

Adaptimmune Therapeutics PLC
Form 10-Q
August 02, 2018
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

OR

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

Commission File Number 001-37368

ADAPT IMMUNE THERAPEUTICS PLC

(Exact name of Registrant as specified in its charter)

England and Wales

Not Applicable

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

(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. Yes 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 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

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of July 31, 2018 the number of outstanding ordinary shares par value £0.001 per share of the Registrant is 566,496,400.

Table of Contents

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements:</u>	
	<u>Unaudited Condensed Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017</u>	4
	<u>Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2018 and 2017</u>	5
	<u>Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2018 and 2017</u>	6
	<u>Unaudited Condensed Consolidated Statement of Change in Equity for the six months ended June 30, 2018</u>	7
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017</u>	8
	<u>Notes to the Condensed Consolidated Financial Statements</u>	9
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	33
<u>Item 4.</u>	<u>Controls and Procedures</u>	33

PART II OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	34
<u>Item 1A.</u>	<u>Risk Factors</u>	34
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	82
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	82
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	82
<u>Item 5.</u>	<u>Other Information</u>	82
<u>Item 6.</u>	<u>Exhibits</u>	83
<u>Signatures</u>		84

Table of Contents

General information

In this Quarterly Report on Form 10-Q (Quarterly Report), Adaptimmune, the Group, the Company, we, us and our refer to Adaptimmune 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 successfully advance our MAGE-A10, MAGE-A4 and AFP SPEAR T-cells through clinical development and the timing within which we can recruit patients and treat patients in our clinical trials;
- our ability to successfully and reproducibly manufacture SPEAR T-cells in order to meet patient demand;
- our ability to further develop our commercial manufacturing process for our SPEAR T-cells, transfer such commercial process to third party contract manufacturers, if required, and for such third party contract manufacturers or ourselves to manufacture SPEAR T-cells to the quality and on the timescales we require;
- the scope and timing of performance of our ongoing collaboration with GlaxoSmithKline (GSK) including nomination of further targets by GSK under the collaboration;
- 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 SPEAR T-cells;
- government regulation and approval, including, but not limited to, the expected regulatory approval timelines for SPEAR T-cells and the level of pricing and reimbursement for SPEAR T-cells, if approved for marketing;
- the existence of any third party patents preventing further development of any SPEAR T-cells, including, any inability to obtain appropriate third party licenses, or enforcement of patents against us or our collaborators;
- our ability to obtain granted patents covering any SPEAR T-cells and to enforce such patents against third parties;
- 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, contract manufacturing organizations or CROs and other third-party providers including fluctuations in the price of materials and services, ability to obtain reagents particularly where such reagents are only available from a single source, and performance of third party providers;
- increased competition from other companies in the biotechnology and pharmaceutical industries including where such competition impacts ability to recruit patients in to clinical trials;
- claims for personal injury or death arising from the use of SPEAR T-cell candidates;

Table of Contents

- our ability to attract and retain qualified personnel;
- a change in our status as an emerging growth company under the Jumpstart Our Business Start-ups Act of 2012, or JOBS Act; 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.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****ADAPTIMMUNE THERAPEUTICS PLC****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share data)**

	June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 42,312	\$ 84,043
Marketable securities - available-for-sale debt securities	86,716	124,218
Accounts receivable, net of allowance for doubtful accounts of \$- and \$-		206
Other current assets and prepaid expenses (including current portion of clinical materials)	32,626	21,716
Total current assets	161,654	230,183
Restricted cash	4,195	4,253
Clinical materials	4,782	4,695
Property, plant and equipment, net	39,472	40,679
Intangibles, net	1,196	1,337
Total assets	211,299	281,147
Liabilities and stockholders equity		
Current liabilities		
Accounts payable	4,131	8,378
Accrued expenses and other accrued liabilities	21,457	27,201
Deferred revenue	16,722	38,735
Total current liabilities	42,310	74,314
Other liabilities, non-current	3,887	3,849
Total liabilities	46,197	78,163
Stockholders equity		
Common stock - Ordinary shares par value £0.001, 701,103,126 authorized and 566,496,400 issued and outstanding (2017: 701,103,126 authorized and 562,119,334 issued and outstanding)	860	854
Additional paid in capital	466,229	455,401
Accumulated other comprehensive loss	(14,419)	(21,641)
Accumulated deficit	(287,568)	(231,630)
Total stockholders equity	165,102	202,984
Total liabilities and stockholders equity	\$ 211,299	\$ 281,147

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ADAPT IMMUNE THERAPEUTICS PLC

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share data)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenue	\$ 9,038	\$ 3,521	\$ 17,234	\$ 6,378
Operating expenses				
Research and development	(26,624)	(19,591)	(52,016)	(38,206)
General and administrative	(11,291)	(7,710)	(22,495)	(14,173)
Total operating expenses	(37,915)	(27,301)	(74,511)	(52,379)
Operating loss	(28,877)	(23,780)	(57,277)	(46,001)
Interest income	540	506	1,199	746
Other (expense) income, net	(15,406)	3,224	(8,276)	3,654
Loss before income taxes	(43,743)	(20,050)	(64,354)	(41,601)
Income taxes	(102)	(165)	(229)	(396)
Net loss attributable to ordinary shareholders	\$ (43,845)	\$ (20,215)	\$ (64,583)	\$ (41,997)
Net loss per ordinary share				
Basic and diluted	\$ (0.08)	\$ (0.04)	\$ (0.11)	\$ (0.09)
Weighted average shares outstanding:				
Basic and diluted	565,197,217	556,776,430	563,804,832	493,392,465

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ADAPTIMMUNE THERAPEUTICS PLC

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net loss	\$ (43,845)	\$ (20,215)	\$ (64,583)	\$ (41,997)
Other comprehensive loss, net of tax				
Foreign currency translation adjustments, net of tax of \$-, \$-, \$- and \$-	6,107	(1,192)	3,582	(1,309)
Unrealized holding gains (losses) on available-for-sale debt securities, net of tax of \$-, \$-, \$- and \$-	5,223	(1,296)	1,167	(1,296)
Reclassification adjustment for losses on available-for-sale debt securities included in net loss, net of tax of \$-, \$-, \$- and \$-	1,310		2,473	
Total comprehensive loss for the period	\$ (31,205)	\$ (22,703)	\$ (57,361)	\$ (44,602)

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ADAPT IMMUNE THERAPEUTICS PLC

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

(In thousands, except share data)

	Common stock	Common stock	Additional paid in capital	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 2018 (under previous guidance)	562,119,334	\$ 854	\$ 455,401	\$ (17,867)	\$ (3,774)	\$ (231,630)	\$ 202,984
Cumulative effect of applying new accounting standards						8,645	8,645
Balance as of 1 January 2018 (adjusted)		854	455,401	(17,867)	(3,774)	(222,985)	211,629
Net loss						(64,583)	(64,583)
Issuance of shares upon exercise of stock options	4,377,066	6	2,417				2,423
Other comprehensive loss before reclassifications							
Foreign currency translation adjustments				3,582			3,582
Unrealized holding gains on available-for-sale debt securities, net of tax of \$-					1,167		1,167
Reclassification from accumulated other comprehensive loss of losses on available-for-sale debt securities included in net loss, net of tax of \$-					2,473		2,473
Share-based compensation expense			8,411				8,411
Balance as of June 30, 2018	566,496,400	\$ 860	\$ 466,229	\$ (14,285)	\$ (134)	\$ (287,568)	\$ 165,102

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ADAPTIMMUNE THERAPEUTICS PLC

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Six months ended June 30,	
	2018	2017
Cash flows from operating activities		
Net loss	\$ (64,583)	\$ (41,997)
<i>Adjustments to reconcile net loss to net cash used in operating activities:</i>		
Depreciation	3,499	2,023
Amortization	304	159
Share-based compensation expense	8,411	4,757
Realized loss on available-for-sale debt securities	2,473	
Unrealized foreign exchange losses (gains)	2,915	(3,206)
Other	16	194
<i>Changes in operating assets and liabilities:</i>		
(Increase) decrease in receivables and other operating assets	(11,602)	2,301
Decrease (increase) in non-current operating assets	87	(554)
Decrease in payables and deferred revenue	(24,162)	(10,125)
Net cash used in operating activities	(82,642)	(46,448)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(3,139)	(21,188)
Acquisition of intangibles	(10)	(266)
Proceeds from disposal of property, plant and equipment		550
Maturity of short-term deposits		22,857
Investment in short-term deposits		(18,000)
Maturity or redemption of marketable securities	70,717	
Investment in marketable securities	(33,556)	(79,774)
Net cash provided by (used in) investing activities	34,012	(95,821)
Cash flows from financing activities		
Proceeds from issuance of common stock, net of issuance costs \$4,774		103,167
Proceeds from exercise of stock options	2,424	31
Net cash provided by financing activities	2,424	103,198
Effect of currency exchange rate changes on cash, cash equivalents and restricted cash	4,417	2,429
Net decrease in cash, cash equivalents and restricted cash	(41,789)	(36,642)
Cash, cash equivalents and restricted cash at start of period	88,296	162,796
Cash, cash equivalents and restricted cash at end of period	\$ 46,507	\$ 126,154

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

ADAPT IMMUNE 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 providing novel cell therapies to patients, particularly in solid tumors. The Company s comprehensive and proprietary SPEAR (Specific Peptide Enhanced Affinity Receptor) T-cell platform enables it to identify cancer targets, find and genetically engineer T-cell receptors (TCRs), and produce therapeutic candidates for administration to patients. Using its affinity engineered TCRs, the Company aims to become a fully integrated cell therapy company and to have the first TCR T-cell approved.

The Company is subject to a number of risks similar to other biopharmaceutical companies in the early stage of clinical development 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 \$287.6 million as of June 30, 2018.

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 15, 2018 (the Annual Report). The balance sheet as of December 31, 2017 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.

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

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.

On January 1, 2018, the Company adopted new guidance on revenue recognition, which has been codified within Accounting Standard Codification Topic 606, *Revenue from Contracts with Customers* (ASC 606). The comparative financial information for the three and six months ended June 30, 2017 and as of December 31, 2017 has not been restated.

(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.

Table of Contents

(c) **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

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, 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 6, *Fair value measurements*.

(d) **Revenue from contracts with customers**

On January 1, 2018, the Company adopted new guidance on revenue recognition, which has been codified within ASC 606. The accounting policy applicable from January 1, 2018 is described below and further details on the transition are available in Note 2(f). The comparative financial information for the three and six months ended June 30, 2017 and as of December 31, 2017 has not been restated and is prepared in accordance with the accounting policies that are described in Note 2 to the consolidated financial statements included in the Annual Report.

The Company has one contract with a customer, which is the GSK Collaboration and License Agreement. The GSK Collaboration and License Agreement consists of multiple performance obligations, including the transition of the NY-ESO SPEAR T-cell program to GSK, the development of a second target, PRAME, and an exclusive license to research, develop, and commercialize the Company's NY-ESO SPEAR T-cell therapy program.

