for less than $250,000. The Cash Consideration and Stock Consideration are being held in escrow for a period of up to six months to secure certain indemnification and other obligations of Pelican and the Participating Pelican Stockholders in connection with the acquisition.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES

We believe that several accounting policies are important to understanding our historical and future performance. We refer to these policies as critical because these specific areas generally require us to make judgments and estimates about matters that are uncertain at the time we make the estimate, and different estimates which also would have been reasonable could have been used, which would have resulted in different financial results.

Our management s discussion and analysis of financial condition and results of operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates based on historical experience and make various assumptions, which management believes to be reasonable under the circumstances, which form the basis for judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The notes to our audited consolidated financial statements contain a summary of our significant accounting policies. We consider the following accounting policies critical to the understanding of the results of our operations:

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Stock-based compensation; and

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Research and development costs, including clinical and regulatory cost

RESULTS OF OPERATIONS

Three Months ended March 31, 2017 Compared to Three Months Ended March 31, 2016

Revenues

For the quarter ended March 31, 2017, we recognized $24,240 in research funding revenue pursuant to our exclusive license agreement with Shattuck Labs, Inc. (Shattuck) pursuant to which Shattuck acquired the rights to take over the research and development of certain preclinical assets. This revenue was for research and development services, which include labor and supplies, provided to Shattuck. The research funding agreement ended January 31, 2017. There was no revenue for the quarter ended March 31, 2016. We continue our efforts to secure future non-dilutive grant funding to subsidize ongoing research and development costs.

Research and development expense.

Research and development expenses decreased by 50% to approximately $1.9 million for the quarter ended March 31, 2017 compared to $3.7 million for the quarter ended March 31, 2016 as we progress through our two NMIBC and NSCLC trials. The $1.8 million decrease consists of the following:

Three Months Ended,

	March 31,	
	2017	**2016**
Programs		
HS-410	$ 347	$ 1,514
HS-110	377	675
HS-120	9	220
Other programs	31	4
Unallocated research and development expenses	1,049	1,245
	$ 1,813	$ 3,658

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HS-410 expense decreased $1.2 million due to the current phase of the trial where the patients are in long-term follow-up for recurrence-free survival, HS-110 expense decreased $0.3 million as one trial is in long-term follow-up for overall survival and the DURGA trial is continuing patient enrollment, and HS-120, *ComPACT*™ decreased $0.2 million due to reductions in Chemistry Manufacturing and Control ("CMC") activities.

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Unallocated expenses include personnel-related expenses, professional and consulting fees, and travel and other costs. These costs decreased approximately $0.2 million primarily related to personnel and other associated expense.

General and administrative expense. General and administrative expense increased 48% to $1.5 million for the quarter ended March 31, 2017 compared to $1.0 million for the quarter ended March 31, 2016. The $0.5 million increase is primarily attributable to the increase in professional services and third party expenses related to the acquisition of Pelican.

Interest income. Interest income was $5,221 for the quarter ended March 31, 2017 compared to $11,101 for the quarter ended March 31, 2016. The decrease of $5,880 is de minimis.

Other income, net. Other income decreased to $69,727 for the quarter ended March 31, 2017 from $79,701 for the quarter ended March 31, 2016. Other income is primarily related to the reimbursement of taxes expensed during the previous quarter associated with clinical trial execution in Australia and foreign exchange gains related to the Australian dollar.

Interest expense. Interest expense was zero for the quarter ended March 31, 2017 compared to $136,122 for the quarter ended March 31, 2016. Interest expense during the quarter ended March 31, 2016 was attributable to the bank loan the Company held at that time. In December 2016, the Company repaid the loan in total.

Net loss attributable to Heat Biologics, Inc. We had a net loss attributable to Heat Biologics, Inc. of $3.2 million, or ($0.12) per basic and diluted share for the quarter ended March 31, 2017 compared to a net loss of $4.7 million, or ($0.50) per basic and diluted share for the quarter ended March 31, 2016.

