Adaptimmune Therapeutics PLC
Form 10-Q
August 03, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2017

OR

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

Commission File Number 001-37368

ADAPTIMMUNE THERAPEUTICS PLC

(Exact name of Registrant as specified in its charter)

England and Wales	**Not Applicable**

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

60 Jubilee Avenue, Milton Park

Abingdon, Oxfordshire OX14 4RX

United Kingdom

(44) 1235 430000

(Address of principal executive offices)

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. x Yes o No

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). x Yes o No

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 and smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o
	Emerging growth company x

If an emerging growth company, indicate by check mark if the registrant has elected to use the extended transition period for complying with any new or revised financial accounting standard provided pursuant to Section 13(a) of the Exchange Act. o

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

As of August 3, 2017 the number of outstanding ordinary shares par value £0.001 per share of the Registrant is 561,114,526.

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General information

In this Quarterly Report on Form 10-Q (Quarterly Report), Adaptimmune, the Group, the Company, we, us and our refer to Adaptimm Therapeutics plc and its consolidated subsidiaries, except where the context otherwise requires.

Information Regarding Forward-Looking Statements

This Quarterly Report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about us and our industry. All statements other than statements of historical fact in this Quarterly Report are forward-looking statements.

These forward-looking statements are subject to known and unknown risks, uncertainties, assumptions and other factors that could cause our actual results of operations, financial condition, liquidity, performance, prospects, opportunities, achievements or industry results, as well as those of the markets we serve or intend to serve, to differ materially from those expressed in, or suggested by, these forward-looking statements. These forward-looking statements are based on assumptions regarding our present and future business strategies and the environment in which we expect to operate in the future. Important factors that could cause those differences include, but are not limited to:

- our ability to advance our NY-ESO SPEAR T-cells to a point where GlaxoSmithKline, or GSK, exercises the option to license the product and the scope and timing of performance of our ongoing collaboration with GSK;

- our ability to successfully advance our MAGE-A10, MAGE-A4 and AFP SPEAR T-cells through clinical development and the timing within which we can recruit patients in to and treat patients in our clinical trials;

- our ability to further develop our commercial manufacturing process for our SPEAR T-cells, transfer such commercial process to third party contract manufacturers and for such third party contract manufacturers to manufacture SPEAR T-cells to the quality and on the timescales we require;

- the success, cost and timing of our product development activities and clinical trials;

- our ability to successfully advance our SPEAR T-cell technology platform to improve the safety and effectiveness of our existing SPEAR T-cell candidates and to submit Investigational New Drug Applications, or INDs, for new SPEAR T-cell candidates;

- the rate and degree of market acceptance of T-cell therapy generally, and of our SPEAR T-cells;

- government regulation and approval, including, but not limited to, the expected regulatory approval timelines for TCR therapeutic candidates;

- patents, including, any inability to obtain third party licenses, legal challenges thereto or enforcement of patents against us;

- the level of pricing and reimbursement for our SPEAR T-cells, if approved for marketing;

- general economic and business conditions or conditions affecting demand for our SPEAR T-cells in the markets in which we operate, both in the United States and internationally;

- volatility in equity markets in general and in the biopharmaceutical sector in particular;

- fluctuations in the price of materials and bought-in components;

- our relationships with suppliers and other third-party providers;

- increased competition from other companies in the biotechnology and pharmaceutical industries;

- claims for personal injury or death arising from the use of our SPEAR T-cell candidates;

- changes in our business strategy or development plans, and our expected level of capital expenses;

- our ability to attract and retain qualified personnel;

- regulatory, environmental, legislative and judicial developments including a regulatory requirement to place any clinical trials on hold or to suspend any trials;

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- a change in our status as an emerging growth company under the Jumpstart Our Business Start-ups Act of 2012, or JOBS Act;

- uncertainty about the future relationship between the United Kingdom and the European Union; and

- additional factors that are not known to us at this time.

Additional factors that could cause actual results, financial condition, liquidity, performance, prospects, opportunities, achievements or industry results to differ materially include, but are not limited to, those discussed under Risk Factors in Part II, Item 1A in this Quarterly Report and in our other filings with the Securities and Exchange Commission (the SEC). Additional risks that we may currently deem immaterial or that are not presently known to us could also cause the forward-looking events discussed in this Quarterly Report not to occur. The words believe, may, will, estimate, continue, anticipate, intend, expect and similar words are intended to identify estimates and forward-looking statements. Estimates and forward-looking statements speak only at the date they were made, and we undertake no obligation to update or to review any estimate and/or forward-looking statement because of new information, future events or other factors. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of future performance. Our future results may differ materially from those expressed in these estimates and forward-looking statements. In light of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this Quarterly Report might not occur, and our future results and our performance may differ materially from those expressed in these forward-looking statements due to, inclusive of, but not limited to, the factors mentioned above. Because of these uncertainties, you should not make any investment decision based on these estimates and forward-looking statements.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

ADAPTIMMUNE THERAPEUTICS PLC

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2017	December 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$ 121,998	$ 158,779
Short-term deposits	18,000	22,694
Marketable securities - available for sale debt securities	80,023	
Accounts receivable, net of allowance for doubtful accounts of $- and $-	1,406	1,480
Other current assets and prepaid expenses (including current portion of clinical materials)	16,317	15,798
Total current assets	**237,744**	**198,751**
Restricted cash	4,156	4,017
Clinical materials	2,026	2,580
Property, plant and equipment, net	38,922	27,899
Intangibles, net	1,431	1,268
Total assets	**284,279**	**234,515**
Liabilities and stockholders equity		
Current liabilities		
Accounts payable (including amounts due to related parties of $- and $326)	4,577	11,350
Accrued expenses and other accrued liabilities (including amounts due to related parties of $- and $39)	13,372	17,528
Deferred revenue	12,304	11,392
Total current liabilities	**30,253**	**40,270**
Deferred revenue, non-current	20,754	24,962
Other liabilities, non-current	3,777	3,141
Total liabilities	**54,784**	**68,373**
Contingencies and commitments Note 9		
Stockholders equity		
Common stock - Ordinary shares par value £0.001, 701,103,126 authorized and 561,103,126 issued and outstanding (2016: 574,711,900 authorized and 424,775,092 issued and outstanding)	853	683
Additional paid in capital	448,985	341,200
Accumulated other comprehensive loss	(16,854)	(14,249)

Accumulated deficit		(203,489)		(161,492)
Total stockholders equity		**229,495**		**166,142**
Total liabilities and stockholders equity	**$**	**284,279**	**$**	**234,515**

See accompanying notes to unaudited condensed consolidated financial statements.

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ADAPTIMMUNE THERAPEUTICS PLC

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except share and per share data)

	Three months ended June 30,		Six months ended June 30,	
	2017	**2016**	**2017**	**2016**
Revenue	**$ 3,521**	**$ 328**	**$ 6,378**	**$ 3,246**
Operating expenses				
Research and development	(19,591)	(16,856)	(38,206)	(31,332)
General and administrative	(7,710)	(6,172)	(14,173)	(11,439)
Total operating expenses (including purchases from related parties, net of reimbursements of $178, $536, $780 and $1,329)	**(27,301)**	**(23,028)**	**(52,379)**	**(42,771)**
Operating loss	**(23,780)**	**(22,700)**	**(46,001)**	**(39,525)**
Interest income	512	291	752	550
Interest expense	(6)		(6)	
Other income, net	3,224	607	3,654	1,656
Loss before income taxes	**(20,050)**	**(21,802)**	**(41,601)**	**(37,319)**
Income taxes	(165)	(293)	(396)	(352)
Net loss attributable to ordinary shareholders	**$ (20,215)**	**$ (22,095)**	**$ (41,997)**	**$ (37,671)**
Net loss per ordinary share basic and diluted (Note 4)	**$ (0.04)**	**$ (0.05)**	**$ (0.09)**	**$ (0.09)**
Weighted average shares outstanding, basic and diluted	**556,776,430**	**424,711,900**	**493,392,465**	**424,711,900**

See accompanying notes to unaudited condensed consolidated financial statements.

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ADAPTIMMUNE THERAPEUTICS PLC

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net loss	**$ (20,215)**	**$ (22,095)**	**$ (41,997)**	**$ (37,671)**
Other comprehensive loss, net of tax				
Foreign currency translation adjustments, net of tax of $- and $-	(1,192)	(2,327)	(1,309)	(4,872)
Unrealized gains (losses) on available for sale debt securities	(1,296)		(1,296)	
Total comprehensive loss for the period	**$ (22,703)**	**$ (24,422)**	**$ (44,602)**	**$ (42,543)**

See accompanying notes to unaudited condensed consolidated financial statements.