The aggregate transaction price consists of an upfront payment of \$42,123,000 received in June 2014, development milestones achieved of \$53,691,000, an option exercise fee of \$26,610,000, which was received in September 2017, and an estimate of variable consideration of \$25,544,000. The variable consideration relates to further milestone payments and the remaining option exercise fee of approximately \$13,198,000, which are expected to be received following transition of the NY-ESO program to GSK in July 2018 (see Note 3 for further

details).

The Company determines the variable consideration to be included in the transaction price by estimating the most-likely amount that will be received and then applies a constraint to reduce the consideration to the amount which is probable of being received. The determination of whether a milestone is probable includes consideration of the following factors:

- Whether achievement of a development milestone is highly susceptible to factors outside the entity's influence, such as milestones involving the judgment or actions of third parties, including regulatory bodies or the customer;
- Whether the uncertainty about the achievement of the milestone is not expected to be resolved for a long period of time;
- Whether the Company can reasonably predict that a milestone will be achieved based on previous experience; and.
- The complexity and inherent uncertainty underlying the achievement of the milestone.

The payments to the Company under the contract are typically due upon achievement of milestones and within standard payment terms (approximating to 45 days). The contract does not include a significant financing component.

The upfront payment of \$42,123,000 was allocated between the performance obligations using the Company's best estimate of the relative selling price. In determining the best estimate, the Company considered internal pricing objectives it used in negotiating the contract, together with internal data regarding the cost and margin of providing services for each deliverable taking into account the different stage of development of each development program included in the contract. The variable consideration is allocated to the performance obligation to which it relates.

Table of Contents

The amount of the transaction price allocated to the performance obligation is recognized as or when the Company satisfies the performance obligation. The Company satisfies the performance obligations relating to the transition of the NY-ESO SPEAR T-cell program and the development of a second target, PRAME, over time and recognizes revenue based on an estimate of the percentage of completion of the project determined based on the costs incurred on the project as a percentage of the total expected costs. The Company considers that this depicts the progress of the project, where the significant inputs are internal project resource and third-party clinical and manufacturing costs. The determination of the percentage of completion requires the Company to estimate the costs-to-complete the project. The Company makes a detailed estimate of the costs-to-complete on an annual basis as part of the Company's budgeting process, which is re-assessed every reporting period based on the latest project plan and discussions with project teams. If a change in facts or circumstances occurs, the estimate is adjusted and the revenue is recognized based on the revised estimate. The difference between the cumulative revenue recognized based on the previous estimate and the revenue recognized based on the revised estimate is recognized as an adjustment to revenue in the period in which the change in estimate occurs.

The Company has determined that the performance obligation relating to the exclusive license to research, develop, and commercialize the Company's NY-ESO SPEAR T-cell therapy program is recognized at a point-in-time, upon commencement of the license, which occurs once transition of the NY-ESO program is completed and all amounts due under the agreement are paid.

The Company recognizes a contract asset, when the value of satisfied (or part satisfied) performance obligations is in excess of the payment due to the Company, and deferred revenue (contract liability) when the amount of unconditional consideration is in excess of the value of satisfied (or part satisfied) performance obligations. Once a right to receive consideration is unconditional, that amount is presented as a receivable.

The timing and amount of milestone payments for the development and transition of the NY-ESO SPEAR T-cell program are intended to be commensurate with the cost and effort involved in achieving the milestones and therefore a contract asset would typically arise. However, the Company received \$26,610,000 of the option exercise fee in September 2017, which will not be recognized as revenue until the commencement of the licenses, with the remaining amount of approximately \$13,198,000 payable following transition of the program to GSK in July 2018. The associated revenue will be recognized upon commencement of the license, which occurs later resulting in deferred revenue.

Changes in deferred revenue typically arise due to:

- adjustments arising from a change in the estimate of the cost to complete the project, which results in a cumulative catch-up adjustment to revenue that affects the corresponding contract asset or deferred revenue;
- a change in the estimate of the transaction price due to changes in the assessment of whether variable consideration is constrained because it is not considered probable of being received;
- the recognition of revenue arising from deferred revenue; and

- the reclassification of amounts to receivables when a right to consideration to becomes unconditional.

A change in the estimate of variable consideration constrained (for example, if a development milestone becomes probable of being received) could result in a significant change in the revenue recognized and deferred revenue.

(e) **Share-based compensation**

The Company has awarded share options to nonemployees for consultancy services. Prior to January 1, 2018, these share options were measured at the fair value of the goods/services received or the fair value of the equity instrument issued, whichever was more reliably measured, and then remeasured at the then-current fair values at each reporting date until the share options have vested and recognized as an expense over the requisite service period. The Company has adopted new guidance with effect from January 1, 2018, which requires that nonemployee share-based payment transactions are measured at the grant-date fair value and are no longer remeasured at the then-current fair values at each reporting date until the share options have vested. Further details on the transition are available in Note 2(f).

Table of Contents

(f) **New accounting pronouncements**

Adopted in the period

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. This guidance has been codified within ASC 606. 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.

The Company has adopted the guidance using the modified retrospective approach, with the cumulative effect of initially applying the guidance recognized as an adjustment to the opening balance of equity at January 1, 2018. Therefore, the comparative information has not been adjusted and continues to be reported under previous guidance. The quantitative impacts of the changes on the statement of operations for the three months ended June 30, 2018 are set out below (in thousands):

	Under previous revenue guidance		Adjustment		As reported
Revenue	\$ 3,267	\$	5,771	\$	9,038

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

Operating loss	(34,648)	5,771	(28,877)
Loss before income taxes	(49,514)	5,771	(43,743)
Net loss attributable to ordinary shareholders	(49,616)	5,771	(43,845)
Net loss per ordinary share - Basic and diluted	(0.09)		(0.08)

The quantitative impacts of the changes on the statement of operations for the six months ended June 30, 2018 are set out below (in thousands):

	Under previous revenue guidance	Adjustment	As reported
Revenue	\$ 12,263	\$ 4,971	\$ 17,234
Operating loss	(62,248)	4,971	(57,277)
Loss before income taxes	(69,325)	4,971	(64,354)
Net loss attributable to ordinary shareholders	(69,554)	4,971	(64,583)
Net loss per ordinary share - Basic and diluted	(0.12)		(0.11)

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

Table of Contents

The quantitative impacts of the changes on the balance sheet as of June 30, 2018 are set out below (in thousands):

	Under previous revenue guidance	Adjustment	As reported
Deferred revenue	\$ 30,338	\$ (13,616)	\$ 16,722
Total current liabilities	55,926	(13,616)	42,310
Total liabilities	59,813	(13,616)	46,197
Accumulated deficit	(301,184)	13,616	(287,568)
Total stockholders equity	151,486	13,616	165,102

The quantitative impacts of the changes on the statement of cash flows for the six months ended June 30, 2018 are set out below (in thousands):

	Under previous revenue guidance	Adjustment	As reported
Net loss	\$ (69,554)	\$ 4,971	\$ (64,583)
Decrease in payables and deferred revenue	(19,191)	(4,971)	(24,162)

The cumulative effect of adopting the guidance on our financial statements at January 1, 2018 is a credit to opening accumulated losses and corresponding decrease in deferred revenue of \$8,645,000.

The adoption of ASC 606 has had a material impact on the Company's financial statements due to the following:

- Under the GSK Collaboration and License Agreement, the Company will receive non-substantive milestone payments in the future upon achievement of specified development milestones. Non-substantive milestones are currently included within the transaction price upon achievement of the milestone and recognized over the period during which the Company is delivering services to GSK. ASC 606 requires an entity to estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. This includes an estimate of variable consideration to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. This results in certain milestone payments being recognized earlier under ASC 606 than under existing guidance, if it is considered probable that the milestone will be achieved.
- Upfront payments and non-refundable milestone payments were previously recognized in revenue using the proportional performance model ratably over the period that services are rendered, unless another attribution method more closely approximates the delivery of the goods or services to the customer. ASC 606 requires an entity to

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

recognize revenue using a measure of progress that depicts the transfer of control of the goods or services to the customer. The Company considers that an input measure, such as costs incurred, relative to the total expected inputs is the appropriate measure to depict the transfer of control of the services under the GSK Collaboration and License Agreement, which impacts the timing of its revenue from the GSK Collaboration and License Agreement.

The Company has applied the practical expedient for contracts that were modified before the adoption of ASU 2014-09, which permits entities to not retrospectively restate the contract for those contract modifications. Instead, the aggregate effect of all modifications that occurred before the adoption date has been reflected when:

- a. Identifying the satisfied and unsatisfied performance obligations

- b. Determining the transaction price

- c. Allocating the transaction price to the satisfied and unsatisfied performance obligations.

Table of Contents

ASC 606 requires an entity to provide financial statement users with sufficient information to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To help achieve this objective, ASC 606 requires certain quantitative and qualitative disclosures included within Note 2(d) and Note 3, which are more extensive than the previously required revenue disclosures.

Recognition and Measurement of Financial Assets and Financial Liabilities

The Company has adopted 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 did not have a material impact on the Company's consolidated financial statements.

Improvements to Nonemployee Share-Based Payment Accounting

The Company has adopted ASU 2018-07 *Compensation - Stock Compensation - Improvements to Nonemployee Share-Based Payment Accounting*, which simplifies the accounting for nonemployee share-based payment transactions by expanding the scope of existing guidance on employee share-based payment transactions to include nonemployee transactions. Under the simplified guidance, nonemployee share-based payment transactions are measured at the grant-date fair value and are no longer remeasured at the then-current fair values at each reporting date until the share options have vested. The guidance has been adopted using a modified-retrospective approach, which requires that unsettled equity-classified awards for which a measurement date has not been established are measured at the adoption date fair value. The guidance did not have a material impact on the Company's consolidated financial statements.

To be adopted in future periods

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 FASB has also proposed another transition method, which is anticipated to be issued in an ASU shortly, which, in addition to the existing requirements to transition, permits an entity to transition to the new guidance by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without restating

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

prior periods. The Company's assessment of the impact of the guidance on its consolidated financial statements is ongoing. We anticipate that the adoption of the guidance will have a material impact on the Company's consolidated balance sheet due to the recognition of a lease liability and corresponding right-of-use asset. We have not finalized the assessment of the amount of the lease liability and right-of-use asset but we anticipate that it will result in the recording of lease assets of approximately \$25 million and a corresponding lease liability of approximately \$25 million.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13 *Financial Instruments - Credit losses*, which replaces the incurred loss impairment methodology for financial instruments in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The guidance is effective for the fiscal year beginning January 1, 2020, including interim periods within that fiscal year. Early application is permitted for the fiscal year beginning January 1, 2019, including interim periods within that fiscal year. The guidance must be adopted using a modified-retrospective approach and a prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. The Company is currently evaluating the impact of the guidance on its consolidated financial statements.