Balance Sheet at March 31, 2017 and December 31, 2016

Prepaid expenses and other current assets. Prepaid expenses and other current assets were $279,892 as of March 31, 2017 compared to $338,049 as of December 31, 2016. The decrease of $58,157 was primarily due to the reduction in the amount paid in advance to our clinical research organizations (CRO) as we progress our clinical trial studies for HS-410 and HS-110.

Accounts Payable. Accounts payable was $734,306 as of March 31, 2017 compared to $290,058 as of December 31, 2016. The increase of $444,248 was primarily related to payables for legal fees associated with our pending acquisition and our March 2017 financing as well as a payable for one of our drug manufacturers.

Accrued Expenses and Other Liabilities. Accrued expenses were $754,219 as of March 31, 2017 compared to $1,305,173 as of December 31, 2016. The decrease of $550,954 was primarily related to 2016 employee bonuses which were accrued at December 31, 2016 but subsequently paid in January 2017.

Other Long term Liabilities. Long term liabilities were $421,514 as of March 31, 2017 compared to $461,434 as of December 31, 2016. The decrease of $39,920 was attributable to the percent of investigator site fees that are held back until the clinical study is complete reclassed to current liabilities.

LIQUIDITY AND CAPITAL RESOURCES

Sources of liquidity

We commenced active operations in June 2008. To date, we have not generated any significant revenues and have primarily financed our operations with net proceeds from the private placement of our preferred stock, our July 2013 initial public offering in which we received net proceeds of $24.3 million, our March 2015 public offering in which we received net proceeds of $11.1 million, our March 2016 public offering in which we received net proceeds of $6.1 million and, as of March 31, 2017, an additional $3.9 million from the exercise of 3,863,429 warrants. In addition, we have received $9.2 million of net proceeds from sales through the At Market Issuance Sales Agreement (the FBR Sales Agreement) with FBR Capital Markets & Co. through March 31, 2017, and our recent public offering that was completed on March 28, 2017 of 5,000,000 shares of our common stock and an additional issuance of 750,000 shares of our common stock on March 30, 2017 in connection with the underwriter s exercise of their over-allotment option (the Offering) at a price to the public of $0.80 per share for gross proceeds of $4.6 million and estimated net proceeds of approximately $4.1 million after deducting underwriting discounts and commissions and other estimated offering expenses. As of March 31, 2017, we had an accumulated deficit of $60.2 million. We had net losses of $3.2 million and $4.7 million for the quarters ended March 31, 2017 and 2016, respectively.

We expect to incur significant expenses and continued losses from operations for the foreseeable future. We expect our expenses to increase in connection with our ongoing activities, particularly as we continue the research and development and advance our clinical trials of, and seek marketing approval for, our product candidates. We are currently devoting substantially all of our resources to developing HS-110 and other combination therapies, including conducting clinical trials. In addition, we have agreed to provide Pelican with $910,231, which is the amount necessary for Pelican to access its first year of grant funding from CPRIT. In addition, if we obtain marketing approval for any of our product candidates, we expect to incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. Adequate additional financing may not be available to us on acceptable terms, or at all. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs or any future commercialization efforts. We will need to obtain additional financing to pursue our business strategy, to respond to new competitive pressures or to take advantage of opportunities that may arise. Accordingly, there is substantial doubt that we can continue as an on-going business for the next twelve months unless we obtain additional capital. To meet our capital needs, we are considering multiple alternatives, including, but not limited to, additional equity financings, debt financings, partnerships, collaborations and other funding transactions in order to focus our resources on our product candidates. This is based on our current estimates, and we could use our available capital resources sooner than we currently expect. We are continually evaluating various cost-saving measures in light of our cash requirements in order to focus our resources on our product candidates. We may take additional action to reduce our immediate cash expenditures, including re-visiting our headcount, offering vendors equity in lieu of the cash due to them and otherwise limiting our other research expenses, in order to focus our resources on our product candidates. We will need to generate significant revenues to achieve profitability, and we may never do so. As of March 31, 2017, we had $11,129,932 in cash and cash equivalents.