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ADAPTIMMUNE THERAPEUTICS PLC

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

(in thousands, except share data)

	Common stock	Common stock	Additional paid in capital	Accumulated other comprehensive loss: Accumulated foreign currency translation adjustments	Accumulated other comprehensive loss: Accumulated unrealized gains (losses) on available for sale debt securities	Accumulated deficit	Total stockholders equity
Balance as of 1 January 2017	424,775,092	$ 683	$ 341,200	$ (14,249)	$	$ (161,492)	$ 166,142
Net loss						(41,997)	(41,997)
Issuance of common stock	136,201,338	170	102,997				103,167
Issuance of shares upon exercise of stock options	126,696		31				31
Other comprehensive loss							
Foreign currency translation adjustments				(1,309)			(1,309)
Unrealized losses on available for sale debt securities					(1,296)		(1,296)
Share-based compensation expense			4,757				4,757
Balance as of June 30, 2017	**561,103,126**	**$ 853**	**$ 448,985**	**$ (15,558)**	**$ (1,296)**	**$ (203,489)**	**$ 229,495**

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ADAPTIMMUNE THERAPEUTICS PLC

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	Six months ended June 30,	
	2017	**2016**
Cash flows from operating activities		
Net loss	$ (41,997)	$ (37,671)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,023	1,512
Amortization	159	82
Share-based compensation expense	4,757	4,541
Loss on disposal of property, plant and equipment	194	
Unrealized foreign exchange gains	(3,206)	(2,004)
Changes in operating assets and liabilities:		
Increase in receivables and other operating assets	2,301	601
(Increase) decrease in non-current operating assets	(554)	2,041
Decrease in payables and deferred revenue	(10,125)	(4,274)
Net cash used in operating activities	**(46,448)**	**(35,172)**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(21,188)	(2,910)
Acquisition of intangibles	(266)	(861)
Proceeds from disposal of property, plant and equipment	550	
Maturity of short-term deposits	22,857	41,661
Investment in short-term deposits	(18,000)	(42,837)
Investment in marketable securities	(79,774)	
Net cash used in investing activities	**(95,821)**	**(4,947)**
Cash flows from financing activities		
Proceeds from issuance of common stock, after offering expenses of $4,774	103,167	
Proceeds from exercise of stock options	31	
Net cash provided by financing activities	**103,198**	
Effect of currency exchange rate changes on cash, cash equivalents and restricted cash	2,429	(3,529)
Net decrease in cash and cash equivalents	(36,642)	(43,648)
Cash, cash equivalents and restricted cash at start of period	162,796	198,771
Cash, cash equivalents and restricted cash at end of period	**$ 126,154**	**$ 155,123**

See accompanying notes to unaudited condensed consolidated financial statements.

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ADAPTIMMUNE THERAPEUTICS PLC

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - General

Adaptimmune Therapeutics plc is registered in England and Wales. Its registered office is 60 Jubilee Avenue, Milton Park, Abingdon, Oxfordshire, OX14 4RX, United Kingdom. Adaptimmune Therapeutics plc and its subsidiaries (collectively Adaptimmune or the Company) is a clinical-stage biopharmaceutical company focused on novel cancer immunotherapy products based on its proprietary SPEAR (Specific Peptide Enhanced Affinity Receptor) T-cell platform. The Company has developed a comprehensive proprietary platform that enables it to identify cancer targets, find and genetically engineer T-cell receptors (TCRs), and produce TCR therapeutic candidates for administration to patients. The Company engineers TCRs to increase their affinity to cancer specific peptides in order to destroy cancer cells in patients.

The Company is subject to a number of risks similar to other biopharmaceutical companies in the early stage including, but not limited to, the need to obtain adequate additional funding, possible failure of preclinical programs or clinical programs, the need to obtain marketing approval for its SPEAR T-cells, competitors developing new technological innovations, the need to successfully commercialize and gain market acceptance of the Company s SPEAR T-cells, the need to develop a suitable commercial manufacturing process and protection of proprietary technology. If the Company does not successfully commercialize any of its SPEAR T-cells, it will be unable to generate product revenue or achieve profitability. The Company had an accumulated deficit of $203.5 million as of June 30, 2017.

Note 2 - Summary of Significant Accounting Policies

(a) Basis of presentation

The condensed consolidated interim financial statements of Adaptimmune Therapeutics plc and its subsidiaries and other financial information included in this Quarterly Report are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) and are presented in U.S. dollars. All significant intercompany accounts and transactions between the Company and its subsidiaries have been eliminated on consolidation.

The unaudited condensed interim financial statements presented in this Quarterly Report should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K filed with the SEC on March 13, 2017 (the Annual Report). The balance sheet as of December 31, 2016 was derived from audited consolidated financial statements included in the Company s Annual Report but does not include all disclosures required by U.S. GAAP. The Company s significant accounting policies are described in Note 2 to those consolidated financial statements.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted from these interim financial statements. However, these interim financial statements include all adjustments, consisting only of normal recurring adjustments, which are, in the opinion of management, necessary to fairly state the results of the interim period. The interim results are not necessarily indicative of results to be expected for the full year.

(b) Use of estimates in interim financial statements

The preparation of interim financial statements, in conformity with U.S. GAAP and SEC regulations, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are primarily made in relation to the valuation of share options, valuation allowances relating to deferred tax assets, revenue recognition, estimating clinical trial expenses and estimating reimbursements from R&D tax and expenditure credits. If actual results differ from the Company s estimates, or to the extent these estimates are adjusted in future periods, the Company s results of operations could either benefit from, or be adversely affected by, any such change in estimate.

(c) Going concern

Management considers that there are no conditions or events, in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern for a period of at least one year from the date the financial statements are issued. This evaluation is based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued, including:

a. The Company s current financial condition, including its liquidity sources;

b. The Company s conditional and unconditional obligations due or anticipated within one year;

c. The funds necessary to maintain the Company s operations considering its current financial condition, obligations, and other expected cash flows; and

d. Other conditions and events, when considered in conjunction with the above that may adversely affect the Company s ability to meet its obligations.

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(d) Reclassification

The Company has reclassified certain amounts between research and development and general and administrative expenses in prior periods to conform the presentation to the current period due to misclassification errors. Specifically in the three and six months ended June 30, 2016, legal expenses relating to patents of $87,000 and $149,000 have been reclassified from research and development expenses to general administrative expenses, respectively, and certain property and insurance costs relating to research and development facilities of $724,000 and $1,374,000 have been reclassified from general and administrative expenses to research and development expenses, respectively.

The Company has assessed the materiality of the classification errors in the prior period in accordance with the SEC s guidance on assessing materiality, Staff Accounting Bulletin No. 99, *Materiality,* and determined that the errors are quantitatively and qualitatively not material.

The operating expenses for comparative periods as previously reported and as presented after the reclassifications are as follows (in thousands):

	Three months ended June 30, 2016		Six months ended June 30, 2016	
	As previously reported	After reclassification	As previously reported	After reclassification
Research and development	$ 16,219	$ 16,856	$ 30,107	$ 31,332
General and administrative	6,809	6,172	12,664	11,439
Total operating expenses	**$ 23,028**	**$ 23,028**	**$ 42,771**	**$ 42,771**

(e) Cash, cash equivalents and restricted cash

The Company considers all highly-liquid investments with a maturity at acquisition date of three months or less to be cash equivalents. Cash and cash equivalents comprise cash balances and deposits with maturities of three months or less. The cash and cash equivalents and short-term deposits are held with multiple banks and we monitor the credit rating of those banks. The Company maintains cash balances in excess of amounts insured by the Federal Deposit Insurance Corporation in the U.S. and the UK Government Financial Services Compensation Scheme in the U.K.

The Company s restricted cash consists of cash providing security for letters of credit in respect of lease agreements.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the balance sheet that sum to the total of the same such amounts shown in the statement of cash flows (in thousands).

	June 30, 2017	December 31, 2016
Cash and cash equivalents	$ 121,998	$ 158,779
Restricted cash	4,156	4,017
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	**$ 126,154**	**$ 162,796**

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(f) Available-for-sale securities

At June 30, 2017, the Company has the following investments in available-for-sale debt securities, which are categorized as cash equivalents or marketable securities available-for-sale debt securities on the balance sheet depending on their maturity at acquisition (in thousands):

	Maturity	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Foreign currency translation adjustment	Aggregate Estimated Fair Value
Cash equivalents:						
Corporate debt securities	Less than 3 months	$ 2,052	$	$ (63)	$ 62	$ 2,051
		$ 2,052	**$**	**$ (63)**	**$ 62**	**$ 2,051**
Marketable securities available-for-sale debt securities:						
Corporate debt securities	3 months to 1 year	$ 73,601	$	$ (1,132)	$ 1,068	$ 73,537
Corporate debt securities	1 to 2 years	6,495		(101)	92	6,486
		$ 80,096	**$**	**$ (1,233)**	**$ 1,160**	**$ 80,023**

Management determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates such designation as of each reporting date. The securities are classified as current or non-current marketable securities available-for-sale debt securities based on the maturity dates and management s intentions.

At June 30, 2017, the Company has classified all of its available-for-sale debt securities, including those with maturities beyond one year, as current assets on the accompanying consolidated balance sheets based on the highly-liquid nature of these investment securities and because these investment securities are considered available for use in current operations.

The investment in available-for-sale debt securities are measured at fair value at each reporting date. Unrealized gains and losses are excluded from earnings and are reported as a component of comprehensive loss. Realized gains and losses, interest income and amortization of premiums and discounts at acquisition are included in other income (expense), net. There were no realized gains or losses recognized on the maturity of available-for-sale securities during the three and six months ended June 30, 2017 and, as a result, the Company did not reclassify any amount out of accumulated other comprehensive loss for the same period.

At each reporting date, the Company assesses whether each individual investment is impaired, which occurs if the fair value is less than the amortized cost, adjusted for amortization of premiums and discounts at acquisition. If the investment is impaired, the impairment is assessed to determine if it is other than temporary. Impairments judged to be other than temporary are included in other income (expense), net when they are identified. At June 30, 2017, the Company had 37 available-for-sale debt securities in an unrealized loss position with an aggregate fair value of $82,074,000 and an aggregate amount of unrealized losses of $1,296,000. No securities have been in an unrealized loss position for more than one year. At June 30, 2017, these securities are not considered to be other than temporarily impaired because the impairments are not

severe, have been for a short duration and are due to normal market and exchange rate fluctuations. Furthermore, the Company does not intend to sell the debt securities and it is not more-likely-than-not that the Company will be required to sell the securities before the recovery of the amortized cost.