Table of Contents**(g) Related parties**

In the three and six months ended June 30, 2017, research and development expenses includes purchases of \$178,000 and \$780,000 from Immunocore Ltd (Immunocore). As described in Note 2(w) to the consolidated financial statements included in the Annual Report, the Company no longer considered Immunocore to be a related party with effect from January 1, 2018.

Note 3 Revenue

Revenue from contracts with customers arises from one customer, which is GSK, in one geographic location, which is the United Kingdom.

Revenue comprises the following categories (in thousands):

	Three months ended June 30, 2018	Six months ended June 30, 2018
Development	\$ 9,038	\$ 17,234
Licenses	9,038	17,234

The following table shows movements in deferred revenue for the six months ended June 30, 2018 (in thousands):

	Deferred revenue
Deferred revenue at January 1, 2018 under previous guidance	\$ 38,735
Cumulative effect of adopting ASC 606	(8,645)
Deferred revenue at January 1, 2018	30,090
Revenue recognized included in the opening deferred revenue	(11,910)
Change in variable consideration	(10,396)
Change in percentage of completion	5,072
Revenue in the period	(17,234)
Amounts invoiced in the period	4,210
Foreign exchange arising on consolidation	(344)
Deferred revenue at June 30, 2018	\$ 16,722

The aggregate amount of the transaction price, excluding variable consideration which is constrained to reduce the consideration to the amount which is probable of being received, allocated to the performance obligations that are unsatisfied (or partially satisfied) as of the end of the reporting period was \$42,653,000 at June 30, 2018. This amount comprises \$946,000 of revenue allocated to partially satisfied performance obligations for the NY-ESO program, \$39,593,000 of revenue allocated to the exclusive license to research, develop, and commercialize the

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

Company's NY-ESO SPEAR T-cell therapy program and a further \$2,114,000 of revenue allocated to the remaining performance obligations for the PRAME program.

The IND for the NY-ESO program and the responsibility for the NY-ESO program transferred to GSK on July 23, 2018. Therefore, management anticipates that the revenue allocated to NY-ESO program and the exclusive license to research, develop, and commercialize the Company's NY-ESO SPEAR T-cell therapy program will be recognized in the third quarter of 2018.

The revenue allocated to the PRAME program will be recognized over the next twelve months as the development of the second target, PRAME, progresses.

Note 7 Available-for-sale debt securities

As of June 30, 2018, the Company has the following investments in available-for-sale debt securities (in thousands):

	Maturity	Amortized cost	Gross unrealized gains	Gross unrealized losses	Aggregate estimated fair value
Marketable securities:					
Corporate debt securities	3 months to 1 year	\$ 77,820	\$	\$ (132)	\$ 77,688
Government bonds	3 months to 1 year	6,030		(2)	6,028
Commercial paper	3 months to 1 year	3,000			3,000
		\$ 86,850	\$	\$ (134)	\$ 86,716

Table of Contents

In the three and six months ended June 30, 2018, realized losses recognized on the maturity of available-for-sale debt securities of \$1,310,000 and \$2,473,000, respectively, primarily arising due to foreign exchange movements, were reclassified out of accumulated other comprehensive loss.

As of June 30, 2018 and December 31, 2017, the aggregate fair value of securities held by the Company in an unrealized loss position was \$81,714,000 and \$125,828,000, respectively, which consisted of 33 and 54 securities, respectively. One security, with a fair value of \$1,400,000 with an unrealized loss of \$2,000 has been in an unrealized loss position for more than one year. As of June 30, 2018, the securities in an unrealized loss position 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 fluctuations. Furthermore, the Company does not intend to sell the debt securities in an unrealized loss position and it is unlikely that the Company will be required to sell these securities before the recovery of the amortized cost.

Note 8 Other current assets

Other current assets consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Corporate tax receivable	\$ 18,605	\$ 11,454
Prepayments	9,059	6,120
Clinical materials	2,993	3,760
Other current assets	1,969	382
	\$ 32,626	\$ 21,716

Note 9 Accrued expenses and other current liabilities

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

	June 30, 2018	December 31, 2017
Accrued clinical and development expenditure	\$ 11,357	\$ 10,065
Accrued employee expenses	5,419	6,592
VAT		5,741
Other accrued expenditure	4,238	4,446
Other liabilities	443	357
	\$ 21,457	\$ 27,201

The Company typically has a receivable for VAT. As of December 31, 2017, there was a VAT payable due to VAT arising on the milestone payments invoiced to GSK in 2017.

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,			
		2018		2017		2018		2017
Research and development	\$	2,071	\$	871	\$	4,285	\$	2,229
General and administrative		2,008		1,201		4,126		2,528
	\$	4,079	\$	2,072	\$	8,411	\$	4,757

There were 1,435,685 and 1,252,176 options over ordinary shares granted in the three months ended June 30, 2018 and 11,430,341 and 20,203,152 options over ordinary shares granted in the six months ended June 30, 2018 and 2017, respectively, with a weighted average fair value of \$1.18, \$0.42, \$0.80 and \$0.35, respectively. Additionally, in the three and six months ended June 30, 2018, 151,056 and 6,703,692 options were granted, which have a nominal exercise price (similar to a restricted stock unit (RSU)), with a weighted average fair value of \$1.88 and \$1.35, respectively.

Table of Contents

The RSU-style options over ordinary shares in Adaptimmune Therapeutics plc were granted under the Adaptimmune Therapeutics plc Employee Share Option Scheme (adopted on January 14, 2016). These options have an exercise price equal to the nominal value of an ordinary share, of £0.001, and generally vest over four years, with 25% on the first, and each subsequent, anniversary of the grant date. The RSU-style options are not subject to performance conditions and the contractual term is ten years.

Table of Contents

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. 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 Quarterly Report and our 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

Wholly owned SPEAR T-cells

We have Phase 1/2 clinical trials ongoing with our wholly owned MAGE-A10, MAGE-A4 and AFP SPEAR T-cells in a total of ten solid tumor types including non-small cell lung cancer (NSCLC), head and neck cancer, ovarian, urothelial, melanoma, hepatocellular, esophageal, gastric, synovial sarcoma and myxoid round cell liposarcoma (MRCLS) cancers.

- **MAGE-A10 SPEAR T-cell**

Phase 1 clinical trials are ongoing with our MAGE-A10 SPEAR T-cell in NSCLC, urothelial, melanoma and head and neck cancers in the United States, Canada, the United Kingdom and Spain. These trials are first-in-human, open-label studies utilizing a modified 3+3 design in up to 28 patients with escalating doses of 100 million (Cohort 1), 1 billion (Cohort 2), and 1.2-6 billion (Cohort 3) transduced SPEAR T-cells to evaluate safety, including dose limiting toxicities (DLTs) followed by a possible expansion phase with doses of up to 10 billion SPEAR T-cells.

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

The MAGE-A10 SPEAR T-cell has continued to show a favorable safety profile and on July 18, 2018 it was announced that the Safety Review Committee endorsed escalation to the third dose cohort (1.2-6 billion transduced SPEAR T-cells) in both the NSCLC and the triple tumor study (urothelial, melanoma and head and neck cancers).

As of July 18, 2018, eight patients have received 100 million transduced MAGE-A10 SPEAR T-cells in the first dose cohorts across both studies, and three patients have received one billion cells in the second cohort of the NSCLC study. No evidence of toxicity related to off-target binding or alloreactivity has been reported. Most adverse events were consistent with those typically experienced by cancer patients undergoing cytotoxic chemotherapy or other cancer immunotherapies. Additional safety data from the two ongoing MAGE A-10 SPEAR T-cell studies was presented at the American Society of Clinical Oncology (ASCO) annual meeting in June 2018.

Further preliminary data from the MAGE-A10 trials are anticipated during the second half of 2018.

- **MAGE-A4 SPEAR T-cell**

A Phase 1 clinical trial is ongoing in nine tumor indications namely urothelial, melanoma, head and neck, ovarian, NSCLC, esophageal and gastric cancers, synovial sarcoma and MRCLS. The addition of the synovial sarcoma and MRCLS indications was announced on June 4, 2018.

The primary objective of the study is to evaluate the safety and tolerability of MAGE-A4 SPEAR T-cell therapy. Additional objectives include anti-tumor activity, persistence of genetically modified cells in the body and evaluation of the phenotype and functionality of genetically modified cells isolated from peripheral blood or tumor post infusion. Multiple sites in the United States are now active and recruiting.

Table of Contents

Patients were initially treated with a target dose of 100 million T-cells (safety dose). On June 4, 2018, it was announced that the Safety Review Committee had endorsed dose escalation to treatment with 1 billion MAGE A-4 SPEAR T-cells and treatment of patients at this dose is now ongoing.

Preliminary data is anticipated during 2018.

- **AFP SPEAR T-cell**

We are dosing in a Phase 1, open label, dose escalation study designed to evaluate the safety and anti-tumor activity of our alpha fetoprotein (AFP) therapeutic candidate in hepatocellular carcinoma (HCC). The trial is open in the United States, United Kingdom and Spain. The Phase 1 clinical trial will include a dose escalation to evaluate safety, including dose limiting toxicities (DLTs), followed by expansion of a tolerable dose to further explore safety and initial evidence of anti-tumor activity.

The NY-ESO SPEAR T-cell Program (now transitioned to GSK)

Transition of Program to GSK

The NY-ESO SPEAR T-cell program transitioned to GSK as of July 23, 2018. As a result of the transition, GSK has assumed full responsibility for future research, development, and potential commercialization of the NY-ESO SPEAR T-cell (referred to as GSK3377794 or GSK 794 by GSK). Certain transition completion activities remain ongoing and are subject to a further amendment to the GSK Collaboration and License Agreement. Successful continuation of development and subsequent commercialization of GSK 794 by GSK will trigger additional payments for development milestones, tiered sales milestones, and mid-single to low double-digit royalties on worldwide net sales.

Background to the NY-ESO SPEAR T-cell program

99 patients were enrolled and treated with the NY-ESO SPEAR T-cell across multiple indications, namely synovial sarcoma, MRCLS, NSCLC, melanoma, multiple myeloma (including in combination with Pembrolizumab) and ovarian cancer prior to transition of the program to GSK.

- *Synovial Sarcoma and MRCLS:*

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

Enrollment in both the synovial sarcoma and MRCLS trials was completed as of the date of transition of the program to GSK. As of June 2018, data in the synovial sarcoma and MRCLS studies continued to suggest a favorable benefit:risk profile for the NY-ESO SPEAR T-cells. Initial anti-tumor activity was observed across all cohorts, including synovial sarcoma patients with low NY-ESO expression levels. NY-ESO SPEAR T-cells continue to be well-tolerated with myelosuppression and cytokine release syndrome being common adverse events. In both studies, the preliminary data suggests that SPEAR T-cell expansion and persistence correlates with response.

MRCLS

As of transition to GSK, the MRCLS trial was fully enrolled.

Initial data for the MRCLS trial was presented at ASCO in June 2018. As of June 2, 2018 and with eight patients treated, best overall responses as assessed by investigator included three confirmed partial responses, one unconfirmed partial response, three stable disease and one patient awaiting assessment. An overall trend in tumor burden decrease was observed in a majority of patients with the tumor burden decrease across target lesions ranging from 16.9% to 50%. There was one event of cytokine release syndrome (CRS) \geq Grade 3, which was characterized by fever, hypotension, rash, headache, and supraventricular tachycardia. The CRS resolved six days post-infusion of SPEAR T-cells. There were four serious adverse events reported for three patients including the CRS, two further grade 2 CRS events (both of which resolved) and a grade 2 pleural effusion.

Synovial Sarcoma

As of transition to GSK, all synovial sarcoma cohorts were fully enrolled.

Table of Contents

An update on all cohorts from the pilot study of NY-ESO SPEAR T-cells in synovial sarcoma was presented during an oral presentation session at CTOS in November 2017. At that time, of the twelve patients treated in Cohort 1, five were alive with a median predicted overall survival of 120 weeks (~28 months). Confirmed responses were observed across all cohorts as follows:

- Cohort 1 (follow-up only; High Flu/Cy, High NY-ESO): 6 /12 (50%) patients
- Cohort 2 (ongoing; High Flu/Cy, Low NY-ESO): 3/10 (33%) patients
- Cohort 3 (follow-up only; Cy alone, High NY-ESO): 1/5 (20%) patients
- Cohort 4 (ongoing; Lower Flu/Cy, High NY-ESO): 4/11 (36%) patients; overall survival was not assessed at the time of this update as the data were not mature enough; progression free survival was 23 weeks at the time

Further data from cohort 1 of the synovial sarcoma trials was presented in Cancer Discovery, an American Association of Cancer Research publication, and announced in June 2018. The paper reported data from cohort 1 of the synovial sarcoma study including a median duration of response of 30.9 weeks (range 13 – 72 weeks), an overall response rate of 50% (6/12 patients) and 60% among the ten patients who received the target dose of at least 1 billion transduced cells. As previously reported there was one confirmed response and five confirmed partial responses seen with the first infusion of SPEAR T-cells. Median progression-free survival (PFS) was 15 weeks (range 8 – 38 weeks) and the estimate of median overall survival was reported to be approximately 120 weeks among the patients in cohort 1.

In addition, at ASCO initial results seen with recent second infusions of SPEAR T-cells in patients were reported. It was reported that of these five recent patients, one patient had a confirmed complete response.

- *Multiple Myeloma program:*

NY-ESO SPEAR T-cells have also been evaluated in multiple myeloma in the context of autologous stem cell transplant (ASCT), and an update in all 25 patients treated in this study was presented during an oral presentation at ASH in December 2017. The NY-ESO SPEAR T-cell therapy demonstrated promising efficacy and acceptable safety in patients. The overall response rate (ORR) at 100 days and one year were 76% and 44% respectively, using International Myeloma Working Group criteria. Three patients remain disease-progression free at 3, 4.5, and 5 years post-treatment. Five of eighteen patients tested were minimal residual disease negative at day 100, and the median duration of response was greater than 12 months. Of the twenty-five patients treated in this study, eleven were alive at data cut-off; the median predicted overall survival was reported as approximately three years.

Enrollment of patients is ongoing in a multiple myeloma combination study with Merck's anti-programmed death-1 (PD-1) inhibitor, KEYTRUDA® (pembrolizumab). GSK will assume responsibility for the continuation of this combination study.

- *NSCLC program:*

In the NSCLC study enrollment has now completed and dosing is ongoing. GSK will assume responsibility for any further development for this indication.

Significant Events in the Three Months Ended June 30, 2018

- On April 12, 2018, it was announced that in a planned transition, John Furey would be appointed as an independent Non-Executive Director, and Peter Thompson, M.D., Ph.D., would be stepping down from the Board. Both changes were effective from July 5, 2018.
- Updated clinical data were also announced and are covered in the Update on the Clinical Pipeline Progress.

Financial Operations Overview

On January 1, 2018, the Company adopted new accounting guidance on revenue recognition, which has been codified within Accounting Standard Codification Topic 606, *Revenue from Contracts with Customers* (ASC 606). The comparative financial information for the three and six months ended June 30, 2017 and as of December 31, 2017 has not been restated and is prepared in accordance with the previous accounting guidance.

Table of Contents

Revenue

Revenue arises from the GSK Collaboration and License Agreement. The contract consists of multiple performance obligations, including the transition of the NY-ESO SPEAR T-cell program to GSK, the development of a second target, PRAME, and an exclusive license to research, develop, and commercialize the Company's NY-ESO SPEAR T-cell therapy program.

The aggregate transaction price consists of an upfront payment of \$42.1 million in June 2014, development milestones achieved of \$53.7 million, an option exercise fee of \$26.6 million, which was received in September 2017 and an estimate of variable consideration of \$25.6 million. The contract includes a significant amount of variable consideration due to the milestone payments, which the Company is entitled to upon achievement of development milestones and the remaining option exercise fee of approximately \$13.2 million which will be received following successful transition of the NY-ESO program to GSK, which are expected to be received following transition of the NY-ESO program to GSK in July 2018.

The transaction price is allocated to the performance obligation and recognized as or when the Company satisfies the performance obligation. The Company satisfies the performance obligations relating to the transition of the NY-ESO SPEAR T-cell program and the development of a second target, PRAME, over time and recognizes revenue based on an estimate of the percentage of completion of the project determined based on the costs incurred on the project as a percentage of the total expected costs.

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;

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

- 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.

Table of Contents

Research and development expenditure is presented net of reimbursements from reimbursable tax and expenditure credits from the U.K. government. As a company that carries out extensive research and development activities, we benefit from the U.K. research and development tax credit regime for small and medium sized companies (SME R&D Tax Credit Scheme), whereby our principal research subsidiary company, Adaptimmune Limited, is able to surrender the trading losses that arise from its research and development activities for a payable tax credit of up to approximately 33.4% of eligible research and development expenditures. Qualifying expenditures largely comprise employment costs for research staff, consumables and certain internal overhead costs incurred as part of research projects for which we do not receive income. Subcontracted research expenditures are eligible for a cash rebate of up to approximately 21.7%. A large proportion of costs in relation to our pipeline research, clinical trials management and manufacturing development activities, all of which are being carried out by Adaptimmune Limited, are eligible for inclusion within these tax credit cash rebate claims.

Expenditures incurred in conjunction with the GSK Collaboration and License Agreement are not qualifying expenditures under the SME R&D Tax Credit Scheme but certain of these expenditures can be reimbursed through the U.K. research and development expenditure credit scheme (the RDEC Scheme). Under the RDEC Scheme tax relief is given at 12% of allowable R&D costs.

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

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;

Table of Contents

- amortization and depreciation of property, plant and equipment and intangible assets not related to research and development activities; and
- share-based compensation expenses.

Other (Expense) Income, net

Other (expense) income, net 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 the 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 U.K. subsidiary with a pound sterling functional currency holds our investment in marketable securities, which are predominately denominated in U.S. dollars. The entire change in the fair value of a foreign currency-denominated security, including the change due to foreign exchange, is included in other comprehensive income.

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. We incur tax losses and tax credit carryforwards in the United Kingdom. No deferred tax assets are recognized on our U.K. losses and tax credit carryforwards because there is currently no indication that we will make sufficient taxable profits to utilize these tax losses and tax credit carryforwards.

We benefit from reimbursable tax credits in the United Kingdom through the SME R&D Tax Credit Scheme as well as the RDEC Scheme which are presented as a deduction to research and development expenditure.

Our subsidiary in the United States has generated taxable profits due to a Service Agreement between our U.S. and U.K. operating subsidiaries and is subject to U.S. federal corporate income tax of 21% for the year ended December 31, 2018. Due to its activity in the United States, and the sourcing of its revenue, the U.S. subsidiary is not currently subject to any state or local income taxes. The Company also benefits from the U.S Research Tax Credit and Orphan Drug Credit.

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 of 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.

U.K. Value Added Tax (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 relevant 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 other than the accounting judgments and estimates relating to revenue recognition, which have been changed from January 1, 2018 due to the adoption of ASC 606.

Table of Contents

Revenue Recognition

The Company has one contract with a customer, which is the GSK Collaboration and License Agreement. The GSK Collaboration and License Agreement consists of multiple performance obligations, including the transition of the NY-ESO SPEAR T-cell program to GSK, post-transition activities to finalize the transfer of the NY-ESO SPEAR T-cell program to GSK, the development of a second target, PRAME, and an exclusive license to research, develop, and commercialize the Company's NY-ESO SPEAR T-cell therapy program.

The aggregate transaction price consists of an upfront payment, development milestones achieved, an option exercise fee and an estimate of variable consideration. The Company determines the variable consideration to be included in the transaction price by estimating the most-likely amount that will be received and then applies a constraint to reduce the consideration to the amount which is probable of being received. In estimating the amount of variable consideration to be included in the transaction price, the Company considers the latest project plan and other available information. The determination of whether a milestone is probable includes consideration of the following factors:

- Whether achievement of a development milestone is highly susceptible to factors outside the entity's influence, such as milestones involving the judgment or actions of third parties, including regulatory bodies or the customer;

- Whether the uncertainty about the achievement of the milestone is not expected to be resolved for a long period of time;

- Whether the Company can reasonably predict that a milestone will be achieved based on previous experience; and

- The complexity and inherent uncertainty underlying the achievement of the milestone.

The determination of whether future milestones are probable requires significant judgment and the impact of a change in the determination of whether a milestone is probable is recognized in the period the judgment is revised. This can significantly impact the revenue recognized. In the three and six months ended June 30, 2018, revenue of \$7.1 million and \$10.3 million, respectively, was recognized due to development milestones becoming probable in the period. As the development program progresses and the uncertainties underlying the milestones resolve, it is likely that further milestones will become probable.

The upfront payment of \$42.1 million was allocated between the performance obligations using the Company's best estimate of the relative selling price of each performance obligation. The best estimate of the selling price is determined after considering all reasonably available information, including internal pricing objectives used in negotiating the contract, together with internal data regarding the cost and margin of providing services for each deliverable taking into account the different stage of development of each development program. The variable

consideration is allocated to the performance obligation to which it relates.

The amount of the transaction price allocated to the performance obligation is recognized as or when the Company satisfies the performance obligation. The Company satisfies the performance obligations relating to the transition of the NY-ESO SPEAR T-cell program and the development of a second target, PRAME, over time and recognizes revenue based on an estimate of the percentage of completion of the project determined based on the costs incurred on the project as a percentage of the total expected costs. The determination of the percentage of completion requires the Company to estimate the costs-to-complete the project. The Company makes a detailed estimate of the costs-to-complete on an annual basis as part of the Company's budgeting process, which is re-assessed every reporting period based on the latest project plan and discussions with project teams, when a change in facts or circumstances occurs, the estimate is adjusted and the revenue is recognized based on the revised estimate. The difference between the cumulative revenue recognized based on the previous estimate and the revenue recognized based on the revised estimate is recognized as an adjustment to revenue in the period in which the change in estimate occurs. In the three and six months ended June 30, 2018, the estimate of the cost to complete for the performance obligation relating to the development and transition of the NY-ESO SPEAR T-cell program was revised, which resulted in a cumulative adjustment to reduce revenue of \$2.1 million and \$5.1 million for the three and six months ended June 30, 2018. Due to the inherent difficulties in determining the cost of completion for development programs, small changes in the cost to complete are likely to occur.