Our cash and cash equivalents are currently held in an interest-bearing checking and money market accounts.

Cash flows

Operating activities. The use of cash in all periods resulted primarily from our net losses adjusted for non-cash charges and changes in the components of working capital. The decrease in cash used in operating activities for the quarter ended March 31, 2017 compared to the quarter ended March 31, 2016 is due to a decrease in clinical and regulatory expenses as we advance our clinical trials. Additionally, there was a decrease in other operational costs primarily associated with decreases in headcount in all departments.

Investing activities. Cash used in investing activities were for the purchase of property and equipment. Cash provided by investing activities for the quarter ended March 31, 2016 was primarily from proceeds from maturities of various short-term investments as well as the purchase of property and equipment. After the quarter ended March 31, 2016, we no longer hold short-term investments.

Financing activities. Cash provided by financing activities during the quarter ended March 31, 2017 was from the March 2017 public offering which generated net proceeds of approximately $4.1 million, as well as $2.2 million net proceeds from the FBR sales agreement. Cash provided by financing activities during the quarter ended March 31, 2016 was primarily from the March 2016 public offering which generated net proceeds of approximately $6.1 million.

Funding requirements

We believe that our existing cash and cash equivalents will not be sufficient to meet our anticipated cash needs for the next twelve months. To meet our financing needs, we are considering multiple alternatives, including, but not limited to, additional equity financings, debt financings, partnerships, collaborations and other funding transactions. We are continually evaluating various cost-saving measures in light of our cash requirements. We may take additional action to reduce our immediate cash expenditures, including re-visiting our headcount, offering vendors equity in lieu of the cash due to them and otherwise limiting our other research expenses, in order to focus our resources on our product candidates. Thereafter, we intend to meet our financing needs through the issuance of equity or debt and/or funding from partnerships or collaborations.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under Securities and Exchange Commission rules.

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable to smaller reporting companies.

ITEM 4.

CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Vice President of Finance, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2017. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. We have adopted and maintain disclosure controls and procedures (as defined Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to provide reasonable assurance that information required to be disclosed in the reports filed under the Exchange Act, such as this Quarterly Report on Form 10-Q, is collected, recorded, processed, summarized and reported within the time periods specified in the rules of the SEC. The Company s disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to management to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of March 31, 2017 our Chief Executive Officer and Vice President of Finance concluded that, as of such a date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) occurred during the quarter ended March 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1.

LEGAL PROCEEDINGS.

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

ITEM 1A.

RISK FACTORS.

The following information and updates should be read in conjunction with the information disclosed in Part 1, Item 1A, Risk Factors, contained in our 2016 Annual Report. Except as disclosed below, there have been no material changes from the risk factors and uncertainties disclosed in our 2016 Annual Report.

We expect to continue to generate operating losses and experience negative cash flows and it is uncertain whether we will achieve profitability.

For the three months ended March 31, 2017 and 2016, we incurred a net loss of $3.2 million and $4.7 million, respectively. We have an accumulated deficit of $60.2 million through March 31, 2017. We expect to continue to incur operating losses until such time, if ever, as we are able to achieve sufficient levels of revenue from operations. Our ability to achieve profitability will depend on us obtaining regulatory approval for our product candidates and market acceptance of our product offerings and our capacity to develop, introduce and sell our products to our targeted markets. There can be no assurance that any of our product candidates will be approved for commercial sale, or even if our product candidates are approved for commercial sale that we will ever generate significant sales or achieve profitability. Accordingly, the extent of future losses and the time required to achieve profitability, if ever, cannot be predicted at this point.

Even if we succeed in developing and commercializing one or more product candidates, we expect to incur substantial losses for the foreseeable future and may never become profitable. We also expect to continue to incur significant operating expenses and anticipate that our expenses will increase substantially in the foreseeable future as we:

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continue to undertake preclinical development and conduct clinical trials for product candidates;

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seek regulatory approvals for product candidates;

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implement additional internal systems and infrastructure; and

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hire additional personnel.