The cost of securities sold is based on the specific-identification method. Interest on debt securities is included in interest income.

Our investment in corporate debt securities are subject to credit risk. The Company s investment policy limits investments to certain types of instruments, such as money market instruments and corporate debt securities, places restrictions on maturities and concentration by type and issuer and specifies the minimum credit ratings for all investments and the average credit quality of the portfolio.

(g) Fair value measurements

The Company is required to disclose information on all assets and liabilities reported at fair value that enables an assessment of the inputs used in determining the reported fair values. The fair value hierarchy prioritizes valuation inputs based on the observable nature of those inputs. The hierarchy defines three levels of valuation inputs:

Level 1 Quoted prices in active markets for identical assets or liabilities

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Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 Unobservable inputs that reflect the Company s own assumptions about the assumptions market participants would use in pricing the asset or liability

The carrying amounts of the Company s cash and cash equivalents, short-term deposits, restricted cash, accounts receivable, accounts payable and accrued expenses approximate fair value because of the short-term nature of these instruments. The fair value of marketable securities, which are measured at fair value on a recurring basis is detailed in Note 5, *Fair value measurements*.

(h) Related parties

The Company has historically entered into several agreements with Immunocore Limited (Immunocore). During the six months ended June 30, 2017 Immunocore has invoiced the Company in respect of: (i) services provided under a target collaboration agreement (which terminated on March 1, 2017); (ii) costs relating to prosecution of jointly owned patents; and (iii) property rents.

During the six months ended June 30, 2017, all of the Company s U.K-based research and development and corporate staff moved into the Company s new building at Milton Park, Oxfordshire (Building 60), which comprises laboratory and office space. Consequently, the Company s lease from Immunocore of premises formerly used for research and development terminated on June 1, 2017 and the Company received $550,000 in relation to leasehold improvements as provided for under the lease. The lease of the Company s former corporate office premises was assigned to Immunocore effective from July 1, 2017 in a transaction on arms-length terms.

As of the closing of the Company s registered direct offering of its American Depositary Shares on April 10, 2017, Immunocore ceased to hold 5% or more of the Company s shares.

(i) New accounting pronouncements

Adopted in the period

Intra-Entity Transfers of Assets Other Than Inventory

The Company has adopted Accounting Standards Update (ASU) ASU 2016-16 - *Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory* issued by the Financial Accounting Standards Board (FASB) in October 2016, which requires that entities recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The guidance has been adopted on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption prospectively to all arrangements entered into or materially modified after January 1, 2017. The adoption of this guidance did not have any impact on the financial position, results of operations or cash flows.

To be adopted in future periods

Revenue from contracts with customers

In May 2014, the FASB issued ASU 2014-09 - *Revenue from Contracts with Customers* (ASU 2014-09) which requires a new approach to revenue recognition and in March, April, May and December 2016, the FASB issued additional clarification related to this guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

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The guidance is effective for the fiscal year beginning January 1, 2018, including interim reporting periods within that reporting period. Earlier application is permitted. The Company intends to adopt the guidance with effect from January 1, 2018. The guidance can be adopted retrospectively to each prior reporting period presented, subject to certain practical expedients, or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application.

The Company is in the process of assessing the impact of the guidance as it relates to its collaboration and license agreement with GSK (the GSK Collaboration and License Agreement). Based on our preliminary assessment, we have identified the performance obligations within the contract and determined the transaction price, which is allocated to the performance obligations and recognized over time. Several issues remain to be resolved, which may have a material effect on the Company s financial statements therefore the quantitative effect of adopting ASU 2014-09 cannot be reasonably estimated at this time. Once our assessment is complete, the Company will determine the transition method which will be applied and evaluate the disclosure requirements. The Company continues to monitor additional changes, modifications, clarifications or interpretations undertaken by the FASB, which may impact its assessment.

Accounting for leases

In February 2016, the FASB issued ASU 2016-02 - *Leases*. The guidance requires that lessees recognize a lease liability, which is a lessee s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use 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 at the commencement date. The guidance also makes targeted improvements to align lessor accounting with the lessee accounting model and guidance on revenue from contracts with customers. The guidance is effective for the fiscal year beginning January 1, 2019, including interim periods within that fiscal year. Early application is permitted. The guidance must be adopted on a modified retrospective transition approach for leases existing, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the impact of the guidance on the consolidated financial statements.

Recognition and measurement of financial assets and financial liabilities

In January 2016, the FASB issued ASU 2016-01 - *Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*, which amended the guidance on the recognition and measurement of financial assets and financial liabilities. The new guidance requires that equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in net income. The guidance also requires the use of an exit price when measuring the fair value of financial instruments for disclosure purposes, eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost and requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset. The guidance is effective for the fiscal year beginning January 1, 2018, including interim periods within that fiscal year. The Company does not believe the adoption of the guidance will have a material impact on the consolidated financial statements.

Note 3 Revenue

The revenue recognized to date relates to the upfront fee and non-substantive development milestone payments received under the GSK Collaboration and License Agreement, which are being recognized in revenue using the proportional performance model systematically over the period in which the Company is delivering services under the GSK Collaboration and License Agreement, which is determined to be the period until GSK s option to obtain licenses expires.

Note 4 Loss per share

There were 67,082,914 and 46,127,274 options over ordinary shares outstanding at June 30, 2017 and June 30, 2016, respectively. The options over ordinary shares, which are potentially dilutive equity instruments, have been excluded from the diluted loss per share calculation for the three and six months ended June 30, 2017 and 2016, respectively, because they would have an antidilutive effect on the loss per share for the period.

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Note 5 Fair value measurements

Assets and liabilities measured at fair value on a recurring basis based on Level 1, Level 2, and Level 3 fair value measurement criteria as of June 30, 2017 are as follows (in thousands):

	June 30, 2017	Fair Value Measurements Using Level 1	Level 2	Level 3
Assets:				
Cash equivalents:				
Money market funds	$ 17,979	$ 17,979	$	$
Corporate debt securities	2,051	2,051		
Marketable securities:				
Corporate debt securities	$ 80,023	$ 80,023	$	$

The Company estimates the fair value of corporate debt securities with the aid of a third party valuation service, which uses actual trade and indicative prices sourced from third-party providers on a daily basis to estimate the fair value. The carrying value of money market funds is based on publicly available quoted market prices for identical securities.

Note 6 Property, plant and equipment, net

Property, plant and equipment, net consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Computer equipment	$ 2,214	$ 1,904
Laboratory equipment	15,157	11,423
Office equipment	406	265
Leasehold improvements	19,044	4,498
Assets under construction	8,350	14,332
	45,171	32,422
Less accumulated depreciation	(6,249)	(4,523)
	$ 38,922	**$ 27,899**

Depreciation expense was $1,037,000 and $804,000 for the three months ended June 30, 2017 and 2016, respectively, and $2,023,000 and $1,512,000 for the six months ended June 30, 2017 and 2016, respectively.

Note 7 Intangible assets, net

Intangible assets, net consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Acquired software licenses	$ 1,640	$ 1,310
Licensed IP rights - completed technology used in R&D	193	183
	1,833	1,493
Less accumulated amortization	(402)	(225)
	$ 1,431	**$ 1,268**

Amortization expense was $99,000 and $44,000 for the three months ended June 30, 2017 and 2016, respectively, and $159,000 and $82,000 for the six months ended June 30, 2017 and 2016, respectively.

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Note 8 Accrued expenses and other current liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Clinical & Development Accruals	$ 5,698	$ 4,938
Accued employee expenses	4,150	4,539
Accrued capital expenditure	908	3,954
VAT		2,014
Accrued expenses	2,188	1,003
Other	428	1,080
	$ 13,372	**$ 17,528**

The Company typically has a receivable for VAT. As of December 31, 2016 there was a VAT payable due to VAT arising on the milestone payments invoiced to GSK in 2016.

Note 9 Contingencies and commitments

Leases

Future minimum lease payments under operating leases at June 30, 2017 are presented below (in thousands):

	June 30, 2017
2017	$ 1,113
2018	3,346
2019	4,031
2020	3,906
2021	3,782
Thereafter	18,659
	$ 34,837

The Company leases property under operating leases expiring through 2027. Lease expenses amounted to $1,053,000 and $406,000 for the three months ended June 30, 2017 and 2016 and $2,080,000 and $831,000 for the six months ended June 30, 2017 and 2016, respectively, which is included within research and development and general and administrative expenses in the Company s unaudited consolidated statement of operations.

In May 2017, the Company entered into an agreement for the lease of a building at Milton Park, Oxfordshire, U.K. The lease has a term expiring on October 23, 2041, with termination options exercisable by the Company on the fifth anniversary of the lease commencement date and at approximately five yearly intervals thereafter. The related lease commitments are included in the table above.

Capital commitments

At June 30, 2017, the Company had commitments for capital expenditure totaling $1,386,000, which the Company expects to incur within one year.

Commitments for clinical materials, clinical trials and contract manufacturing

At June 30, 2017, the Company had non-cancellable commitments for purchase of clinical materials, executing and administering clinical trials, and for contract manufacturing of $59,796,000, of which the Company expects to pay $22,119,000 within one year, $25,237,000 in one to three years, $11,384,000 in three to five years, and $1,056,000 after five years. The amount and timing of these payments vary depending on the rate of progress of development and clinical trial enrollment rates. The Company s subcontracted costs for clinical trials and contract manufacturing were $17,295,000 and $9,876,000 for the six months ended June 30, 2017 and 2016, respectively.

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Bellicum Pharmaceuticals Inc., Co-Development and Co-Commercialization Agreement

On December 16, 2016, the Company entered into a Co-Development and Co-Commercialization Agreement with Bellicum Pharmaceuticals, Inc. (Bellicum) in order to facilitate a staged collaboration to evaluate, develop and commercialize next generation T-cell therapies.

Under the agreement, the Company will evaluate Bellicum s GoTCR technology (inducible MyD88/CD40 co-stimulation, or iMC) with our SPEAR T-cells for the potential to create enhanced T-cell therapeutics. Depending on results of the initial preclinical proof-of-concept phase, the agreement may progress to a two-target co-development and co-commercialization phase. To the extent necessary, and in furtherance of the parties proof-of-concept and co-development efforts, the parties granted each other a royalty-free, non-transferable, non-exclusive license covering their respective technologies for purposes of facilitating such proof-of-concept and co-development efforts. In addition, as to covered therapies developed under the agreement, the parties granted each other a reciprocal exclusive license for the commercialization of such therapies. During the proof of concept phase, each party bears its own costs and there are no payments made between the Company and Bellicum. Any research and development costs incurred by the Company with third parties have been accounted for in accordance with the Company s accounting policy for research and development expenses.

With respect to any joint commercialization of a covered therapy, the parties agreed to negotiate in good faith the commercially reasonable terms of a co-commercialization agreement. The parties also agreed that any such agreement shall provide for, among other things, equal sharing of the costs of any such joint commercialization and the calculation of profit shares as set forth in the agreement.

The agreement will expire on a country-by-country basis once the parties cease commercialization of the T-cell therapies covered by the agreement, unless earlier terminated by either party for material breach, non-performance or cessation of development, bankruptcy/insolvency, or failure to progress to co-development phase.

Merck Combination Agreement

On October 27, 2016, the Company entered into a clinical trial collaboration agreement with Merck & Co., Inc. (Merck) (known as MSD outside the United States and Canada), for the assessment of our NY-ESO SPEAR T-cell therapy in combination with Merck s PD-1 inhibitor, KEYTRUDA® (pembrolizumab), in patients with multiple myeloma. Under the terms of the agreement, each of Merck and the Company will manufacture and supply its relevant compound for use in the combination study. Each of the Company and Merck are responsible for their own costs incurred in the performance of obligations under the agreement. Any research and development costs incurred by the Company with third parties have been accounted for in accordance with the Company s accounting policy for research and development expenses. The agreement will last until the earlier of delivery of the final study report or study completion. Either party may terminate the agreement for material breach, patient safety, regulatory action preventing supply of compound or withdrawal of regulatory approval for one of the combination study compounds. Merck may also terminate the agreement where it believes its compound is being used in an unsafe manner.

MD Anderson Strategic Alliance

On September 26, 2016, the Company announced that it had entered into a multi-year strategic alliance with The University of Texas MD Anderson Cancer Center (MD Anderson) designed to expedite the development of T-cell therapies for multiple types of cancer. The Company and MD Anderson are collaborating on a number of studies including clinical and preclinical development of the Company s SPEAR T-cell therapies targeting NY-ESO and MAGE-A10 and will collaborate on future clinical stage first and second generation SPEAR T-cell therapies such as MAGE-A4 across a number of cancers, including bladder, lung, ovarian, head and neck, melanoma, sarcoma, esophageal and gastric cancers.

Under the terms of the agreement, the Company has committed at least $19,644,000 to fund studies. Payment of this funding is contingent on mutual agreement to study orders in order for any study to be included under the alliance and the performance of set milestones by MD Anderson. The Company made an upfront payment of $3,412,000 to MD Anderson in the six months ended June 30, 2017 and is obligated to make further payments to MD Anderson as certain milestones are achieved. These costs will be expensed to research and development as MD Anderson renders the services under the strategic alliance.

The agreement may be terminated by either party for material breach by the other party. Individual studies may be terminated inter alia for material breach, health and safety concerns or where the institutional review board, the review board at the clinical site with oversight of the clinical study, requests termination of any study. Where any legal or regulatory authorization is finally withdrawn or terminated, the relevant study will also terminate automatically.

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Universal Cells Research, Collaboration and License Agreement

On November 25, 2015, the Company entered into a Research, Collaboration and License Agreement relating to gene editing and Human Leukocyte Antigen (HLA) engineering technology with Universal Cells, Inc. (Universal Cells). The Company paid an upfront license and start-up fee of $2.5 million to Universal Cells in November 2015, a milestone payment of $3.0 million in February 2016 and a further milestone payment of $0.5 million in March 2017. Further milestone payments of up to $43.5 million are payable if certain development and product milestones are achieved. Universal Cells would also receive a profit-share payment for the first product, and royalties on sales of other products utilizing its technology. The upfront license and start-up fee and milestone payments were expensed to research and development when incurred.

ThermoFisher License Agreement

In 2012, the Company entered into a series of license and sub-license agreements with Life Technologies Corporation, part of ThermoFisher Scientific, Inc. (ThermoFisher) that provide the Company with a field-based exclusive license under certain intellectual property rights owned or controlled by ThermoFisher. The Company paid upfront license fees of $1.0 million relating to the license and sublicense agreements and has an obligation to pay minimum annual royalties (in the tens of thousands of U.S. dollars prior to licensed product approval and thereafter at a level of 50% of running royalties in the previous year), milestone payments and a low single-digit running royalty payable on the net selling price of each licensed product. The upfront payment made in 2012 was expensed to research and development when incurred. Subsequent milestone payments have been recognized as an intangible asset due to the technology having alternative future use in research and development projects at the time of the payment. The minimum annual royalties have been expensed as incurred.

On June 16, 2016, the Company entered into a supply agreement with ThermoFisher for the supply of the Dynabeads® CD3/CD28 technology. The Dynabeads® CD3/CD28 technology is designed to isolate, activate and expand human T-cells, and is being used in the manufacturing of the Company s affinity enhanced T-cell therapies. The supply agreement runs until December 31, 2025. Under the supply agreement the Company is required to purchase its requirements for CD3/CD28 magnetic bead product exclusively from ThermoFisher for a period of 5 years and there are also minimum purchasing obligations, which are included within Purchase commitments for clinical materials, clinical trials and contract manufacturing set forth above. ThermoFisher has the right to terminate the supply agreement for material breach or insolvency.

Note 10 Share-based compensation

The following table shows the total share-based compensation expense included in the unaudited consolidated statements of operations (thousands):

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Research and development	$ 871	$ 1,376	$ 2,229	$ 2,268

General and administrative	1,201	1,063	2,528	2,273
	$ 2,072	**$ 2,439**	**$ 4,757**	**$ 4,541**

There were 1,252,176 and 1,768,243 options over ordinary shares granted in the three months ended June 30, 2017 and 2016, respectively, with a weighted average fair value of $0.42 and $0.89, respectively. There were 20,203,152 and 15,343,797 options over ordinary shares granted in the six months ended June 30, 2017 and 2016, respectively, with a weighted average fair value of $0.35 and $0.70, respectively.

At June 30, 2017, there were 3,224,600 share options granted to nonemployees outstanding. Share-based compensation expense relating to non-employee options was a benefit of $101,000 and an expense of $199,000 in the three months ended June 30, 2017 and 2016, respectively, and an expense of $104,000 and a benefit of $114,000 in the six months ended June 30, 2017 and 2016, respectively.

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Note 11 Shareholders equity

On March 27, 2017, the Company completed an underwritten public offering of the Company s American Depositary Shares (ADSs). The Company sold 15,700,223 ADSs (representing 94,201,338 ordinary shares) at a price to the public of $4.20 per ADS. The net proceeds were $61,397,000 after deducting offering expenses of $4,544,000.

On April 10, 2017, the Company completed a registered direct offering of the Company s ADSs following its entry into a definitive agreement with Matrix Capital Management Company, LP. The Company sold 7,000,000 ADSs (representing to 42,000,000 ordinary shares) at a price of $6.00 per ADS. The net proceeds were $41,770,000 after deducting offering expenses of $230,000.

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

The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in Risk Factors and Forward-Looking Statements in this Quarterly Report on Form 10-Q (our Quarterly Report). Our actual results may differ materially from those contained in or implied by any forward-looking statements.

The following discussion should be read in conjunction with the unaudited consolidated financial statements and accompanying notes included elsewhere in this report and the Company s consolidated financial statements and accompanying notes included within our Annual Report .

We are a clinical-stage biopharmaceutical company focused on novel cancer immunotherapy products based on our proprietary SPEAR T-cell platform. We have developed a comprehensive proprietary platform that enables us to identify cancer targets, find and genetically engineer TCRs, and produce TCR therapeutic candidates for administration to patients. We engineer TCRs to increase their affinity to cancer specific peptides in order to destroy cancer cells in patients.

Update on Clinical Pipeline Progress

We have Phase 1/2 clinical trials ongoing with our NY-ESO, MAGE-A10, MAGE-A4 and AFP SPEAR T-cells in a total of 11 tumor types.

Our NY-ESO SPEAR T-cell has shown promising initial results in clinical trials with responses observed in all ongoing synovial sarcoma cohorts. Response rates of 50% in cohorts 1 and 4 were reported at the American Society of Clinical Oncology (ASCO) meeting on June 5, 2017 and updated survival analysis for cohort 1 showed a median predicted overall survival of 120 weeks. A 91% response rate at day 100 post autologous stem cell transplant (ASCT) was previously reported in multiple myeloma. The NY-ESO SPEAR T-cell continues to show a promising tolerability profile to date in all clinical trials with no events of seizure, cerebral edema or encephalopathy observed. Our NY-ESO SPEAR T-cell therapy has breakthrough therapy designation in the United States and has also received orphan drug designation from the U.S. Food and Drug Administration (FDA), and European Commission for the treatment of soft tissue sarcoma. The European Medicines Agency (EMA) has also granted PRIME regulatory access for our NY-ESO SPEAR T-cell therapy for the synovial sarcoma indication. We expect further clinical data during the remainder of 2017 and 2018 from ongoing studies with our SPEAR T-cells.

Our NY-ESO SPEAR T-cell Therapy

Our first SPEAR T-cell targets the NY-ESO-1 and LAGE-1a target peptides and is currently in clinical trials in the United States. Phase 1/2 studies are ongoing in synovial sarcoma, myxoid round cell liposarcoma (MRCLS), non-small cell lung cancer (NSCLC) and ovarian cancer indications. GSK has an exclusive option over our NY-ESO SPEAR T-cell program.

As of January 5, 2017, 61 subjects have received NY-ESO SPEAR T-cells in our sponsored studies. The most common (>15%) adverse events in these subjects considered by investigators to be at least possibly related to our NY-ESO SPEAR T-cells include: fever, diarrhea, fatigue, rash, nausea, anemia, dyspnea, cytokine release syndrome (CRS), lymphopenia, leukopenia, cough, ALT increase, AST increase, hypotension, sinus tachycardia, neutropenia, and thrombocytopenia. For further details on adverse events please see Part II Item 1A Risk Factors Our SPEAR T-cells may have undesirable side effects or have other properties that could halt their clinical development, prevent regulatory approval, limit their commercial potential or otherwise result in significant negative consequences of our Quarterly Report.

- *Our Synovial Sarcoma program*:

There are four cohorts in the Phase 1/2 pilot study:

- Cohort 1 (patients with high NY-ESO-1 antigen expression and lymphodepletion with cyclophosphamide and fludarabine) enrollment in this first cohort is now complete.

- Cohort 2 (patients with low NY-ESO-1 antigen expression and lymphodepletion with cyclophosphamide and fludarabine) enrollment continues in this cohort.

- Cohort 3 (patients with high NY-ESO-1 antigen expression and lymphodepletion with cyclophosphamide alone) only one confirmed response was observed in evaluable patients treated in cohort 3 and as a result, this cohort has now closed. The data from this cohort 3 suggest that fludarabine may be required as part of the pre-conditioning regimen.

- Cohort 4 (patients with high NY-ESO-1 antigen expression and lymphodepletion with a modified (lower) dose of cyclophosphamide and fludarabine) cohort 4 is open and enrolling patients. The cohort was expanded to include an additional five patients.

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The current synovial sarcoma trials are also being extended to sites outside of the United States with clinical trial applications approved in both the United Kingdom and Canada.

As of March 30, 2017, and as reported at ASCO, 39 patients have now accrued to cohorts 1-4 of our synovial sarcoma study. NY-ESO continues to be generally well-tolerated and initial anti-tumor activity has been observed in all ongoing cohorts including cohort 2 (low expressors of NY-ESO). Confirmed responses have been observed in all cohorts with a 50% response rate (60% in patients who received a target dose of at least one billion cells) and median progression free survival (PFS) of 15 weeks seen in cohort 1. Of the 12 patients treated in cohort 1, five patients remain alive with a median predicted overall survival of 120 weeks, based on data as of March 30, 2017. In cohort 2, which is ongoing, response rates of 40% were reported at ASCO. In cohort 3, one patient had a partial response and cohort has now closed. In cohort 4, which is ongoing, response rates of 50% were reported.

We are in discussions with the FDA in relation to the initiation of a pivotal trial in the synovial sarcoma indication, including discussions relating to trial design and the requirement for comparability testing for use of our manufacturing process. The start of the pivotal trial is dependent on the start and performance of analytical comparability studies between the process used initially in the synovial sarcoma pilot study and the intended commercial processes.

- *Our MRCLS program*:

A pilot trial in MRCLS is now active at sites in the United States. Initial data from this trial is expected in late 2017 or early 2018 depending on patient recruitment.

- *Our Ovarian program:*

To date, no objective clinical responses have been reported in patients. The initial patients received a preconditioning regimen which consisted of cyclophosphamide alone. The protocol for the ovarian study has now been amended to include a preconditioning regimen which includes both fludarabine and cyclophosphamide. Further data from this trial with the modified preconditioning regimen is expected in late 2017 or early 2018 depending on the rate of patient recruitment.

- *Our Myeloma program:*

On May 25, 2017, we announced initiation of a combination study to evaluate the safety, pharmacodynamics, and preliminary efficacy of our NY-ESO SPEAR T-cell in combination with Merck s anti-programmed death-1 (PD-1) inhibitor, KEYTRUDA® (pembrolizumab), in patients with multiple myeloma. Enrollment in our previous myeloma trial (with

ASCT) was completed in July 2014.

- *Our NSCLC program*:

A trial in NSCLC opened in 2016. Enrollment has been more challenging than anticipated. Initial data is currently anticipated in 2018, but availability of data for publication will depend on the number of patients recruited to the trial. The chemotherapy preconditioning regimen has been modified in a protocol amendment to include both fludarabine and cyclophosphamide and the NY-ESO expression requirement has been modified to at least 1+ in >10% of the cells.

- *The ATTACK 2 program*:

In addition to the above studies which we sponsor, our NY-ESO T-cell therapeutic has also been used in an investigator-initiated clinical program funded by the European Union, the Adoptive Engineered T-cell Targeting to Activate Cancer Killing (ATTACK 2) program.

Our MAGE-A10 SPEAR T-cell Therapy

Clinical trials are ongoing in the United States in NSCLC and in the United States and Canada in urothelial, melanoma and head and neck cancers.

- ***NSCLC***: Enrollment of patients into this program has been challenging.

- ***3-tumor trial*** - Multiple trial sites are now active in the United States and Canada.

Initial data from our MAGE-A10 SPEAR T-cell is expected in late 2017 or 2018 depending on patient enrollment.

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Our AFP SPEAR T-cell Therapy

An IND for a clinical trial of our AFP SPEAR T-cell in hepatocellular cancer was opened in 2016 and the first site was initiated in May 2017. The Phase 1 clinical trial will include a dose escalation and expansion of a tolerable dose to explore initial evidence of anti-tumor activity.

Our MAGE-A4 SPEAR T-cell Therapy

The IND for a clinical trial of our MAGE-A4 SPEAR T-cell in multiple solid tumors was opened at the start of 2017. Multiple sites in the United States are now active and recruiting. Initial data is anticipated in 2018.

Significant Events in the Three Months Ended June 30, 2017

On April 10, 2017, we completed a registered direct offering of our American Depositary Shares (ADSs) following entry into a definitive agreement with Matrix Capital Management Company, LP. We sold 7,000,000 ADSs (representing 42,000,000 ordinary shares) at a price of $6.00 per ADS. The net proceeds were $41,770,000, after deducting offering expenses of $230,000.

Financial Operations Overview

Revenue

Revenue represents recognized income from the GSK Collaboration and License Agreement. The GSK Collaboration and License Agreement contains the following significant deliverables, which are separate accounting units: (i) the development of, and option to obtain an exclusive license to, our NY-ESO SPEAR T-cells, and (ii) the development of, and option to obtain an exclusive license to a second target, PRAME. In addition, GSK also has the right to nominate three additional target peptides, excluding those where we have already initiated development of a SPEAR T-cell candidate, which is not considered to be a deliverable at the inception of the arrangement because it represents a substantive option not priced at a significant and incremental discount. We received an upfront payment of $42.1 million in June 2014 and have achieved various non-substantive development milestones totaling $39.0 million through to December 31, 2016. A milestone payment of $1.2 million was achieved in the six months ended June 30, 2017. We are entitled to further non-substantive milestone payments based on the achievement of specified development milestones by us. If GSK exercises its option to obtain an exclusive license to a target, an option exercise fee will be payable and we will be entitled to further development and commercialization milestone payments based on achievement of specified milestones by GSK. The non-contingent arrangement consideration was allocated between the separate deliverables using our best estimate of the relative selling price. In determining the best estimate, we considered internal pricing objectives we used in negotiating the GSK Collaboration and License Agreement together with internal data regarding the cost of providing services for each deliverable.

In addition to the development milestones, we are entitled to royalties from GSK on all GSK sales of TCR therapeutic products licensed under the agreement, varying between a mid-single-digit percentage and a low-double-digit percentage of net sales. No royalties have been received as of June 30, 2017. Sales milestones also apply once any TCR therapeutic covered by the GSK Collaboration and License Agreement is approved and commercialized.

The GSK Collaboration and License Agreement is effective until all payment obligations expire. The agreement can also be terminated on a collaboration program-by-collaboration program basis by GSK for lack of feasibility or inability to meet certain agreed requirements. Both parties have rights to terminate the agreement for material breach upon 60 days written notice or immediately upon insolvency of the other party. GSK has additional rights to terminate either the agreement or any specific license or collaboration program on provision of 60 days notice to us. We also have rights to terminate any license where GSK ceases development or withdraws any licensed TCR therapeutic in specified circumstances.

In February 2016, the terms of the GSK Collaboration and License Agreement were expanded to accelerate the development of our NY-ESO SPEAR T-cells towards pivotal trials in synovial sarcoma, as well as the exploration of development of NY-ESO SPEAR T-cells in myxoid round-cell liposarcoma. The amendment also provides the opportunity for up to eight combination studies using NY-ESO SPEAR T-cells and increases the potential development milestones that we are eligible to receive. These development milestones will be allocated to the separate standalone deliverables within the arrangement once the milestone is achieved.

The revenue recognized to date relates to the upfront fee and non-substantive development milestones payments received, which are being recognized in revenue using the proportional performance model systematically over the period in which we are delivering services under the GSK Collaboration and License Agreement, which is determined to be the period until GSK s option to obtain licenses expires. We regularly review and monitor the performance of the GSK Collaboration and License Agreement to determine the period over which we will be delivering services to GSK.

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In May 2014, the FASB issued guidance which requires a new approach to revenue recognition effective for the fiscal year beginning January 1, 2018, including interim reporting periods within that reporting period. See Note 2(i) to the consolidated financial statements for further information.

Research and Development Expenses

Research and development expenses consist principally of the following:

- salaries for research and development staff and related expenses, including benefits;
- costs for production of preclinical compounds and drug substances by contract manufacturers;
- fees and other costs paid to contract research organizations in connection with additional preclinical testing and the performance of clinical trials;
- costs associated with the development of a process to manufacture and supply our lentiviral vector and SPEAR T-cells for use in clinical trials;
- costs to develop manufacturing capability at our U.S. facility for manufacture of SPEAR T-cells for use in clinical trials;
- costs relating to facilities, materials and equipment used in research and development;
- costs of acquired or in-licensed research and development which does not have alternative future use;
- amortization and depreciation of property, plant and equipment and intangible assets used to develop our SPEAR T-cells; and

- share-based compensation expenses;

offset by:

- reimbursements from government grants; and

- reimbursable tax and expenditure credits from the U.K. government.

Research and development expenditures are expensed as incurred.

Our research and development expenses may vary substantially from period to period based on the timing of our research and development activities, which depends upon the timing of initiation of clinical trials and the rate of enrollment of patients in clinical trials. The duration, costs, and timing of clinical trials and development of our SPEAR T-cells will depend on a variety of factors, including:

- the scope, rate of progress, and expense of our ongoing as well as any additional clinical trials and other research and development activities;

- uncertainties in clinical trial enrollment rates;

- future clinical trial results;

- significant and changing government regulation;

- the timing and receipt of any regulatory approvals; and

- supply and manufacture of lentiviral vector and SPEAR T-cells for clinical trials.

For further detail please see Part II Item 1A Risk Factors Risks Related to the Development of our SPEAR T-cells of our Quarterly Report.

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A change in the outcome of any of these variables may significantly change the costs and timing associated with the development of that SPEAR T cell. For example, if the FDA, or another regulatory authority, requires us to conduct clinical trials beyond those that we currently anticipate will be required for regulatory approval, or if we experience significant delays in enrollment in any of our clinical trials, we could be required to expend significant additional financial resources and time on the completion of clinical development.

General and Administrative Expenses

Our general and administrative expenses consist principally of:

- salaries for employees other than research and development staff, including benefits;
- business development expenses, including travel expenses;
- professional fees for auditors, lawyers and other consulting expenses;
- costs of facilities, communication, and office expenses;
- information technology expenses;
- amortization and depreciation of property, plant and equipment and intangible assets not related to research and development activities; and
- share-based compensation expenses.

Other Income (Expense), net

Other income (expense), net primarily comprises foreign exchange gains (losses). We are exposed to foreign exchange rate risk because we currently operate in the United Kingdom and United States. Our revenue from our GSK Collaboration and License Agreement is denominated in

pounds sterling and is generated by our U.K.-based subsidiary, which has a pounds sterling functional currency. As a result, these sales are subject to translation into U.S. Dollars when we consolidate our financial statements. Our expenses are generally denominated in the currency in which our operations are located, which are the United Kingdom and United States. However, our U.K.-based subsidiary incurs significant research and development costs in U.S. dollars and, to a lesser extent, Euros.

Our results of operations and cash flows will be subject to fluctuations due to changes in foreign currency exchange rates, which could harm our business in the future. We seek to minimize this exposure by maintaining currency cash balances at levels appropriate to meet foreseeable expenses in U.S. dollars and pounds sterling. To date, we have not used hedging contracts to manage exchange rate exposure, although we may do so in the future.

Taxation

We are subject to corporate taxation in the United Kingdom and the United States. Our income tax recognized represents the tax currently payable arising on taxable profits from our U.S. subsidiary, which is subject to federal corporation tax of 34%. The U.S. subsidiary has been granted an exemption from certain state and local taxes, which we anticipate being in place for the next several years.

We incur losses in the United Kingdom. No deferred tax assets are recognized on our U.K. losses because there is currently no indication that we will make sufficient taxable profits to utilize these tax losses. Unsurrendered tax losses can be carried forward to be offset against future taxable profits. There are accumulated tax loss carry forwards in the United Kingdom amounting to $86.0 million at December 31, 2016. These tax losses do not expire. However, draft legislation has been published for inclusion in Finance Bill (No. 2) 2017 that would, if enacted, restrict the use of carried forward tax losses from April 1, 2017, such that they would not be available for offset against more than 50% of taxable profits in any accounting period (subject to a £5 million annual allowance).

In the future, if we generate taxable income in the United Kingdom, we may benefit from the United Kingdom s patent box regime, which would allow certain profits attributable to revenues from patented products to be taxed at a rate that over time will be reduced to 10%. As we have many different patents covering our products, future upfront fees, milestone fees, product revenues, and royalties may be taxed at this favorably low tax rate.

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VAT is charged on all qualifying goods and services by VAT-registered businesses. An amount of 20% of the value of the goods or services is added to all sales invoices and is payable to the U.K. tax authorities. Similarly, VAT paid on purchase invoices paid by Adaptimmune Limited and Adaptimmune Therapeutics plc is reclaimable from the U.K. tax authorities.

Critical Accounting Policies and Significant Judgments and Estimates

The preparation of our unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the revenues and expenses incurred during the reported periods. We base our estimates on historical experience and on various other factors that we believe are relevant under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The accounting policies considered to be critical to the judgments and estimates used in the preparation of our financial statements are disclosed in the Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report. There has been no change in the accounting policies considered to be critical accounting judgments and estimates.

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Results of Operations

Comparison of Three Months Ended June 30, 2017 and 2016

The following table summarizes the results of our operations for the three months ended June 30, 2017 and 2016, together with the changes to those items (in thousands).

	Three months ended June 30,			
	2017	2016	Increase/decrease	
Revenue	**$ 3,521**	**$ 328**	**$ 3,193**	**973.5%**
Research and development expenses	(19,591)	(16,856)	(2,735)	16.2%
General and administrative expenses	(7,710)	(6,172)	(1,538)	24.9%
Total operating expenses	**(27,301)**	**(23,028)**	**(4,273)**	**18.6%**
Operating loss	**(23,780)**	**(22,700)**	**(1,080)**	**4.8%**
Interest income	512	291	221	75.9%
Interest expense	(6)		(6)	N/A
Other income, net	3,224	607	2,617	431.1%
Loss before income taxes	**(20,050)**	**(21,802)**	**1,752**	**(8.0)%**
Income taxes	(165)	(293)	128	(43.7)%
Loss for the period	**$ (20,215)**	**$ (22,095)**	**$ 1,880**	**(8.5)%**

Revenue

Revenue increased by $3.2 million to $3.5 million in the three months ended June 30, 2017 compared to $0.3 million for the three months ended June 30, 2016. Revenue will typically increase in periods when development milestones are achieved. In the three months ended June 30, 2017 and 2016, we achieved development milestones of $1.2 million and $nil, respectively. The increase in revenue is due to the revenue in the three months ended June 30, 2016 being adversely impacted by a change in estimate of the period over which revenue is being recognized, which reduced revenue in that quarter by $2.8 million, and amortization of milestones achieved in December 2016.

Although it is difficult to project the timing of achieving future development deliverables, we expect the revenue for the year ended December 31, 2017 will be higher than the year ended December 31, 2016 due to the potential achievement of development milestones in the period.

Research and Development Expenses

Research and development expenses increased by 16% to $19.6 million for the three months ended June 30, 2017 from $16.9 million for the three months ended June 30, 2016. Our research and development expenses comprise the following (in thousands):

	Three months ended June 30,			
	2017	2016	Increase/decrease	
Salaries, materials, equipment, depreciation of property, plant and equipment and other employee-related costs(1)	$ 11,234	$ 10,788	$ 446	4.1%
Subcontracted expenditure	9,590	6,323	3,267	51.7%
Share-based compensation expense	871	1,376	(505)	(36.7)%
Reimbursements for research and development tax and expenditure credits	(2,104)	(1,631)	(473)	29.0%
	$ 19,591	**$ 16,856**	**$ 2,735**	**16.2%**

(1) These costs are not analyzed by project since employees may be engaged in multiple projects at a time.

The net increase in our research and development expenses of $2.7 million for the three months ended June 30, 2017 compared to the same period in 2016 was primarily due to the following:

- an increase of $0.4 million in salaries, materials, equipment, depreciation of property, plant and equipment and other employee-related costs. The driver for these is an increase in the average number of employees engaged in research and development from 204 to 247; and

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- an increase of $3.3 million in subcontracted expenditures, including clinical trial expenses, contract research organization (CRO) costs and manufacturing expenses driven by increased recruitment in our clinical trials, initiation of clinical trials for MAGE-A4, MAGE-A10 and AFP, and an increase in process development relating to manufacturing;

offset by:

- a decrease of $0.5 million in share-based compensation expense for employee and nonemployee share options; and

- an increase in reimbursements for research and development tax and expenditure credits of $0.5 million.

Our subcontracted costs for the three months ended June 30, 2017 were $9.6 million, compared to $6.3 million in the same period of 2016, of which $3.7 million related to our NY-ESO SPEAR T-cells, $3.3 million related to process development for our SPEAR T-cell platform and the remaining $2.6 million related to other projects, including our MAGE-A10, MAGE-A4 and AFP SPEAR T-cells.

Our research and development expenses are highly dependent on the phases of our research projects and therefore fluctuate from period to period. In the year ended December 31, 2017, we plan to increase the number of clinical trials we are running, both in new therapies (including our MAGE-A4 and AFP SPEAR T-cells), existing wholly-owned therapies (MAGE-A10) and as part of the GSK Collaboration and License Agreement for our NY-ESO SPEAR T-cells. We expect to increase the number of staff employed in our research and development departments in order to invest in our future pipeline of SPEAR T-cells, develop our platform and manage clinical trials and develop our manufacturing capabilities at our U.S. facility. This will significantly increase the related salaries and share-based compensation expenses, as well as require higher expenditures on facilities, materials and equipment.

The share-based compensation expense related to nonemployee option grants will fluctuate in future periods due to changes in the assumptions to the fair value calculation, which include the share price, interest rates, volatility and expected term. A 5% increase in the share price at June 30, 2017 would have increased the share-based compensation expense for nonemployee option grants in the three months ended June 30, 2017 by approximately $28,000.

General and Administrative Expenses

General and administrative expenses increased by 25% to $7.7 million for the three months ended June 30, 2017 from $6.2 million in the same period in 2016.

The net increase of $1.5 million was primarily due to a $0.7 million increase in personnel costs, due to the addition of key management and other professionals to support our growth and costs associated with the relocation from two leased properties to one larger leased property in Abingdon, Oxfordshire.

We expect that our general and administrative expenses will continue to increase as the Company continues to expand.

Other Income, Net

Other income, net was $3.2 million for the three months ended June 30, 2017 compared to $0.6 million for the three months ended June 30, 2016. Other income (expense), net primarily relates to unrealized foreign exchange gains and losses on cash and cash equivalents, intercompany loans and short-term deposits held in U.S. dollars by our U.K. subsidiary. Other income, net has increased primarily due to exchange rate fluctuations and lower cash balances because the Company invested approximately $79.8 million of cash and cash equivalents in marketable securities in the three months ended June 30, 2017. The unrealized foreign exchange gains (losses) arising on marketable securities are recognized within Other Comprehensive Income.

Income taxes

Income taxes decreased by 44% to $165,000 for the three months ended June 30, 2017 from $293,000 for the three months ended June 30, 2016. Income taxes arise in the United States and the decrease in income taxes in the three months ended June 30, 2017 is due to a decrease in the taxable profits in the United States compared to the same period of the prior year. We incur losses in the United Kingdom.

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Comparison of Six Months Ended June 30, 2017 and 2016

The following table summarizes the results of our operations for the six months ended June 30, 2017 and 2016, together with the changes to those items (in thousands).

	Six months ended June 30,			
	2017	2016	Increase/decrease	
Revenue	**$ 6,378**	**$ 3,246**	**$ 3,132**	**96.5%**
Research and development expenses	(38,206)	(31,332)	(6,874)	21.9%
General and administrative expenses	(14,173)	(11,439)	(2,734)	23.9%
Total operating expenses	**(52,379)**	**(42,771)**	**(9,608)**	**22.5%**
Operating loss	**(46,001)**	**(39,525)**	**(6,476)**	**16.4%**
Interest income	752	550	202	36.7%
Interest expense	(6)		(6)	N/A
Other income, net	3,654	1,656	1,998	120.7%
Loss before income taxes	**(41,601)**	**(37,319)**	**(4,282)**	**11.5%**
Income taxes	(396)	(352)	(44)	12.5%
Loss for the period	**$ (41,997)**	**$ (37,671)**	**$ (4,326)**	**11.5%**

Revenue

Revenue increased by 96% to $6.4 million for the six months ended June 30, 2017 compared to $3.2 million for the six months ended June 30, 2016. Revenue will typically increase in periods when development milestones are achieved. In the six months ended June 30, 2017 and 2016, we achieved development milestones of $1.2 million and $nil, respectively. The increase in revenue is due to the revenue in the six months ended June 30, 2016 being adversely impacted by a change in estimate of the period over which revenue is being recognized, which reduced revenue in the six months ended June 30, 2016 by $2.8 million, and amortization of milestones achieved in December 2016.

Although it is difficult to project the timing of achieving future development deliverables, we expect that the revenue for the year ended December 31, 2017 will be higher than the year ended December 31, 2016 due to the potential achievement of development milestones in the period.

Research and Development Expenses

Research and development expenses increased by 22% to $38.2 million for the six months ended June 30, 2017 from $31.3 million for the six months ended June 30, 2016. Our research and development expenses comprise the following (in thousands):

	Six months ended June 30,			
	2017	2016	Increase/decrease	
Salaries, materials, equipment, depreciation of property, plant and equipment and other employee-related costs(1)	$ 22,485	$ 20,409	$ 2,076	10.2%
Subcontracted expenditure	17,295	9,876	7,419	75.1%
Share-based compensation expense	2,230	2,269	(39)	(1.7)%
Payments for in-process research and development	501	3,000	(2,499)	(83.3)%
Reimbursements for research and development tax and expenditure credits	(4,305)	(4,222)	(83)	2.0%
	$ 38,206	**$ 31,332**	**$ 6,874**	**21.9%**

(1) These costs are not analyzed by project since employees may be engaged in multiple projects at a time.

The net increase in our research and development expenses of $6.9 million for the six months ended June 30, 2017 compared to the same period in 2016 was primarily due to the following:

- an increase of $2.1 million in salaries, materials, equipment, depreciation of property, plant and equipment and other employee-related costs. The driver for these is an increase in the average number of employees engaged in research and development from 195 to 244; and

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- an increase of $7.4 million in subcontracted expenditures, including clinical trial expenses, initiation of clinical trials for MAGE-A4, MAGE-A10 and AFP, contract research organization (CRO) costs, and manufacturing expenses driven by increased recruitment in our clinical trials and an increase in process development relating to manufacturing;

offset by:

- a $2.5 million decrease in payments made to Universal Cells for in-process research and development.

Our subcontracted costs for the six months ended June 30, 2017 were $17.3 million, compared to $9.9 million in the same period of 2016, of which $7.3 million related to our NY-ESO SPEAR T-cells, $5.7 million related to process development for our SPEAR T-cell platform and the remaining $4.3 million related to other projects, including our MAGE-A10, MAGE-A4 and AFP SPEAR T-cells.

Our research and development expenses are highly dependent on the phases of our research projects and therefore fluctuate from period to period. In the year ended December 31, 2017, we plan to increase the number of clinical trials we are running, both for our wholly-owned therapies (MAGE-A4, MAGE-A10 and AFP SPEAR T-cells) and for our NY-ESO SPEAR T-cells as part of the GSK collaboration. We expect to increase the number of staff employed in our research and development departments in order to invest in our future pipeline of SPEAR T-cells, further develop our platform and manage clinical trials and develop our manufacturing capabilities. This will significantly increase the related salaries and share-based compensation expenses, as well as require higher expenditures on facilities, materials and equipment.

The share-based compensation expense related to nonemployee option grants will fluctuate in future periods due to changes in the assumptions to the fair value calculation, which include the share price, interest rates, volatility and expected term. A 5% increase in the share price at June 30, 2017 would have increased the share-based compensation expense for nonemployee option grants in the six months ended June 30, 2017 by approximately $28,000.

General and Administrative Expenses

General and administrative expenses increased by 24% to $14.2 million for the six months ended June 30, 2017 from $11.4 million in the same period in 2016.

The net increase of $2.7 million was primarily due to a $2.2 million increase in personnel costs, due to the addition of key management and other professionals to support our growth and costs associated with the relocation from two leased properties to one larger leased property in Abingdon, Oxfordshire, offset by a reimbursement of certain ADS programme-related costs of $0.4 million.

We expect that our general and administrative expenses will continue to increase as the Company continues to expand.

Other Income, Net

Other income, net was $3.7 million for the six months ended June 30, 2017 compared to $1.7 million for the six months ended June 30, 2016. Other income (expense), net primarily relates to unrealized foreign exchange gains and losses on cash and cash equivalents, intercompany loans and short-term deposits held in U.S. dollars by our U.K. subsidiary. Other income, net has increased primarily due to exchange rate fluctuations and lower cash balances because the Company invested approximately $80.0 million of cash and cash equivalents in marketable securities in the three months ended June 30, 2017. The unrealized foreign exchange gains (losses) arising on marketable securities are recognized within Other Comprehensive Income.

Income taxes

Income taxes increased by 12.5% to $396,000 for the six months ended June 30, 2017 from $352,000 for the six months ended June 30, 2016. Income taxes arise in the United States. The increase in income taxes is due to an increase in the taxable profits in the United States as we expand our operations. We incur losses in the United Kingdom.

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Liquidity and Capital Resources

Sources of Funds

Since our inception, we have incurred significant net losses and negative cash flows from operations. We financed our operations primarily through sales of equity securities, cash receipts under our GSK Collaboration and License Agreement, government grants and research and development tax and expenditure credits. From inception through to June 30, 2017, we have raised:

- $410.5 million, net of issue costs, through the issuance of shares, including $176.0 million raised through our initial public offering in May 2015 and $61.4 million raised through a follow-on public offering in March 2017 and $41.8 million raised through a registered direct offering in April 2017;

- $81.2 million upfront fees and milestones under our GSK Collaboration and License Agreement;

- $2.6 million of income in the form of government grants from the United Kingdom; and

- $11.6 million in the form of U.K. research and development tax credits and receipts from the U.K. RDEC Scheme.

We use a non-GAAP measure, Total Liquidity, which is defined as the total of cash and cash equivalents, short-term deposits and marketable securities, to evaluate the funds available to us in the near-term. A description of Total Liquidity and reconciliation to cash and cash equivalents, the most directly comparable U.S. GAAP measure, are provided below under Non-GAAP measures .

As of June 30, 2017, we had cash and cash equivalents of $122.0 million and Total Liquidity of $220.0 million. We believe that our Total Liquidity will be sufficient to fund our operations, based upon our currently anticipated research and development activities and planned capital spending, through late 2019.

Cash Flows

The following table summarizes the results of our cash flows for the three months ended June 30, 2017 and 2016 (in thousands).

	Six months ended June 30,	
	2017	2016
Net cash used in operating activities	$ (46,448)	$ (35,172)
Net cash used in investing activities	(95,821)	(4,947)
Net cash provided by financing activities	103,198	
Cash, cash equivalents and restricted cash	126,154	155,123

Operating Activities

Net cash used in operating activities increased by $11.2 million to $46.4 million for the six months ended June 30, 2017 from $35.2 million for the six months ended June 30, 2016. The increase in cash used in operations was primarily the result of an increase in research and development costs due to the ongoing advancement of our preclinical programs and clinical trials and an increase in general and administrative expenses.

Net cash used in operating activities of $46.4 million for the six months ended June 30, 2017 comprised a net loss of $42.0 million and a net cash outflow of $8.4 million from changes in operating assets and liabilities, offset by noncash items of $3.9 million. The noncash items consisted primarily of depreciation expense on plant and equipment of $2.0 million and share-based compensation expense of $4.8 million, offset by unrealized foreign exchange gains of $3.2 million.

Investing Activities

Net cash used in investing activities of $95.8 million and $4.9 million for the six months ended June 30, 2017 and 2016, respectively, included:

- purchases of property and equipment of $21.2 million and $2.9 million for the six months ended June 30, 2017 and 2016, respectively, which predominately related to the expansion of our laboratory facilities in the United Kingdom and the United States, including establishing our manufacturing capabilities;

- acquisition of intangibles of $0.3 million and $0.9 million for the six months ended June 30, 2017 and 2016, respectively;

- investment in marketable securities of $79.8 million, and

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- investment in short-term cash deposits with maturities greater than three months but less than 12 months of $18.0 million and $42.8 million for the six months ended June 30, 2017 and 2016, respectively; offset by

- cash inflows from maturity of short-term deposits of $22.9 million and $41.7 million for the six months ended June 30, 2017 and 2016, respectively; and

- proceeds from sale of property, plant and equipment of $0.6 million.

Financing Activities

Net cash from financing activities was $103.2 million and $nil for the six months ended June 30, 2017 and 2016, respectively. Net cash from financing activities for the six months ended June 30, 2017 consisted of proceeds from a follow-on public offering of ADSs of $61.4 million in March 2017 and proceeds of $41.8 million from a registered direct offering in April 2017.

Non-GAAP Measures

Total Liquidity (a non-GAAP financial measure)

Total Liquidity (a non-GAAP financial measure) is the total of cash and cash equivalents, short-term deposits and marketable securities. Each of these components appears in the consolidated balance sheet. The U.S. GAAP financial measure most directly comparable to Total Liquidity is cash and cash equivalents as reported in the consolidated financial statements, which reconciles to Total Liquidity as follows (in thousands):

	June 30, 2017	December 31, 2016
Cash and cash equivalents	$ 121,998	$ 158,779
Short-term deposits	18,000	22,694
Marketable securities	80,023	
Total Liquidity	**$ 220,021**	**$ 181,473**

We believe that the presentation of Total Liquidity provides useful information to investors because management reviews Total Liquidity as part of its management of overall liquidity, financial flexibility, capital structure and leverage. We invested approximately $79.8 million in marketable securities in May 2017. The definition of Total Liquidity has been amended to include marketable securities, which are highly-liquid and available to use in our current operations.

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 in the rules and regulations of the SEC.

Contractual Obligations

The following table summarizes our contractual commitments and obligations as of June 30, 2017 (in thousands):

	Payments due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Operating lease obligations(1)(2)	$ 34,837	$ 2,460	$ 8,062	$ 7,565	$ 16,750
Purchase obligations(3)	61,164	23,487	25,237	11,384	1,056
Total contractual cash obligations	**$ 96,001**	**$ 25,947**	**$ 33,299**	**$ 18,949**	**$ 17,806**

(1) As of June 30, 2017, operating lease obligations primarily consists of minimum lease payments under non-cancellable leases for laboratory and office property in Oxfordshire, U.K. and Philadelphia, U.S.

(2) In May 2017, the Company entered into an agreement for the lease of a building at Milton Park, Oxfordshire, U.K. The lease has a term expiring on October 23, 2041, with termination options exercisable by the Company on the fifth anniversary of the lease commencement date and at approximately five yearly intervals thereafter. The related lease commitments are included in the table above.

(3) Purchase obligations include signed orders for capital equipment, clinical materials, clinical trial expenses and contract manufacturing, which have been committed but not yet received, committed funding under the MD Anderson strategic alliance

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and costs relating to the expansion of our laboratory and office space in Oxfordshire, U.K. and Philadelphia, U.S. The amount and timing of the payments for clinical materials, clinical trial expenses and contract manufacturing may vary depending on the rate of progress of development and clinical trial enrollment rates.

Purchase obligations

On September 26, 2016, we announced that we had entered into a multi-year strategic alliance with MD Anderson designed to expedite the development of T-cell therapies for multiple types of cancer. We and MD Anderson are collaborating on a number of studies including clinical and preclinical development of our SPEAR T-cell therapies targeting NY-ESO and MAGE-A10 and we will collaborate on future clinical stage first and second generation SPEAR T-cell therapies such as MAGE-A4 across a number of cancers, including bladder, lung, ovarian, head and neck, melanoma, synovial sarcoma, esophageal and gastric cancers. Under the terms of the agreement, we have committed at least $19,644,000 to fund studies. We made an upfront payment of $3,412,000 to MD Anderson in the six months ended June 30, 2017 and are obligated to make payments to MD Anderson as certain milestones are achieved. Payment of this funding is contingent on mutual agreement to study orders in order for any study to be included under the alliance and the performance of set milestones by MD Anderson. The timing and amount of future payments is uncertain. These milestones are included within Purchase obligations above.

On June 16, 2016, we entered into a supply agreement with ThermoFisher for the supply of the Dynabeads® CD3/CD28 technology. The Dynabeads® CD3/CD28 technology is designed to isolate, activate and expand human T-cells, and is being used in the manufacturing of our affinity enhanced T-cell therapies. The supply agreement runs until December 31, 2025. Under the supply agreement, we are required to purchase our requirements for CD3/CD28 magnetic bead product exclusively from ThermoFisher for a period of five years and there are also minimum purchasing obligations (which have been included in the purchase obligations above). ThermoFisher has the right to terminate the supply agreement for material breach or insolvency.

Other obligations

On November 25, 2015, we entered into a Research Collaboration and License Agreement relating to gene editing and HLA-engineering technology with Universal Cells. We paid an upfront license fee of $2.5 million to Universal Cells. A milestone payment of $3.0 million was made in February 2016 and a further milestone payment of $0.5 million in March 2017. We are obligated make further payments of up to $43.5 million if certain development and product milestones are achieved. Universal Cells would also receive a profit-share payment for the first product, and royalties on sales of other products utilizing its technology. Future payments are not reflected in the table above because the timing of the payments is uncertain.

In 2012, we entered into a series of license and sub-license agreements with Life Technologies Corporation, part of ThermoFisher that provide us with a field-based exclusive license under certain intellectual property rights owned or controlled by ThermoFisher. We paid upfront license fees of $1.0 million relating to the license and sublicense agreements and has an obligation to pay minimum annual royalties (in the tens of thousands of U.S. dollars prior to licensed product approval and thereafter at a level of 50% of running royalties in the previous year), milestone payments and a low single-digit running royalty payable on the net selling price of each licensed product. Future payments are not reflected in the table above because the timing and amount of the payments are uncertain.

Safe Harbor

See the section titled Information Regarding Forward-Looking Statements at the beginning of this Quarterly Report.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risks in the ordinary course of our business, which are principally limited to interest rate fluctuations, foreign currency exchange rate fluctuations, particularly between pound sterling and U.S. dollar, and credit risk. These risks are managed by maintaining an appropriate mix of cash deposits and securities in various currencies, placed with a variety of financial institutions for varying periods according to expected liquidity requirements.

In May 2017, we invested cash and cash equivalents of $79.8 million in corporate debt securities, with the aim of diversifying our investments and reducing credit risks. We have not entered into investments for trading or speculative purposes.

Interest Rate Risk

As of June 30, 2017, we had cash and cash equivalents of $122.0 million, short-term deposits of $18.0 million and investments in corporate debt securities of $80.0 million. Our surplus cash and cash equivalents are invested in interest-bearing savings, money market funds and corporate debt securities from time to time. Our short-term deposits and investment in corporate debt securities are subject to fixed interest rates. Our exposure to interest rate sensitivity is impacted by changes in the underlying U.K. and U.S. bank interest rates and the fair market value of our corporate debt securities will fall in value if market interest rates increase. We do not believe an immediate one percentage point change in interest rates would have a material effect on the fair market value of our portfolio, and therefore we do not expect our operating results or cash flows to be significantly affected by changes in market interest rates.

Currency Risk