The Company has determined that the performance obligation relating to the exclusive license to research, develop, and commercialize the Company's NY-ESO SPEAR T-cell therapy program is recognized at a point-in-time, upon commencement of the license, which occurs once transition of the NY-ESO program is completed and all amounts due under the agreement in relation to the NY-ESO program transition are paid.

Table of Contents**Results of Operations***Comparison of Three Months Ended June 30, 2018 and 2017*

The following table summarizes the results of our operations for the three months ended June 30, 2018 and 2017, together with the changes to those items (in thousands).

	Three months ended June 30,		Increase/decrease	
	2018	2017		
Revenue	\$ 9,038	\$ 3,521	\$ 5,517	157%
Research and development expenses	(26,624)	(19,591)	(7,033)	36%
General and administrative expenses	(11,291)	(7,710)	(3,581)	46%
Total operating expenses	(37,915)	(27,301)	(10,614)	39%
Operating loss	(28,877)	(23,780)	(5,097)	21%
Interest income	540	506	34	7%
Other income (expense), net	(15,406)	3,224	(18,630)	(578)%
Loss before income taxes	(43,743)	(20,050)	(23,693)	118%
Income taxes	(102)	(165)	63	(38)%
Loss for the period	\$ (43,845)	\$ (20,215)	\$ (23,630)	117%

Revenue

Revenue increased by \$5.5 million to \$9.0 million in the three months ended June 30, 2018 compared to \$3.5 million for the three months ended June 30, 2017. Revenue in the three months ended June 30, 2018 was recognized due to the continued performance under the NY-ESO transition program and the PRAME development plan. The revenue benefited from a change in the estimate of variable consideration of \$7.1 million due to additional development milestones being considered probable, which was partially offset by \$2.1 million arising due to a change in percentage of completion.

Revenue for the three months ended June 30, 2018 has been recognized under new accounting guidance which is effective January 1, 2018. Revenue in the comparative period of 2017 has been recognized under the previous guidance. Revenue in the three months ended June 30, 2018 under the previous guidance would be \$3.3 million, compared to \$3.5 million for the same period of 2017.

Future revenues will fluctuate depending on the progress of the transition and development program for NY-ESO and development program for the second target, PRAME, which is difficult to predict. However, the Investigational New Drug Application (IND) for the NY-ESO program and the responsibility for the NY-ESO program transferred to GSK on July 23, 2018. Therefore, we anticipate that \$0.9 million of revenue allocated to NY-ESO program and \$39.6 million of revenue allocated to the exclusive license to research, develop, and commercialize the Company's NY-ESO SPEAR T-cell therapy program will be recognized in the third quarter of 2018. A further \$2.1 million will be

recognized over the next twelve months as the development of the second target, PRAME, progresses.

Table of Contents

Research and Development Expenses

Research and development expenses increased by 36% to \$26.6 million for the three months ended June 30, 2018 from \$19.6 million for the three months ended June 30, 2017. Our research and development expenses comprise the following (in thousands):

Salaries, materials, equipment, depreciation of property, plant and equipment and other employee-related costs(1)	\$	15,467	\$	11,234	\$	4,233	38%
Share-based compensation expense		2,071		871		1,200	138%
	\$	26,624	\$	19,591	\$	7,033	36%

(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 \$7.0 million for the three months ended June 30, 2018 compared to the same period in 2017 was primarily due to the following:

- an increase of \$4.2 million in salaries, materials, equipment, depreciation of property, plant and equipment and other employee-related costs. The driver for these is the increase in the average number of employees engaged in research and development from 247 to 317;
- an increase of \$3.2 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; and
- an increase in share-based compensation expense of \$1.2 million;

offset by:

- an increase in reimbursements for research and development tax and expenditure credits of \$1.6 million.

Our subcontracted costs for the three months ended June 30, 2018 were \$12.8 million, compared to \$9.6 million in the same period of 2017. This includes \$8.1 million of costs associated with manufacturing for both the NY-ESO SPEAR T-cells and our internal pipeline, including our MAGE-A10 and MAGE-A4 and AFP SPEAR T-cells and \$4.7 million of costs associated with clinical trials, including \$1.4 million for the NY-ESO SPEAR T-cells.

Our research and development expenses are highly dependent on the phases and progression of our research projects and therefore fluctuate from period to period. We anticipate that our research and development expenses will be higher in the year ended December 31, 2018 compared to the year ended December 31, 2017. The increase in research and development is due to an increase in expenditure on clinical trials as enrollment in our clinical trials progress and we also 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 further developing 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.

General and Administrative Expenses

General and administrative expenses increased by 46% to \$11.3 million for the three months ended June 30, 2018 from \$7.7 million in the same period in 2017.

Table of Contents

The net increase of \$3.6 million was primarily due to an increase in personnel costs and share-based compensation expense, due to the addition of key management and other professionals, an increase in costs associated with developing our IT infrastructure, and an increase in other costs to support our growth.

We expect that our general and administrative expenses will continue to increase as we continue to expand our operations.

Other Income (Expense), Net

Other income (expense), net was an expense of \$15.4 million for the three months ended June 30, 2018 compared to an income of \$3.2 million for the three months ended June 30, 2017. Other income (expense), net primarily relates to unrealized foreign exchange gains and losses on cash, cash equivalents and intercompany loans held in U.S. dollars by our U.K. subsidiary. Unrealized foreign exchange losses have increased primarily due to a decrease in our cash balances arising as a consequence of our investment of cash and cash equivalents into marketable securities. The unrealized foreign exchange gains (losses) arising on marketable securities are recognized within Other Comprehensive Income.

Income taxes

Income taxes decreased by 38% to \$102,000 for the three months ended June 30, 2018 from \$165,000 for the three months ended June 30, 2017 due to the impact of US R&D tax credits. Income taxes arise in the United States and we incur losses in the United Kingdom.

Table of Contents*Comparison of Six Months Ended June 30, 2018 and 2017*

The following table summarizes the results of our operations for the six months ended June 30, 2018 and 2017, together with the changes to those items (in thousands).

	Six months ended			Increase/decrease			
	2018	June 30,				2017	
Revenue	\$	17,234	\$	6,378	\$	10,856	170%
Research and development expenses		(52,016)		(38,206)		(13,810)	36%
General and administrative expenses		(22,495)		(14,173)		(8,322)	59%
Total operating expenses		(74,511)		(52,379)		(22,132)	42%
Operating loss		(57,277)		(46,001)		(11,276)	25%
Interest income		1,199		746		453	61%
Other income, net		(8,276)		3,654		(11,930)	(326)%
Loss before income taxes		(64,354)		(41,601)		(22,753)	55%
Income taxes		(229)		(396)		167	(42)%
Loss for the period	\$	(64,583)	\$	(41,997)	\$	(22,586)	54%

Revenue

Revenue increased by \$10.8 million to \$17.2 million in the six months ended June 30, 2018 compared to \$6.4 million for the six months ended June 30, 2017. Revenue in the six months ended June 30, 2018 was recognized due to the continued performance under the NY-ESO transition program and the PRAME development plan. The revenue benefited from a change in the estimate of variable consideration of \$10.4 million due to additional development milestones being considered probable, which was partially offset by \$5.1 million arising due to a change in percentage of completion.

Revenue for the six months ended June 30, 2018 has been recognized under new accounting guidance which is effective January 1, 2018. Revenue in the comparative period of 2017 has been recognized under the previous guidance. Revenue in the six months ended June 30, 2018 under the previous guidance would be \$12.3 million, compared to \$6.4 million for the same period of 2017. The significant increase in revenue compared to the same period of 2017 has arisen due to a reduction in the period over which we are recognizing revenue following GSK's exercise of the option over the NY-ESO program in September 2017 and additional milestones achieved in the second half of 2017 and the first quarter of 2018 of \$14.4 million, which are recognized over the period we are providing services to GSK.

Future revenues will fluctuate depending on the progress of the transition and development program for NY-ESO and development program for the second target, PRAME, which is difficult to predict. However, the Investigational New Drug Application (IND) for the NY-ESO program and the responsibility for the NY-ESO program transferred to GSK on July 23, 2018. Therefore, we anticipate that \$0.9 million of revenue allocated to NY-ESO program and \$39.6 million of revenue allocated to the exclusive license to research, develop, and commercialize the Company's NY-ESO SPEAR T-cell therapy program will be recognized in the third quarter of 2018. A further \$2.1 million will be recognized over the next twelve months as the development of the second target, PRAME, progresses.

Table of Contents**Research and Development Expenses**

Research and development expenses increased by 36% to \$52.0 million for the six months ended June 30, 2018 from \$38.2 million for the six months ended June 30, 2017. Our research and development expenses comprise the following (in thousands):

	Six months ended			Increase/decrease	
	2018	June 30, 2017			
Salaries, materials, equipment, depreciation of property, plant and equipment and other employee-related costs(1)	\$ 30,596	\$ 22,485	\$ 8,111	36%	
Subcontracted expenditure	25,019	17,295	7,724	45%	
Share-based compensation expense	4,285	2,230	2,055	92%	
Payments for in-process research and development		501	(501)	(100)%	
Reimbursements for research and development tax and expenditure credits and government grants	(7,884)	(4,305)	(3,579)	83%	
	\$ 52,016	\$ 38,206	\$ 13,810	36%	

(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 \$13.8 million for the six months ended June 30, 2018 compared to the same period in 2017 was primarily due to the following:

- an increase of \$8.1 million in salaries, materials, equipment, depreciation of property, plant and equipment and other employee-related costs. The driver for these is the increase in the average number of employees engaged in research and development from 244 to 309;
- an increase of \$7.7 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; and
- an increase in share-based compensation expense of \$2.1 million;

offset by:

- a decrease of \$0.5 million in payments made to Universal Cells for in-process research and development; and
- an increase in reimbursements for research and development tax and expenditure credits of \$3.6 million.

Our subcontracted costs for the six months ended June 30, 2018 were \$25.0 million, compared to \$17.3 million in the same period of 2017. This includes \$14.8 million of costs associated with manufacturing for both the NY-ESO SPEAR T-cells and our internal pipeline, including our MAGE-A10 and MAGE-A4 and AFP SPEAR T-cells and \$10.2 million of costs associated with clinical trials, including \$2.7 million for the NY-ESO SPEAR T-cells.

Our research and development expenses are highly dependent on the phases and progression of our research projects and therefore fluctuate from period to period. We anticipate that our research and development expenses will be higher in the year ended December 31, 2018 compared to the year ended December 31, 2017. The increase in research and development is due to an increase in expenditure on clinical trials as enrollment in our clinical trials progress and we also 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 further developing 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.

General and Administrative Expenses

General and administrative expenses increased by 59% to \$22.5 million for the six months ended June 30, 2018 from \$14.2 million in the same period in 2017.

Table of Contents

The net increase of \$8.3 million was primarily due to an increase in personnel costs and share-based compensation expense, due to the addition of key management and other professionals, an increase in costs associated with developing our IT infrastructure, and an increase in other costs to support our growth.

We expect that our general and administrative expenses will continue to increase as we continue to expand our operations.

Other Income (Expense), Net

Other income (expense), net was an expense of \$8.3 million for the six months ended June 30, 2018 compared to an income of \$3.7 million for the six months ended June 30, 2017. Other income (expense), net primarily relates to unrealized foreign exchange gains and losses on cash, cash equivalents and intercompany loans held in U.S. dollars by our U.K. subsidiary. Unrealized foreign exchange losses have increased primarily due to a decrease in our cash balances arising as a consequence of our investment of cash and cash equivalents into marketable securities. The unrealized foreign exchange gains (losses) arising on marketable securities are recognized within Other Comprehensive Income.

Income taxes

Income taxes decreased by 42% to \$229,000 for the six months ended June 30, 2018 from \$396,000 for the six months ended June 30, 2017 due to the impact of US R&D tax credits. Income taxes arise in the United States and we incur losses in the United Kingdom.

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 Agreement, government grants and research and development tax and expenditure credits. From inception through to June 30, 2018, we have raised:

- \$413.3 million, net of issue costs, through the issuance of shares, including \$176.0 million raised through our initial public offering in May 2015, \$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;

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

- \$122.4 million upfront fees, milestones and exercise fees under our GSK Collaboration and License Agreement;
- \$2.8 million of income in the form of government grants; and
- \$13.7 million in the form of reimbursable 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 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, 2018, we had cash and cash equivalents of \$42.3 million and Total Liquidity of \$129.0 million. We believe that our Total Liquidity and income from GSK upon transition of the NY-ESO program will be sufficient to fund our operations, based upon our currently anticipated research and development activities and planned capital spending, through to early 2020.

Table of Contents*Cash Flows*

The following table summarizes the results of our cash flows for the six months ended June 30, 2018 and 2017 (in thousands).

	Six months ended June 30,	
	2018	2017
Net cash used in operating activities	\$ (82,642)	\$ (46,448)
Net cash provided by (used in) investing activities	34,012	(95,821)
Net cash provided by financing activities	2,424	103,198
Cash, cash equivalents and restricted cash	46,507	126,154

Operating Activities

Net cash used in operating activities increased by \$36.2 million to \$82.6 million for the six months ended June 30, 2018 from \$46.4 million for the six months ended June 30, 2017. The increase in cash used in operations was primarily the result of the 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 due to the expansion of our operations.

Net cash used in operating activities of \$82.6 million for the six months ended June 30, 2018 comprised a net loss of \$64.6 million and a net cash outflow of \$35.7 million from changes in operating assets and liabilities, offset by noncash items of \$17.7 million. The noncash items consisted primarily of depreciation expense on plant and equipment of \$3.5 million, share-based compensation expense of \$8.4 million, a realized loss on sale of marketable securities of \$2.5 million and unrealized foreign exchange losses of \$2.9 million.

Investing Activities

Net cash used in investing activities of \$34.0 million for the six months ended June 30, 2018 and net cash provided by investing activities of \$95.8 million for the six months ended June 30, 2017, consisted of:

- purchases of property and equipment of \$3.1 million and \$21.2 million for the six months ended June 30, 2018 and 2017, respectively;
- cash outflows from investment in marketable securities of \$33.6 million and \$79.8 million for the six months ended June 30, 2018 and 2017, respectively, and cash inflows from maturity or redemption of marketable securities of \$70.7 million for the six months ended June 30, 2018; and

- investment in short-term cash deposits with maturities greater than three months but less than 12 months of \$22.8 million and cash inflows from maturity of short-term deposits of \$18.0 for the six months ended June 30, 2017.

Financing Activities

Net cash from financing activities of \$2.4 million in the six months ended June 30, 2018, consisted of proceeds from share option exercises, and net cash from financing activities for the six months ended June 30, 2017 of \$103.2 million 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.

Table of Contents**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 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, 2018	December 31, 2017
Cash and cash equivalents	\$ 42,312	\$ 84,043
Marketable securities	86,716	124,218
Total Liquidity	\$ 129,028	\$ 208,261

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. The definition of Total Liquidity includes investments, which are highly-liquid and available to use in our current operations, such as marketable securities.

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

For a discussion of our contractual obligations, see Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2017 Annual Report on Form 10-K. There have not been any material changes to our contractual obligations in the six months ended June 30, 2018.

Safe Harbor

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

For a discussion of our quantitative and qualitative disclosures about market risk, see Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our 2017 Annual Report on Form 10-K. There have been no material changes in the six months ended June 30, 2018.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Securities and Exchange Act of 1934, as amended (Exchange Act) as of June 30, 2018. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2018, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to our management, including our Chief Executive and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

In January 2018, the Company adopted new guidance on revenue recognition, which has been codified within Accounting Standard Codification Topic 606, *Revenue from Contracts with Customers* (ASC 606). As a consequence of the new guidance, the Company implemented several new internal controls, including controls to monitor the probability of achievement of contingent milestone payments and the pattern of performance of the performance obligation in the quarter ended March 31, 2018.

No changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

As of June 30, 2018, we were not a party to any material legal proceedings.

Item 1A. Risk Factors.

Our business has significant risks. You should carefully consider the following risk factors as well as all other information contained in this Quarterly Report, including our condensed consolidated financial statements and the related notes, before making an investment decision regarding our securities. The risks and uncertainties described below are those significant risk factors currently known and specific to us that we believe are relevant to our business, results of operations and financial condition. Additional risks and uncertainties not currently known to us or that we now deem immaterial may also impair our business, results of operations and financial condition.

Risks Related to Our Financial Condition and Capital Requirements

We are a clinical-stage biopharmaceutical company with no commercial products and prediction of future performance is very difficult.

We are a clinical-stage biopharmaceutical company focused on novel cancer immunotherapy products. We have no products or therapeutics approved for commercial sale and have not generated any revenue from product supplies or royalties. Our therapeutic candidates are based on engineered TCRs and are new and largely unproven. Our limited operating history, particularly in light of the rapidly evolving cancer immunotherapy field, may make it difficult to evaluate our current business and predict our future performance. Investment in biopharmaceutical product development is highly speculative because it entails substantial upfront capital expenditures and significant risk that any potential product candidate will fail to demonstrate adequate effect or an acceptable safety profile, gain regulatory approval and become commercially viable. Our inability to address these risks successfully would have a materially adverse effect on our business and prospects.

We have incurred net losses every year since our inception and expect to continue to incur net losses in the future.

We have generated losses since our inception in 2008, during which time we have devoted substantially all of our resources to research and development efforts relating to our SPEAR T-cells (including the NY-ESO SPEAR T-cell), including engaging in activities to manufacture and supply our SPEAR T-cells for clinical trials in compliance with current good manufacturing practice, or cGMP, conducting clinical trials of our SPEAR T-cells, providing general and administrative support for these operations and protecting our intellectual property. We do not have any products approved for sale and have not generated any revenue from product supplies or royalties. Based on our current plans, we do not expect to generate product or royalty revenues

unless and until we obtain marketing approval for, and commercialize, any of our SPEAR T-cells.

For the years ended December 31, 2017 and 2016 and six months ended December 31, 2015 and the year ended June 30, 2015, we incurred net losses of \$70.1 million, \$71.6 million, \$23.0 million and \$22.1 million, respectively. As of June 30, 2018, we had accumulated losses of \$287.6 million. We expect to continue incurring significant losses as we continue with our research and development programs and to incur general and administrative costs associated with our operations. The extent of funding required to develop our product candidates is difficult to estimate given the novel nature of our SPEAR T-cells and their un-proven route to market. Our profitability is dependent upon the successful development, approval, and commercialization of our SPEAR T-cells, further development of the NY-ESO SPEAR T-cells by GSK (given the NY-ESO program has now been transitioned to GSK), achieving GSK milestones (for both the NY-ESO program, the PRAME program and any future SPEAR T-cell programs under the collaboration and license agreement with GSK) and achieving a level of revenues adequate to support our cost structure. We may never achieve profitability, and unless and until we do, we will continue to need to raise additional cash.

We have never generated any revenue from sales of our SPEAR T-cells and our ability to generate revenue from sales of our SPEAR T-cells and become profitable depends significantly on our success in a number of factors.

We have no SPEAR T-cells approved for commercial sale, have not generated any revenue from sales of our SPEAR T-cells (including the NY-ESO SPEAR T-cell), and do not anticipate generating any revenue from sales of our SPEAR T-cells until some time after we receive regulatory approval, if at all, for the commercial sale of a SPEAR T-cell. We intend to fund future operations through milestone payments under our collaboration and license agreement with GSK and through additional equity financings or other third party collaborations. Our ability to generate revenue and achieve profitability depends on our success in many factors, including:

Table of Contents

- completing preclinical development and advancing our SPEAR T-cells to clinic;
- delivering on the clinical development strategy for our SPEAR T-cells;
- progressing our clinical trials within predicted timeframes and without any substantial delays, for example as may be caused by delays in patient recruitment, regulatory requirements to hold or suspend any clinical trials or delays in obtaining approvals required to conduct clinical trials;
- demonstrating a favorable benefit (efficacy parameters): risk (safety) for our SPEAR T-cells and the NY-ESO SPEAR T-cell that translate into a differentiated product of value for patients;
- obtaining data from clinical trials which are ongoing for SPEAR T-cells other than the NY-ESO SPEAR T-cell;
- obtaining regulatory approvals and marketing authorizations for our SPEAR T-cells and the NY-ESO SPEAR T-cell for which we or our collaborator complete clinical trials;
- progressing our clinical trials within predicted timeframes and without any substantial delays, for example as may be caused by delays in patient recruitment, regulatory requirements to hold or suspend any clinical trials or delays in obtaining approvals required to conduct clinical trials;
- developing sustainable and scalable manufacturing and supply processes for our SPEAR T-cells, including establishing and maintaining commercially viable supply relationships with third parties and establishing our own commercial manufacturing capabilities and infrastructure;
- developing a reliable and commercially viable/cost effective commercial manufacturing process to enable commercial supply of our SPEAR T-cells;
- launching and commercializing SPEAR T-cells for which we obtain regulatory approvals and marketing authorizations, either directly or with a collaborator or distributor;

- obtaining market acceptance, pricing and reimbursement of our SPEAR T-cells as viable treatment options;
- addressing any competing technological and market developments;
- identifying, assessing, acquiring and/or developing new SPEAR T-cells;
- maintaining, protecting, and expanding our portfolio of intellectual property rights, including patents, trade secrets and know-how; and
- attracting, hiring and retaining qualified personnel.

Even if one or more of the SPEAR T-cells is approved for commercial sale whether by us or by a collaborator, we anticipate incurring significant costs associated with commercializing any approved SPEAR T-cell. Our expenses could increase beyond expectations if the FDA or any other regulatory agency requires changes to our manufacturing processes or assays, or for us to perform preclinical programs and clinical or other types of trials in addition to those that we currently anticipate. If we are successful in obtaining regulatory approvals to market one or more SPEAR T-cells, our revenue will be dependent, in part, upon the size of the markets in the territories for which we gain regulatory approval, the accepted price for the SPEAR T-cell, the ability to get reimbursement at any price, and whether we own the commercial rights for that territory. If the number of our addressable disease patients is not as significant as we estimate, the indication approved by regulatory authorities is narrower than we expect, or the reasonably accepted population for treatment is narrowed by competition, physician choice or treatment guidelines, we may not generate significant revenue from sales or supplies of such SPEAR T-cells, even if approved. If we are not able to generate revenue from the sale of any approved SPEAR T-cells, we may never become profitable.

Table of Contents

If we fail to obtain additional financing, we may be unable to complete the development and commercialization of our SPEAR T-cells.

Our operations have required substantial amounts of cash since inception. We expect to continue to spend substantial amounts to continue the development of our SPEAR T-cells, including future clinical trials. If we receive approval for any of our SPEAR T-cells, we will require significant additional amounts in order to launch and commercialize these therapeutic candidates.

As of June 30, 2018, we had \$42.3 million of cash and cash equivalents and \$86.7 million of marketable securities. We expect to use these funds to advance and accelerate the clinical development of our MAGE-A10, MAGE-A4 and AFP SPEAR T-cells, to further develop and enhance our manufacturing capabilities and secure a commercially viable manufacturing platform for all of our SPEAR T-cells, to advance additional SPEAR T-cells into preclinical testing and progress such SPEAR T-cells through to clinical trials as quickly as possible and to fund working capital, including other general corporate purposes. We believe that such proceeds, our existing cash, and cash equivalents and marketable securities together with milestones payments to us under the GSK Collaboration and License Agreement will be sufficient to fund our operations for the foreseeable future, including for at least the next 12 months. However, changing circumstances beyond our control, including changes to the scope and timing of the programs under the GSK collaboration (for example, completion of post-transition NY-ESO program activities and nomination of any further targets under the collaboration), may cause us to increase our spending significantly faster than we currently anticipate. We may require additional capital for the further development and commercialization of our SPEAR T-cells and may need to raise additional funds sooner if we choose to expand more rapidly than we presently anticipate.

We cannot be certain that additional funding will be available on acceptable terms, or at all. We have no committed source of additional capital and if we are unable to raise additional capital in sufficient amounts or on terms acceptable to us, we may have to significantly delay, scale back or discontinue the development or commercialization of our SPEAR T-cells or other research and development initiatives. Our license and supply agreements may also be terminated if we are unable to meet the payment obligations under these agreements. We could be required to seek collaborators for our SPEAR T-cells at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available or relinquish or license on unfavorable terms our rights to our SPEAR T-cells in markets where we otherwise would seek to pursue development or commercialization ourselves. Any of the above events could significantly harm our business, prospects, financial condition and results of operations and cause the price of our American Depositary Shares, or ADSs, to decline.

Risks Related to the Development of Our SPEAR T-cells

Our business is highly dependent on the NY-ESO SPEAR T-cell and our existing SPEAR T-cell candidates including the MAGE-A10 SPEAR T-cell, MAGE-A4 SPEAR T-cell and AFP SPEAR T-cell, which will require significant additional clinical testing before we can seek regulatory approval and begin commercialization of any of our SPEAR T-cells.

There is no guarantee that any SPEAR T-cells will achieve regulatory approval or proceed to the next stage of clinical programs. The process for obtaining marketing approval for any candidate is very long and risky and there will be significant challenges for us to address in order to obtain marketing approval, if at all.

There is no guarantee that the results obtained in current clinical trials for the NY-ESO SPEAR T-cell will be sufficient for GSK to plan one or more pivotal clinical trials and obtain regulatory approval or marketing authorization. Negative results in the NY-ESO SPEAR T-cell clinical

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

program or in other investigator-initiated clinical programs utilizing the NY-ESO therapeutic candidate may also impact our ability to obtain regulatory approval for other SPEAR T-cells, either at all or within anticipated timeframes because, although the SPEAR T-cell may target a different cancer peptide, the underlying technology platform, manufacturing process and development process is the same for all of our SPEAR T-cells. Accordingly, a failure or delay in any one program may affect the ability to obtain regulatory approval to continue or conduct clinical programs for other SPEAR T-cells.

Table of Contents

We may not be able to submit INDs, or the foreign equivalent outside of the United States, to commence additional clinical trials for other SPEAR T-cells on the timeframes we expect, and even if we are able to, the FDA or comparable foreign regulatory authorities may not permit us to proceed with planned clinical trials.

Progression of new SPEAR T-cells into clinical trials is inherently risky and dependent on the results obtained in preclinical programs, the results of other clinical programs and results of third-party programs that utilize common components, such as production of the lentiviral vector lot used for production and administration of our SPEAR T-cell. If results are not available when expected or problems are identified during SPEAR T-cell development, we may experience significant delays in development of pipeline products and in existing clinical programs, which may impact our ability to receive regulatory approval. This may also impact our ability to achieve certain financial milestones and the expected timeframes to market any of our SPEAR T-cells. Failure to submit further IND or the foreign equivalent and commence additional clinical programs will significantly limit our opportunity to generate revenue.

There is no guarantee that the FDA, or any other regulatory authority, will approve any IND (or equivalent application) for any of our future SPEAR T-cells, or for new indications for our SPEAR T-cells already in clinical trials, or that amendments to existing protocols will not be required. For example, the FDA issued a partial clinical hold for our proposed MRCLS trial with NY-ESO following review of the IND submitted for the trial. The FDA notification was not based on safety concerns. In our correspondence the FDA requested additional Chemistry Manufacturing and Controls, or CMC, and clinical information prior to the commencement of the proposed trial. An amendment to the ADP-0011-007 protocol for the trial was filed with the FDA which converted the trial into a pilot trial (rather than the previously proposed pivotal trial design with a futility phase) and this amended protocol was approved by the FDA resulting in a lift of the partial clinical hold. The start of the MRCLS trial was delayed as a result of the FDA issued partial clinical hold and there is no guarantee that any later MRCLS pivotal trial or further SPEAR T-cell trial will be approved by the FDA.

We are in the process of expanding our clinical trial foot print to Europe. This requires gaining the approval of country specific review bodies for GMO application and CTA. As this is not a harmonized process, the requirements can vary considerably and delays can be incurred at a country level.

In the USA, some institutional review boards, or IRBs, have requested that the Sponsor obtain Investigational Device Exemptions (IDE) from the FDA for the validated clinical trial assay being used to select patients. This has delayed the initiation of some sites and limited the ability to obtain high risk biopsies until an IDE has been granted. We plan to proactively seek IDEs for our SPEAR T-cell assays where appropriate.

Our SPEAR T-cells being developed may have potentially fatal cross-reactivity to other peptides or protein sequences within the body.

One of our prior SPEAR T-cells, designed to target an HLA-1 restricted MAGE-A3 cancer-specific peptide, recognized another unrelated peptide from a protein called TITIN, expressed within normal cardiac and other muscle tissues in patients. As a result of this cross-reactivity to the TITIN protein in the heart, two patients died during our MAGE-A3 clinical program, the program was put on pause, then formally placed on hold by the FDA, after which we terminated the program. We subsequently developed a preclinical safety testing program that identifies potential cross-reactivity risks but there may be gaps or other problems detected in the testing program at a later date. Even with the use of this testing program, there can be no guarantee that the FDA will permit us to begin clinical trials of any additional SPEAR T-cells other than those for which INDs already exist or that other off-target cross-reactivity will not be identified or present in any patient group. Failure to develop an effective preclinical safety testing program will prevent or delay clinical trials of any SPEAR T-cell. Detection of any cross-reactivity will halt

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

or delay any ongoing clinical trials for any SPEAR T-cell and prevent or delay regulatory approval. Given that the underlying technology platform, manufacturing process and development process is similar for all of our TCR therapies, issues pertaining to cross-reactivity for one SPEAR T-cell may impact our ability to obtain regulatory approval for other SPEAR T-cells undergoing development and clinical trials, which would significantly harm our business, prospects, financial condition and results of operations.

Cross-reactivity or allo-reactivity (binding to peptides presented on other HLA types) could also occur where the affinity-enhanced engineered TCR contained within any SPEAR T-cell binds to peptides presented by HLAs other than the HLA type for which the relevant TCR was developed. We have developed a preclinical screening process to identify allo-reactivity risk. Where any allo-reactivity risk is identified, patients with the allo-reactive alleles will be excluded from the trial. Any allo-reactivity or other cross-reactivity that impacts patient safety could materially impact our ability to advance our SPEAR T-cells into clinical trials or to proceed to market approval and commercialization. In addition, there is no guarantee that exclusion of patients with the identified allo-reactive allele will successfully eliminate the risk of allo-reactivity, and serious side effects for patients may still exist. Given that the underlying technology platform, manufacturing process and development process are similar for all of our SPEAR T-cells, issues pertaining to allo-reactivity for one SPEAR T-cell may impact our ability or our collaborator's ability to obtain regulatory approval for other SPEAR T-cells undergoing development and clinical trials, which would significantly harm our business, prospects, financial condition and results of operations.

Table of Contents

Our T-cell therapy, which is a type of cell therapy that uses gene therapy technology, represents a novel approach to cancer treatment that could result in heightened regulatory scrutiny, delays in clinical development, or delays in our or our collaborator's ability or inability to achieve regulatory approval or commercialization of SPEAR T-cells.

Use of any SPEAR T-cells to treat a patient requires the use of gene therapy technology, which involves combining a patient's T cells with our lentiviral delivery vector containing the gene for our affinity-enhanced engineered TCR. This is a novel treatment approach that carries inherent development risks. We are therefore constantly evaluating and adapting our SPEAR T-cells following the results obtained during development work and the clinical programs. Further development, characterization and evaluation may be required, depending on the results obtained, in particular where such results suggest any potential safety risk for patients. The need to develop further assays, or to modify in any way the protocols related to our SPEAR T-cells to improve safety or effectiveness, may delay the clinical program, regulatory approval or commercialization, if approved at all, of any SPEAR T-cell. Consequently, this may have a material impact on our ability to receive milestone payments and/or generate revenue from our SPEAR T-cells.

In addition, given the novelty of SPEAR T-cells, the end users and medical personnel require a substantial amount of education and training in their administration of SPEAR T-cells. Regulatory authorities have very limited experience with commercial engineered cell therapies and SPEAR T-cells for the treatment of cancer. As a result, regulators may be more risk adverse or require substantial dialogue and education as part of the normal regulatory approval process for each stage of development of any SPEAR T-cell. To date, only a limited number of gene therapy products have been approved in the United States and European Union. Consequently, it is difficult to predict and evaluate what additional regulatory hurdles may apply to the development of our SPEAR T-cells and whether additional investment, time or resources will be required to overcome any such hurdles.

Additionally, because our technology involves the genetic modification of patient cells *ex-vivo* using a viral vector, we are subject to many of the challenges and risks of gene therapy, including the following challenges:

- Regulatory requirements governing gene and cell therapy products have changed frequently and may continue to change in the future.
- Random gene insertion associated with retrovirus-mediated genetically modified products, known as insertional oncogenesis, could lead to lymphoma, leukemia or other cancers, or other aberrantly functioning cells. Insertional oncogenesis was seen in early gene therapy studies conducted outside of the United States in 2003. In those studies, insertional oncogenesis resulted in patients developing leukemia following treatment with the relevant gene therapy, with one patient dying. As a result of the data from those studies, the FDA temporarily halted gene therapy trials in the United States. The previous trials involved modification of stem cells rather than T cells and utilized a murine gamma-retroviral vector rather than a lentiviral vector. We cannot guarantee that insertional oncogenesis resulting from administration of our SPEAR T-cells will not occur.
- Although our viral vectors are not able to replicate, there may be a risk with the use of retroviral or lentiviral vectors that they could undergo recombination and lead to new or reactivated pathogenic strains of virus or other infectious diseases.

- There is the potential for delayed adverse events following exposure to gene therapy products due to persistent biological activity of the genetic material or other components of products used to carry the genetic material. In part for this reason, the FDA recommends a 15-year follow-up observation period for all surviving patients who receive treatment using gene therapies in clinical trials. We may need to adopt such an observation period for our therapeutic candidates; however, the FDA does not require that the tracking be complete prior to its review of the Biologics License Application, or BLA.
- Clinical trials using genetically modified cells conducted at institutions that receive funding for recombinant DNA research from the NIH may be subject to review by the NIH Office of Biotechnology Activities' Recombinant DNA Advisory Committee, or RAC. The RAC review process can delay or impede the initiation of a clinical trial.

If adverse events of the type described above were to occur, further advancement of our clinical trials could be halted or delayed, which would have a material adverse effect on our business and operations. In addition, heightened regulatory scrutiny of gene therapy product candidates may result in delays and increased costs in bringing a product candidate to market, if at all. Delay or failure to obtain, or unexpected costs in obtaining, the regulatory approval necessary to bring a potential product to market could decrease our ability to generate revenue in the future.

Table of Contents

In addition, results seen in third party clinical trials using other cell therapy products, for example CAR-T products, or in clinical trials conducted by our collaborators may impact on the further advancement of our clinical trials. Based on the data currently available to us in relation to our clinical trials there is no evidence that the type and severity of neurotox events observed with CD19-directed CAR-T cell treatments, in particular the fatal events observed in the NCT02535364 trial, occur with our SPEAR TCRs (including the NY-ESO SPEAR T-cell). However there is no guarantee that the FDA or other regulatory authorities will agree with that position and further education and discussion with regulatory authorities may be required.

Results seen in clinical trials using products that are used in our combination clinical trials, may impact on the further advancement of our clinical trials. For example, the FDA placed a clinical hold on three combination studies using KEYTRUDA (pembrolizumab), an anti-PD-1 therapy used to treat multiple myeloma. There is no guarantee that further reviews of safety data with KEYTRUDA or other anti-PD-1 therapies will not result in delays or holds to our clinical trials or the requirement to amend the protocol for such clinical trials.

T-cell therapy is a novel approach to cancer treatment that creates significant increased risk in terms of side-effect profile, ability to satisfy regulatory requirements associated with clinical trials and the long- term viability of administered SPEAR T-cells.

Development of a pharmaceutical or biologic therapy or product has inherent risks based on differences in patient population and responses to therapy and treatment. The mechanism of action and impact on other systems and tissues within the human body following administration of SPEAR T-cell is not completely understood, which means that we cannot predict the long-term effects of treatment with SPEAR T-cells (whether by us or a collaborator). In addition it is not possible for any pre-clinical safety package to completely identify all potential safety risks.

We are aware that certain patients do not respond to our SPEAR T-cells (including the NY-ESO SPEAR T-cell) and that other patients may relapse or cease to present the peptide being targeted by such SPEAR T-cells. The percentage of the patient population in which these events may occur is unknown, but the inability of patients to respond and the possibility of relapse may impact our or our collaborator's ability to conduct clinical trials, to obtain regulatory approvals, if at all, and to successfully commercialize any SPEAR T-cell.

Clinical trials and the investigator-initiated clinical trials using the NY-ESO TCR therapeutic are still in the early stages, and it is difficult to predict the results that will be obtained by our collaborator in ongoing clinical trials or the next phase or phases of any clinical program. Our SPEAR T-cells have not previously been tested in combination clinical trials, for example use in combination with Merck's PD-1 inhibitor, KEYTRUDA® (pembrolizumab) in patients with multiple myeloma. It is difficult to predict the way in which SPEAR T-cells will interact with third-party products used in combination clinical trials. Data seen in other combination trials with KEYTRUDA has resulted in certain combination trials with KEYTRUDA being placed on clinical hold by the FDA. We do not, as yet know, whether similar negative side effects will be seen using KEYTRUDA in combination with the NY-ESO T-cell therapy. Any undesirable side effects seen in combination trials may affect our ability or our collaborator's ability to continue with and obtain regulatory approval for the combination therapy, but may also impact our or our collaborator's ability to continue with and obtain regulatory approval for SPEAR T-cell therapies alone.

There is a significant risk at each stage of any clinical program that serious adverse events or low efficacy, as well as less favorable benefit:risk profiles, will prevent any SPEAR T-cells from proceeding further or will result in those programs being suspended or placed on hold (whether voluntarily or as a result of a regulatory authority requirement). For example, there is a risk that the target (or similar) peptide to which any SPEAR T-cell is directed may be present in both patients' cancer cells and other non-cancer cells and tissues. Should this be the case patients may suffer a range of side effects associated with the SPEAR T-cell binding to both the cancer cells and/or other cells and tissues and such side effects could cause patient death. The extent of these side effects will depend on which cells and tissues are affected as well as the degree to which the target (or similar) peptide is expressed in these cells and tissues. Serious adverse events seen with other immunotherapy products,

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

such as the severe neurotoxic events observed with CD19-directed CAR-T cell treatments, may also occur at any stage of the clinical program. Further, following infusion of any SPEAR T-cells, there may be a transient inflammatory reaction of the disease to the treatment. Symptoms in any given subject would be dependent on the location and other characteristics of their tumor. For example, subjects with lung tumors may experience dyspnea. Cardiac toxicities may be observed in patients with pre-existing cardiac or pericardial masses. These inflammatory reactions and related symptoms may be mild and self-limited, but can be severe and require medical intervention.

Table of Contents

Common and more severe adverse events as of September 5, 2017 considered by investigators to be at least possibly related to administration of our SPEAR T-cells (including the NY-ESO SPEAR T-cell) include: fever, fatigue, chest pain, nausea, diarrhea, enterocolitis, anemia, leukopenia, neutropenia, febrile neutropenia, lymphopenia, thrombocytopenia, bone marrow failure, dehydration, hyponatremia, ALT increased, rhabdomyolysis, rash, acute inflammatory demyelinating polyradiculoneuropathy, dyspnea, hypoxia, pneumonitis, respiratory failure, pericardial effusion, supraventricular tachycardia, hypotension, embolism, CRS (including grade 3 and 4 events which resolved with treatment), and graft versus host disease (GVHD). There has been one report of fatal (grade 5) bone marrow failure, which was considered related to the study treatment regimen (preconditioning plus SPEAR T-cell). Internal investigations have not identified a mechanism by which NY-ESO SPEAR T-cells may have caused bone marrow failure. To date, GVHD, impacting the skin and gastrointestinal tract, has only been reported in our myeloma study involving autologous stem cell transplants (ASCT). Although GVHD is a known complication of ASCT, symptoms such as rash, enterocolitis and diarrhea have been reported in other SPEAR T-cell studies.

In addition to our Company sponsored clinical programs, the NY-ESO TCR therapeutic has also been used in an investigator-initiated clinical program funded by the European Union, referred to as the ATTACK 2 program. The therapy, which was produced under a different manufacturing process than Adaptimmune's NY-ESO TCR therapy, was being evaluated for the treatment of patients with advanced gastro-esophageal cancer. Two patients have been treated under this protocol, one of whom passed away 46 days after initial treatment. Said patient experienced enterocolitis and bone marrow failure followed by fatal gangrenous gastrointestinal necrosis and hemorrhage. The investigator determined there was a reasonable possibility that these events were caused by study treatment.

Enrollment in the trial was temporarily paused pending investigation of the patient fatality, but an independent data monitoring committee recommended that recruitment could resume following a protocol amendment. Despite this, the study is expected to terminate and is not currently recruiting.

Because administration of SPEAR T-cells is patient-specific, the process requires careful handling of patient-specific products and fail-safe tracking, namely the need to ensure that the tracking process is without error and that patient samples are tracked from patient removal, through manufacturing and re-administration to the same patient. Should the tracking process fail, whether at our own facility, a third party facility or at any point in the manufacturing and supply process, a patient could receive another patient's T-cells resulting in a patient fatality. We will need to invest in systems, such as bar coding, to ensure fail safe tracking. There is always a risk of a failure in any such system. Inability to develop or adopt an acceptable fail-safe tracking methodology and handling regime may delay or prevent us from receiving regulatory approval and/or result in a patient fatality if a patient receives another patient's T-cells. This risk may be increased where SPEAR T-cells are used in clinical programs that we do not control or sponsor and, should an error be made in the administration of our SPEAR T-cells in such clinical programs, this could affect the steps required in our own clinical programs and manufacturing process requiring the addition of further tracking mechanisms to ensure fail-safe tracking. The tracking systems required to ensure safe patient administration may also require increased administration to satisfy other regulatory requirements, for example data protection requirements in Europe. The need to ensure tracking systems are adequate and to comply with these additional regulatory requirements may result in delay to the start of trials or the need to obtain additional regulatory licenses or consents prior to starting such trials.

Validation of our SPEAR T-cells requires access to human samples but there is no guarantee that such samples can be obtained or, if they can be obtained, that the terms under which they are provided will be favorable to us.

Certain of the steps involved in validating and carrying out safety testing in relation to our SPEAR T-cells require access to samples (e.g., tissues samples or cell samples) from third parties. