iBio, Inc.
Form 10-Q
May 23, 2016

**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 March 31, 2016

**OR**

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

For the transition period from ___ to ___

**Commission file number 001-35023**

**iBio, Inc.**

(Exact name of registrant as specified in its charter)

| **Delaware** | **26-2797813** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **600 Madison Avenue, Suite 1601, New York, NY** | **10022** |

(Address of principal executive offices) (Zip Code)

**(302) 355-0650**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x 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).

Yes x No ¨

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

Shares of Common Stock outstanding as of May 23, 2016: 89,109,410

**iBio, Inc.**

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**iBio, Inc. and Subsidiaries**

**Condensed Consolidated Balance Sheets**

(In Thousands, except share and per share amounts)

| | March 31, 2016 (Unaudited) | June 30, 2015 (See Note 2) |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash | $ 21,893 | $ 9,494 |
| Accounts receivable - trade | 454 | 445 |
| Work in process | 58 | - |
| Prepaid expenses and other current assets | 318 | 182 |
| Total current assets | 22,723 | 10,121 |
| | | |
| Fixed assets, net of accumulated depreciation | 25,775 | 13 |
| Intangible assets, net of accumulated amortization | 2,139 | 2,360 |
| Security deposit | 28 | - |
| Total Assets | $ 50,665 | $ 12,494 |
| | | |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Accounts payable (related party of $183 and $153 as of March 31, 2016 and June 30, 2015, respectively) | $ 1,551 | $ 1,104 |
| Accrued expenses (related party of $443 and $0 as of March 31, 2016 and June 30, 2015, respectively) | 647 | 159 |
| Capital lease obligation - current portion | 167 | - |
| Deferred revenue | 76 | - |
| Total Current Liabilities | 2,441 | 1,263 |
| | | |
| Capital lease obligation - net of current portion | 25,308 | - |
| | | |
| Total Liabilities | 27,749 | 1,263 |

| | | |
|---|---|---|
| Commitments and Contingencies | | |
| | | |
| Equity | | |
| iBio, Inc. Stockholders' Equity: | | |
| Preferred stock - no par value; 1,000,000 shares authorized; no shares issued and outstanding | - | - |
| Common stock - $0.001 par value; 175,000,000 shares authorized; 82,609,410 and 77,205,410 shares issued and outstanding as of March 31, 2016 and June 30, 2015, respectively | 83 | 77 |
| Additional paid-in capital | 63,127 | 59,006 |
| Accumulated other comprehensive loss | (31) | (25) |
| Accumulated deficit | (54,914) | (47,827) |
| Total iBio, Inc. Stockholders' Equity | 8,265 | 11,231 |
| Noncontrolling interest | 14,651 | - |
| Total Equity | 22,916 | 11,231 |
| Total Liabilities and Equity | $ 50,665 | $ 12,494 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**iBio, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Operations and Comprehensive Loss**

(Unaudited; In Thousands, except per share amounts)

| | Three Months Ended March 31, | | Nine Months Ended March 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | $ 379 | $ 349 | $ 673 | $ 1,535 |
| Operating expenses: | | | | |
| Research and development (related party of $244, $258, $723 and $738) | 1,048 | 815 | 2,303 | 2,731 |
| General and administrative (related party of $296, $0 $374 and $0) | 2,403 | 1,222 | 5,509 | 3,574 |
| Total operating expenses | 3,451 | 2,037 | 7,812 | 6,305 |
| Operating loss | (3,072) | (1,688) | (7,139) | (4,770) |
| Other income (expense): | | | | |
| Interest expense (related party of $323, $0, $323 and $0) | (323) | - | (323) | - |
| Interest income | 5 | 2 | 9 | 6 |
| Royalty income | 5 | 9 | 17 | 24 |
| Total other income (expense) | (313) | 11 | (297) | 30 |
| Consolidated net loss | (3,385) | (1,677) | (7,436) | (4,740) |
| Net loss attributable to noncontrolling interest | 349 | - | 349 | - |
| Net loss attributable to iBio, Inc. | $ (3,036) | $ (1,677) | $ (7,087) | $ (4,740) |
| Comprehensive loss: | | | | |
| Consolidated net loss | $ (3,385) | $ (1,677) | $ (7,436) | $ (4,740) |
| Other comprehensive income (loss) - foreign currency translation adjustments | 2 | (12) | (6) | (26) |
| Comprehensive loss | $ (3,383) | $ (1,689) | $ (7,442) | $ (4,766) |
| Loss per common share attributable to iBio, Inc. stockholders - basic and diluted | $ (0.04) | $ (0.02) | $ (0.09) | $ (0.07) |
| Weighted-average common shares outstanding - basic and diluted | 81,158 | 72,989 | 78,587 | 69,913 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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**iBio, Inc. and Subsidiaries**