We also expect to experience negative cash flows for the foreseeable future as we fund our operating losses. As a result, we will need to generate significant revenues or raise additional financing in order to achieve and maintain profitability. We may not be able to generate these revenues or achieve profitability in the future. Our failure to achieve or maintain profitability would likely negatively impact the value of our securities and financing activities.

We will need to raise additional capital to operate our business and our failure to obtain funding when needed may force us to delay, reduce or eliminate our development programs or commercialization efforts.

During the three months ended March 31, 2017, our operating activities used net cash of approximately $3.0 million and as of March 31, 2017 our cash and cash equivalents were approximately $11.1 million. During the year ended December 31, 2016, our operating activities used net cash of approximately $13.5 million and as of December 31, 2016 our cash and cash equivalents were approximately $7.8 million. We have experienced significant losses since inception and have a significant accumulated deficit. As of March 31, 2017, our accumulated deficit totaled approximately $60.1 million and as of December 31, 2016, our accumulated deficit totaled approximately $57.0 million on a consolidated basis. We expect to incur additional operating losses in the future and therefore expect our cumulative losses to increase. We do not expect to derive revenue from any significant source in the near future until we or our potential partners successfully commercialize our products. Despite cost-saving measures that we implemented, we expect our expenses to increase if and when we initiate and conduct Phase 2 and 3 and other clinical trials, and seek marketing approval for our product candidates. Until such time as we receive approval from the FDA and other regulatory authorities for our product candidates, we will not be permitted to sell our products and therefore will not have product revenues from the sale of products. For the foreseeable future we will have to fund all of our operations and capital expenditures from equity and debt offerings, cash on hand, licensing fees and grants.

We expect that our current cash and cash equivalents will allow us to complete the enrollment of additional patients in the Phase 2 clinical trial for HS-110; however, if the trial design or size were to change, we may need to raise money

earlier than anticipated.

We will need to raise additional capital to fund our future operations and we cannot be certain that funding will be available on acceptable terms on a timely basis, or at all. To meet our financing needs, we are considering multiple alternatives, including, but not limited to, current and additional equity financings, which we expect will include sales of common stock through the FBR Sales Agreement, debt financings and/or funding from partnerships or collaborations. There can be no assurance that we will be able to meet the requirements for use of the FBR Sales Agreement, especially in light of the fact that we are subject to the smaller reporting company requirements, or to complete any such transactions on acceptable terms or otherwise. Any additional sources of financing will likely involve the issuance of our equity or debt securities, which will have a dilutive effect on our stockholders. To the extent that we raise additional funds by issuing equity securities, our stockholders may experience significant dilution. Any debt financing, if available, may involve restrictive covenants that may impact our ability to conduct our business. If we do not succeed in raising additional funds on acceptable terms, we may be unable to complete planned preclinical and clinical trials or obtain approval of our product candidates from the FDA and other regulatory authorities. In addition, we could be forced to delay, discontinue or curtail product development, forego sales and marketing efforts, and forego licensing in attractive business opportunities. Any additional sources of financing will likely involve the issuance of our equity or debt securities, which will have a dilutive effect on our stockholders.

ITEM 2.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3.

DEFAULTS UPON SENIOR SECURITIES.

Not Applicable.

ITEM 4.

MINE SAFETY DISCLOSURES.

Not Applicable.

ITEM 5.

OTHER INFORMATION.

None.

ITEM 6.

EXHIBITS.

The exhibits filed as part of this Quarterly Report on Form 10-Q are set forth on the Exhibit Index, which Exhibit Index 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.

HEAT BIOLOGICS, INC.

Date: May 11, 2017	By:	/s/ Jeffrey A. Wolf Jeffrey A. Wolf *Chairman and Chief Executive Officer* *(Principal executive officer)*
Date: May 11, 2017	By:	/s/ Ann A. Rosar Ann A. Rosar *Vice President of Finance* *(Principal financial and accounting officer)*

EXHIBIT INDEX

Exhibit No.	Description
31.1*	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Vice President of Finance pursuant to Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Vice President of Finance pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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Filed herewith.