**Condensed Consolidated Statement of Stockholders' Equity**

Nine Months Ended March 31, 2016

(Unaudited; In Thousands)

| | Preferred Stock | | Common Stock | | Additional Paid-In | Accumulated Other Comprehensive | Accumulated | Noncontrolling | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Loss | Deficit | Interest | Total |
| Balance as of July 1, 2015 | - | $ - | 77,206 | $ 77 | $ 59,006 | $ (25) | $ (47,827) | $ - | $ 11,231 |
| Capital contribution - noncontrolling interest | - | - | - | - | - | - | - | 15,000 | 15,000 |
| Sale of common stock | - | - | 3,500 | 4 | 2,174 | - | - | - | 2,178 |
| Exercises of warrants | - | - | 1,904 | 2 | 1,007 | - | - | - | 1,009 |
| Share-based compensation | - | - | - | - | 940 | - | - | - | 940 |
| Foreign currency translation adjustment | - | - | - | - | - | (6) | - | - | (6) |
| Net loss | - | - | - | - | - | - | (7,087) | (349) | (7,436) |
| Balance as of March 31, 2016 | - | $ - | 82,610 | $ 83 | $ 63,127 | $ (31) | $ (54,914) | $ 14,651 | $ 22,916 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**iBio, Inc. and Subsidiaries**

**Condensed Consolidated Statements of Cash Flows**

(Unaudited; In Thousands)

| | Nine Months Ended March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Consolidated net loss | $ (7,436) | $ (4,740) |
| Adjustments to reconcile consolidated net loss to net cash used in operating activities: | | |
| Share-based compensation | 940 | 690 |
| Amortization of intangible assets | 274 | 266 |
| Depreciation | 263 | 3 |
| Loss on abandonment of intangible assets | 33 | 47 |
| Changes in operating assets and liabilities | | |
| Accounts receivable - trade | (9) | (135) |
| Accounts receivable - unbilled | - | (325) |
| Work in process | (58) | - |
| Prepaid expenses and other current assets | (136) | (181) |
| Security deposit | (28) | - |
| Accounts payable | 342 | 517 |
| Accrued expenses | 489 | 306 |
| Deferred revenue | 76 | 34 |
| Net cash used in operating activities | (5,250) | (3,518) |
| Cash flows from investing activities: | | |
| Additions to intangible assets | - | (137) |
| Purchases of fixed assets | (8) | (15) |
| Net cash used in investing activities | (8) | (152) |
| Cash flows from financing activities: | | |
| Proceeds from sale of common stock | 2,178 | 7,302 |
| Proceeds from exercise of warrants | 1,009 | 867 |
| Capital contribution - noncontrolling interest | 15,000 | - |
| Payment of capital lease obligation | (525) | - |
| Net cash provided by financing activities | 17,662 | 8,169 |
| Effect of exchange rate changes | (5) | (9) |

| | | |
|---|---|---|
| Net increase in cash | 12,399 | 4,490 |
| Cash - beginning of period | 9,494 | 3,590 |
| Cash - end of period | $ 21,893 | $ 8,080 |
| | | |
| Schedule of non-cash activities: | | |
| Purchases of fixed assets financed by capital lease | $ 26,000 | $ - |
| Unpaid intangible assets included in accounts payable - net | $ 87 | $ - |
| Unpaid intangible assets included in accrued expenses - net | $ - | $ 12 |
| Unpaid fixed assets included in accounts payable | $ 17 | $ - |
| | | |
| Supplemental cash flow information: | | |
| Cash paid during the period for interest | $ - | $ - |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

**iBio, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

(Unaudited)

**1. Nature of Business**

iBio, Inc. and Subsidiaries ("iBio" or the "Company") is a biotechnology company focused on the commercialization of its proprietary plant-based protein expression technologies for vaccines and therapeutic proteins and on developing and commercializing select biopharmaceutical product candidates. The advantages of iBio's technology include reduced production time, capital and operating costs for biopharmaceuticals and the ability to manufacture therapeutic proteins that are difficult or commercially infeasible to produce with conventional methods.

iBio was established as a public company in August 2008 as the result of a spinoff from Integrated BioPharma, Inc. The Company operates in one business segment under the direction of its Executive Chairman. The Company's wholly-owned and majority-owned subsidiaries are as follows:

iBioDefense Biologics LLC ("iBioDefense") – iBioDefense, a wholly-owned subsidiary, is a Delaware limited liability company formed in July 2013 to explore development and commercialization of defense-specific applications of the Company's proprietary technology. iBioDefense has not commenced any activities to date.

iBio Peptide Therapeutics LLC ("iBio Peptide") – iBio Peptide, a wholly-owned subsidiary, is a Delaware limited liability company formed in November 2013. iBio Peptide has not commenced any activities to date.

iBIO DO BRASIL BIOFARMACÊUTICA LTDA. ("iBio Brazil") – iBio Brazil is a subsidiary organized in Brazil in which the Company has a 99% interest. iBio Brazil was formed to manage and expand the Company's business activities in Brazil. The activities of iBio Brazil are intended to include coordination and expansion of the Company's existing relationship with Fundacao Oswaldo Cruz/FioCruz ("FioCruz") beyond the current Yellow Fever Vaccine program (see Note 7) and development of additional products with private sector participants for the Brazilian market. iBio Brazil commenced operations during the first quarter of the fiscal year ended June 30, 2015.

iBio CMO LLC ("iBio CMO") – iBio CMO is a Delaware limited liability company formed on December 16, 2015 to develop and manufacture plant-made pharmaceuticals. As of December 31, 2015, the Company owned 100% of iBio

CMO. On January 13, 2016, the Company entered into a contract manufacturing joint venture with an affiliate of Eastern Capital Limited ("Eastern"), a stockholder of the Company (the "Eastern Affiliate"). The Eastern Affiliate contributed $15 million in cash for a 30% interest in iBio CMO. The Company retained a 70% interest in iBio CMO and contributed a royalty bearing license which grants iBio CMO a non-exclusive license to use the Company's proprietary technologies for research purposes and an exclusive U.S. license for manufacturing purposes. The Company retained the exclusive right to grant product licenses to those who wish to sell or distribute products made using the Company's technologies.

iBio CMO's operations take place in Bryan, Texas in a facility controlled by another affiliate of Eastern (the "Second Eastern Affiliate") as sublandlord. The facility is a 139,000 square foot Class A life sciences building on the campus of Texas A&M University, designed and equipped for plant-made manufacture of biopharmaceuticals. The Second Affiliate granted iBio CMO a 34-year sublease for the facility as well as certain equipment (see Note 8). Commercial operations commenced in January 2016. iBio CMO expects to operate on the basis of three parallel lines of business: (1) Development and manufacturing of third party products; (2) Development and production of iBio's proprietary product(s) for treatment of fibrotic diseases; and (3) Commercial technology transfer services.

**2. Basis of Presentation**

*Interim Financial Statements*

The accompanying unaudited condensed consolidated financial statements have been prepared from the books and records of the Company and include all normal and recurring adjustments which, in the opinion of management, are necessary for a fair presentation in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and Rule 8-03 of Regulation S-X promulgated by the U.S. Securities and Exchange Commission. Accordingly, these interim financial statements do not include all of the information and footnotes required for complete annual financial statements. Interim results are not necessarily indicative of the results that may be expected for the full year. Interim unaudited condensed consolidated financial statements should be read in conjunction with the audited financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2015, from which the accompanying condensed consolidated balance sheet dated June 30, 2015 was derived.

*Principles of Consolidation*

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated as part of the consolidation.

*Liquidity*

The Company's primary sources of liquidity are cash on hand and cash available from the sale of common stock of the Company. At this time, cash flows from operating activities represent net outflows for operating expenses and expenses for technology and product development. As of March 31, 2016, the Company had $21.9 million in cash on hand. In addition, in April 2016, the Company received approximately $4,000,000 from the sale of 6,500,000 shares of common stock to Eastern (see Note 9). The cash on hand and the proceeds from the April 2016 Eastern share purchase agreement is expected to support the Company's activities at least through March 31, 2017.

Since its spin-off from Integrated BioPharma, Inc. in August 2008, the Company has incurred significant losses and negative cash flows from operations. As of March 31, 2016, the Company's accumulated deficit was $54.9 million and had used $5.2 million in cash for operating activities for the nine months ended March 31, 2016. The Company has historically financed its activities through the sale of common stock and warrants. Through March 31, 2016, the Company has dedicated most of its financial resources to investing in its iBioLaunch™ and iBioModulator™ platforms, its proprietary candidates for treatment of fibrotic diseases, advancing its intellectual property, and general and administrative activities.

On May 15, 2015, the Company entered into a common stock purchase agreement with Aspire Capital Fund, LLC (“Aspire Capital”) pursuant to which the Company has the option to require Aspire Capital, upon and subject to the terms of the agreement, to purchase up to $15 million of its common stock, over a three-year term. No shares have been sold under the 2015 Facility as of the date of the filing of this report. See Note 9 for a further description of the agreement.

Coincident with the entry into the iBio CMO joint venture, Eastern agreed to acquire 10 million shares of the Company's common stock at $0.622 per share. The closing for the sale of 3,500,000 of such shares occurred on January 25, 2016. The sale of the remaining 6,500,000 shares occurred in April 2016. In addition, Eastern agreed to, and on January 25, 2016 did, exercise warrants it previously acquired to purchase 1,784,000 shares of the Company's common stock at $0.53 per share. As of the date of the filing of this report, the Company has received $15 million for the capitalization of iBio CMO and approximately $7.2 million from Eastern for the acquisition of 10 million shares of common stock and the exercise of the warrants. See Note 9 for a further description of the transactions.

The Company plans to fund its future business operations using cash on hand, through proceeds from the sale of additional equity or other securities, including sales of common stock to Aspire Capital pursuant to the common stock purchase agreement entered into on May 15, 2015, and through proceeds realized in connection with license and collaboration arrangements. The Company cannot be certain that such funding will be available on favorable terms or available at all. To the extent that the Company raises additional funds by issuing equity securities, its stockholders may experience significant dilution.

The Company's financial statements were prepared under the assumption that the Company will continue as a going concern. If the Company is unable to raise funds when required or on favorable terms, this assumption may no longer be operative, and the Company may have to: a) significantly delay, scale back, or discontinue the product application and/or commercialization of its proprietary technologies; b) seek collaborators for its technology and product candidates on terms that are less favorable than might otherwise be available; c) relinquish or otherwise dispose of rights to technologies, product candidates, or products that it would otherwise seek to develop or commercialize; or d) possibly cease operations.

**3. Summary of Significant Accounting Policies**

The Company's significant accounting policies are described in Note 3 of the Notes to Financial Statements in the Annual Report on Form 10-K for the year ended June 30, 2015.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates include the valuation of intellectual property, legal and contractual contingencies and share-based compensation. Although management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, actual results could differ from these estimates.

*Revenue Recognition*

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is reasonably assured. Deferred revenue represents billings to a customer to whom the services have not yet been provided.

The Company's contract revenue consists primarily of amounts earned under contracts with third-party customers and reimbursed expenses under such contracts. The Company analyzes its agreements to determine whether the elements can be separated and accounted for individually or as a single unit of accounting in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605-25, "*Revenue Arrangements with Multiple Deliverables*," and Staff Accounting Bulletin 104, "*Revenue Recognition*." Allocation of revenue to individual elements that qualify for separate accounting is based on the separate selling prices determined for each component, and total contract consideration is then allocated pro rata across the components of the arrangement. If separate selling prices are not available, the Company will use its best estimate of such selling prices, consistent with the overall pricing strategy and after consideration of relevant market factors.

The Company generates (or may generate in the future) contract revenue under the following types of contracts:

Fixed-Fee

Under a fixed-fee contract, the Company charges a fixed agreed upon amount for a deliverable. Fixed-fee contracts have fixed deliverables upon completion of the project. Typically, the Company recognizes revenue for fixed-fee

contracts after projects are completed, delivery is made and title transfers to the customer, and collection is reasonably assured.

Time and Materials

Under a time and materials contract, the Company charges customers an hourly rate plus reimbursement for other project specific costs. The Company recognizes revenue for time and material contracts based on the number of hours devoted to the project multiplied by the customer's billing rate plus other project specific costs incurred.

Grant Income

Grants are recognized as income when all conditions of such grants are fulfilled or there is a reasonable assurance that they will be fulfilled. Grant income is classified as a reduction of research and development expenses. For both the three and nine months ended March 31, 2016, grant income amounted to approximately $9,000. No grant income was recognized for the three and nine months ended March 31, 2015.

*Work in Process*

Work in process consists primarily of the cost of labor and other overhead incurred on contracts that have not been completed as of March 31, 2016.

*Research and Development*

The Company accounts for research and development costs in accordance with the FASB ASC 730-10, "*Research and Development*" ("ASC 730-10"). Under ASC 730-10, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved.

*Foreign Currency*

The Company accounts for foreign currency translation pursuant to FASB ASC 830, "*Foreign Currency Matters*." The functional currency of iBio Brazil is the Brazilian Real. Under FASB ASC 830, all assets and liabilities are translated into United States dollars using the current exchange rate at the end of each fiscal period. Revenues and expenses are translated using the average exchange rates prevailing throughout the respective periods. All transaction gains and losses from the measurement of monetary balance sheet items denominated in Reals are reflected in the statement of operations as appropriate. Translation adjustments are included in accumulated other comprehensive loss.

*Recent Accounting Pronouncements*

In May 2014, ASU No. 2014-09, "*Revenue from Contracts with Customers*" ("ASU 2014-09") was issued. The amendments in ASU 2014-09 affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in ASC 605, "*Revenue Recognition*," and most industry-specific guidance, and creates an ASC 606, "*Revenue from Contracts with Customers*."

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.

ASU 2014-09 was scheduled to be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. In August 2015, the FASB issued ASU 2015-14, *"Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date"* ("ASU 2015-14") which defers the effective date of ASU 2014-09 by one year. ASU 2014-09 is now effective for annual reporting periods after December 15, 2017 including interim periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the effects of adopting ASU 2014-09 on its consolidated financial statements.

Effective January 1, 2016, the Company adopted ASU 2014-12, "*Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*" ("ASU No. 2014-12"). ASU No. 2014-12 requires that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. An entity should recognize compensation cost in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining

unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. ASU 2014-12 became effective for interim and annual periods beginning on or after December 15, 2015. The adoption of ASU 2014-12 did not have a significant impact on the Company's consolidated financial statements.

In June 2014, ASU 2014-15, "*Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*" ("ASU No. 2014-15") was issued. Before the issuance of ASU 2014-15, there was no guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. This guidance is expected to reduce the diversity in the timing and content of footnote disclosures. ASU 2014-15 requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards as specified in the guidance. ASU 2014-15 becomes effective for the annual period ending after December 15, 2016 (year ended June 30, 2017 for the Company) and for annual and interim periods thereafter. Early adoption is permitted. The Company is currently evaluating the effects of adopting ASU 2014-15 on its consolidated financial statements but the adoption is not expected to have a significant impact on the Company's consolidated financial statements.

Effective January 1, 2016, the Company adopted ASU 2015-01, "*Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items"* ("ASU 2015-01"). ASU 2015-01 eliminates the concept of an extraordinary item from accounting principles generally accepted in the United States of America. As a result, an entity will no longer be required to segregate extraordinary items from the results of ordinary operations, to separately present an extraordinary item on its income statement, net of tax, after income from continuing operations or to disclose income taxes and earnings-per-share data applicable to an extraordinary item. However, ASU 2015-01 will still retain the presentation and disclosure guidance for items that are unusual in nature and occur infrequently. ASU 2015-01 became effective for interim and annual periods beginning on or after December 15, 2015. The adoption of ASU 2015-01 did not have a significant impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "*Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*" ("ASU 2015-03") as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). The FASB received feedback that having different balance sheet presentation requirements for debt issuance costs and debt discount and premium creates unnecessary complexity. Recognizing debt issuance costs as a deferred charge (that is, an asset) also is different from the guidance in International Financial Reporting Standards, which requires that transaction costs be deducted from the carrying value of the financial liability and not recorded as separate assets. Additionally, the requirement to recognize debt issuance costs as deferred charges conflicts with the guidance in FASB Concepts Statement No. 6, "*Elements of Financial Statements*," which states that debt issuance costs are similar to debt discounts and in effect reduce the proceeds of borrowing, thereby increasing the effective interest rate. FASB Concepts Statement No. 6 further states that debt issuance costs cannot be an asset because they provide no future economic benefit. To simplify presentation of debt issuance costs, the amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. For public business entities, the amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company will evaluate the effects of adopting ASU 2015-03 if and when it is deemed to be applicable.

In November 2015, the FASB issued ASU 2015-17, "*Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*" ("ASU 2015-17"). ASU 2015-17 requires deferred tax assets and liabilities to be classified as noncurrent in the consolidated balance sheet. ASU 2015-17 becomes effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted. A reporting entity should apply the amendment prospectively or retrospectively. The Company is currently evaluating the effects of adopting ASU 2015-17 on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "*Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*" ("ASU 2016-01"). The amendments require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under the equity method of accounting or those that result in consolidation of the investee). The amendments also require an entity to present separately in other comprehensive income the portion of the total change

in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will evaluate the effects of adopting ASU 2016-01 if and when it is deemed to be applicable.

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*" ("ASU 2016-02") which supersedes existing guidance on accounting for leases in "*Leases (Topic 840)*." The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The new guidance is effective for annual reporting periods beginning after December 15, 2018 (fiscal year ended June 30, 2020 for the Company) and interim periods within those fiscal years. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the effects of adopting ASU 2016-02 on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "*Improvements to Employee Share-Based Payment Accounting*" ("ASU 2016-09"). ASU 2016-09 affects entities that issue share-based payment awards to their employees. ASU 2016-09 is designed to simplify several aspects of accounting for share-based payment award transactions which include – the income tax consequences, classification of awards as either equity or liabilities, classification on the statement of cash flows and forfeiture rate calculations. This guidance is effective for annual periods beginning after December 15, 2016, including interim periods within those fiscal years. The Company is currently evaluating the impact of ASU 2016-09 on its consolidated financial statements.

In April 2016, the FASB issued ASU 2016-10, "*Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*" ("ASU 2016-10") related to identifying performance obligations and licensing. ASU 2016-10 is meant to clarify the guidance in FASB ASU 2014- 09, "*Revenue from Contracts with Customers*." Specifically, ASU 2016-10 addresses an entity's identification of its performance obligations in a contract, as well as an entity's evaluation of the nature of its promise to grant a license of intellectual property and whether or not that revenue is recognized over time or at a point in time. The pronouncement has the same effective date as the new revenue standard, which is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017. The Company is currently evaluating the impact of ASU 2016-10 on its consolidated financial statements.

Management does not believe that any other recently issued, but not yet effective, accounting standard if currently adopted would have a material effect on the accompanying financial statements.

**4. Financial Instruments and Fair Value Measurement**

The carrying values of cash, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses in the Company's condensed consolidated balance sheets approximated their fair values as of March 31, 2016 and June 30, 2015 due to their short-term nature. The carrying value of the capital lease obligation approximated its fair value at March 31, 2016 as the interest rate used to discount the lease payments approximated market.

**5. Fixed Assets and Capital Lease Obligations**

Assets held under the terms of capital leases are included in fixed assets and are depreciated on a straight-line basis over the terms of the leases or the economic lives of the assets. Obligations for future lease payments under capital leases are shown within liabilities and are analyzed between amounts falling due within and after one year (see Note 8).

As discussed above, iBio CMO is leasing its facility in Bryan, Texas as well as certain equipment from the Second Affiliate under a 34-year sublease. See Note 8 for more details of the terms of the sublease.

The economic substance of the sublease is that the Company is financing the acquisition of the facility and equipment and accordingly, the facility and equipment are recorded as assets and the lease is recorded as a liability. As the sublease involves real estate and equipment, the Company separated the equipment component and accounted for the facility and equipment as if each was leased separately.

The following table summarizes by category the gross carrying value and accumulated depreciation of fixed assets (in thousands):

| | March 31, 2016 (Unaudited) | June 30, 2015 |
|---|---|---|
| Facility under capital lease | $ 20,000 | $ - |
| Equipment under capital lease | 6,000 | - |
| Facility improvements | 21 | - |
| Office equipment | 44 | 40 |
| | 26,065 | 40 |
| Accumulated depreciation – assets under capital lease | (259) | - |
| Accumulated depreciation – other | (31) | (27) |
| | (290) | (27) |
| Net fixed assets | $ 25,775 | $ 13 |

Depreciation expense was approximately $260,000 and $1,100 for the three months ended March 31, 2016 and 2015, respectively, and for the nine months ended March 31, 2016 and 2015, depreciation expense was approximately $263,000 and $3,000, respectively. Depreciation of the assets under the capital lease amounted to approximately $259,000 for both the three and nine months ended March 31, 2016.

**6. Intangible Assets**

The Company has two categories of intangible assets – intellectual property and patents. Intellectual property consists of all technology, know-how, data, and protocols for producing targeted proteins in plants and related to any products and product formulations for pharmaceutical uses and for other applications. Intellectual property includes, but is not limited to, certain technology for the development and manufacture of novel vaccines and therapeutics for humans and certain veterinary applications acquired in December 2003 from Fraunhofer USA Inc., acting through its Center for Molecular Biotechnology ("Fraunhofer"), pursuant to a Technology Transfer Agreement, as amended (the "TTA"). The Company designates such technology acquired from Fraunhofer as iBioLaunch technology or as iBioModulator technology. The value attributed to Patents owned or controlled by the Company is based on payments for services and fees related to the further development and protection of the Company's patent portfolio.

In January 2014, the Company entered into a license agreement with a U.S. university whereby iBio acquired exclusive worldwide rights to certain issued and pending patents covering specific candidate products for the treatment of fibrosis (the "Licensed Technology"). The license agreement provides for payment by the Company of a license issue fee, annual license maintenance fees, reimbursement of prior patent costs incurred by the university, payment of a milestone payment upon regulatory approval for sale of a first product, and annual royalties on product sales. In addition, the Company has agreed to meet certain diligence milestones related to product development benchmarks. As part of its commitment to the diligence milestones, the Company successfully commenced production of a plant-made peptide comprising the Licensed Technology before March 31, 2014. The next milestone – filing a New Drug Application with the FDA covering the Licensed Technology – became due on December 1, 2015. A six-month extension was automatically granted until June 1, 2016 under the license agreement. The Company and the university expect to replace the original milestone schedule with a new one within the next quarter based on technical changes to the development program and a revised forecast of completion dates.

The Company accounts for intangible assets at their historical cost and records amortization utilizing the straight-line method based upon their estimated useful lives. Patents are amortized over a period of ten years and other intellectual property is amortized over a period from 16 to 23 years. The Company reviews the carrying value of its intangible assets for impairment whenever events or changes in business circumstances indicate the carrying amount of such assets may not be fully recoverable. Evaluating for impairment requires judgment, and recoverability is assessed by comparing the projected undiscounted net cash flows of the assets over the remaining useful life to the carrying amount. Impairments, if any, are based on the excess of the carrying amount over the fair value of the assets. There were no impairment charges during the nine months ended March 31, 2016 and 2015.

The following table summarizes by category the gross carrying value and accumulated amortization of intangible assets (in thousands):

| | March 31, 2016 (Unaudited) | June 30, 2015 |
|---|---|---|
| Intellectual property – gross carrying value | $ 3,100 | $ 3,100 |
| Patents – gross carrying value | 2,223 | 2,181 |

| | | |
|---|---|---|
| | 5,323 | 5,281 |
| Intellectual property – accumulated amortization | (1,893) | (1,776) |
| Patents – accumulated amortization | (1,291) | (1,145) |
| | (3,184) | (2,921) |
| Net intangible assets | $ 2,139 | $ 2,360 |

Amortization expense was approximately $92,000 and $88,000 for the three months ended March 31, 2016 and 2015, respectively, and for the nine months ended March 31, 2016 and 2015, amortization expense was approximately $274,000 and $266,000, respectively. For the three and nine months ended March 31, 2016, the Company incurred losses on the abandonment of patents of approximately $16,000 and $33,000, respectively. For the three and nine months ended March 31, 2015, the Company incurred losses on the abandonment of patents of approximately $17,000 and $47,000, respectively.

**7. Significant Vendor**

Fraunhofer was the Company's most significant vendor solely on the basis of the three-party Yellow Fever vaccine development program among Fiocruz/Bio-Manguinhos, the Company, and Fraunhofer (described in greater detail below). The accounts payable balance under this three-party agreement includes amounts due Fraunhofer of approximately $417,000 and $445,000 as of March 31, 2016 and June 30, 2015, respectively. For the three months ended March 31. 2016 and 2015, research and development expenses related to Fraunhofer were approximately $357,000 and $348,000, respectively. For the nine months ended March 31, 2016 and 2015, research and development expenses related to Fraunhofer were approximately $635,000 and $1,535,000, respectively. See Note 14 – Commitments and Contingencies.

Other than for final completion of the current phase of the Yellow Fever vaccine program, the Company is not reliant on Fraunhofer as a vendor. The Company obtains the majority of the services it requires for both its own product development and for work it performs for clients from its subsidiary company, iBio CMO LLC and from Novici Biotech LLC. The Company obtains new intellectual property and patent rights from iBio CMO LLC, Novici Biotech LLC, and other contractors and academic collaborators and/or licensors.

In September 2013, the Company and Fraunhofer completed the Terms of Settlement for the TTA Seventh Amendment (the "Settlement Agreement"), the significant terms of which are as follows:

- The Company's liabilities to Fraunhofer in the amount of approximately $2.9 million as of June 30, 2013 were released and terminated;

- The Company's obligation under the TTA, prior to the Settlement Agreement, to make three $1 million payments to Fraunhofer in April 2013, November 2013, and April 2014 (the "Guaranteed Annual Payments") was terminated and replaced with an undertaking to engage Fraunhofer to perform at least $3 million in work requested and as directed by iBio before December 31, 2015. See Note 14 – Commitments and Contingencies for additional information;

- The Company terminated and released Fraunhofer from the obligation to make further financial contributions toward the enhancement, improvement and expansion of iBio's technology in an amount at least equal to the Guaranteed Annual Payments. In addition, the Company terminated and released Fraunhofer from the obligation to further reimburse iBio for certain past and future patent-related expenses;

- The Company's obligation to remit to Fraunhofer minimum annual royalty payments in the amount of $200,000 was terminated. Instead the Company will be obligated to remit royalties to Fraunhofer only on technology license revenues that iBio actually receives and on revenues from actual sales by iBio of products derived from the Company's technology until the later of November 2023 or until such time as the aggregate royalty payments total at

least $4 million, and the calculation of such payments due shall include solely technology license revenues and products sales for which technology developed at Fraunhofer under the TTA was used;

- The rate at which the Company will be obligated to pay royalties to Fraunhofer on iBioLaunch ™ and iBioModulator ™ license revenues received was reduced from 15% to 10%; and

- Any and all other claims of each party to any other amounts due at June 30, 2013 were mutually released.

The effect of the Settlement Agreement was the elimination of approximately $1.7 million of accrued expenses and $1.2 million of accounts payable from the Company's books, as well as a $1 million reduction in prepaid expenses and an approximately $1.9 million positive impact on earnings resulting from the reversal of expenses incurred by the Company under the terms of the previous agreement. This $1.9 million is composed of credits of $1.04 million to research and development expenses, $0.7 million to general and administrative expenses, and $122,000 to interest expense, respectively.

On January 4, 2011, the Company entered into the Collaboration and License Agreement (the "CLA") which is a three party agreement involving the Company, Fraunhofer and FioCruz, a public entity, member of the Indirect Federal Public Administration and linked to the Health Ministry of Brazil, acting through its unit Bio-Manguinhos. The CLA provides for the development of a yellow fever vaccine to be manufactured and distributed within Latin America and Africa by FioCruz. The CLA was supplemented by a bilateral agreement between iBio and Fraunhofer dated December 27, 2010 in which the Company engaged Fraunhofer as a contractor to provide the research and development services (both, together, the "Agreement"). The services are billed to FioCruz at Fraunhofer's cost, so the Company's revenue is equivalent to expense and there is no profit.

On June 12, 2014, FioCruz, Fraunhofer and iBio executed an amendment to the Agreement (the "Amended Agreement") which provides for revised research and development, work plans, reporting, objectives, estimated budget, and project billing process. For the three months ended March 31, 2016 and 2015, under the Amended Agreement, the Company recognized revenue of $357,000 and $348,000, respectively, for work performed for FioCruz pursuant to the Amended Agreement by the Company's subcontractor, Fraunhofer, and recognized research and development expenses of the same amount due Fraunhofer for that work. For the nine months ended March 31, 2016 and 2015, under the Amended Agreement, the Company recognized revenue of $635,000 and $1,535,000, respectively.

On March 17, 2015 the Company filed a Verified Complaint in the Court of Chancery of the State of Delaware against Fraunhofer and Vidadi Yusibov, Fraunhofer's Executive Director. See Note 14 - Lawsuits for additional information.

**8. Capital Lease Obligation**

As discussed above, iBio CMO is leasing its facility in Bryan, Texas as well as certain equipment from the Second Affiliate under a 34-year sublease. iBio CMO began operations at the facility on December 22, 2015 pursuant to agreements between iBio CMO and the Second Affiliate granting iBio CMO temporary rights to access the facility. These temporary agreements were superseded by the Sublease Agreement, dated January 13, 2016, between iBio CMO and the Second Affiliate (the "sublease"). The 34-year term of the sublease may be extended by iBio CMO for a ten-year period, so long as iBio CMO is not in default under the sublease. Under the sublease, iBio CMO is required to pay base rent at an annual rate of $2,100,000, paid in equal quarterly installments on the first day of each February, May, August and November. The base rent is subject to increase annually in accordance with increases in the Consumer Price Index. The base rent under the Second Affiliate's ground lease for the property is subject to adjustment, based on an appraisal of the property, in 2030 and upon any extension of the ground lease. The base rent under the sublease will be increased by any increase in the base rent under the ground lease as a result of such adjustments. In addition to the base rent, iBio CMO is required to pay, for each calendar year during the term, a portion of the total gross sales for products manufactured or processed at the facility, equal to 7% of the first $5,000,000 of gross sales, 6% of gross sales between $5,000,001 and $25,000,000, 5% of gross sales between $25,000,001 and $50,000,000, 4% of gross sales between $50,000,001 and $100,000,000, and 3% of gross sales between $100,000,001 and $500,000,000. However, if for any calendar year period from January 1, 2018 through December 31, 2019, iBio CMO's applicable gross sales are less than $5,000,000, or for any calendar year period from and after January 1, 2020, its applicable gross sales are less than $10,000,000, then iBio CMO is required to pay the amount that would have been payable if it had achieved such minimum gross sales and shall pay no less than the applicable percentage for the minimum gross sales for each subsequent calendar year. iBio CMO is responsible for all costs and expenses in connection with the ownership, management, operation, replacement, maintenance and repair of the property under the sublease.

Interest expense incurred under the capital lease obligation amounted to $323,000 and $0 for the three months ended March 31, 2016 and 2015, respectively, and $323,000 and $0 for the nine months ended March 31, 2016 and 2015, respectively.

Future minimum payments under the capitalized lease obligations are due as follows:

| Fiscal period ending on: | Principal | Interest | Total |
|---|---|---|---|
| March 31, 2017 | $166,649 | $1,933,351 | $2,100,000 |
| March 31, 2018 | 179,693 | 1,920,307 | 2,100,000 |
| March 31, 2019 | 193,758 | 1,906,242 | 2,100,000 |

| | | | |
|---|---|---|---|
| March 31, 2020 | 208,924 | 1,891,076 | 2,100,000 |
| March 31, 2021 | 225,277 | 1,874,723 | 2,100,000 |
| Thereafter | 24,500,699 | 36,399,301 | 60,900,000 |
| | | | |
| Total minimum lease payments | 25,475,000 | $45,925,000 | $71,400,000 |
| Less: current portion | (166,649 ) | | |
| Long-term portion of minimum lease obligations | $25,308,351 | | |

**9. Stockholders' Equity**

*Preferred Stock*

The Company's Board of Directors is authorized to issue, at any time, without further stockholder approval, up to 1 million shares of preferred stock. The Board of Directors has the authority to fix and determine the voting rights, rights of redemption and other rights and preferences of preferred stock. As of March 31, 2016 and June 30, 2015, there were no shares of preferred stock issued and outstanding.

*Common Stock*

As of March 31, 2016 and June 30, 2015, the Company was authorized to issue up to 175 million shares of common stock, of which approximately 82.6 and 77.2 million shares were issued and outstanding, respectively. As of March 31, 2016, the Company had reserved up to 15 million shares of common stock for incentive compensation (stock options and restricted stock) and approximately 30,000 shares of common stock for the exercise of warrants.

Issuances of common stock were as follows: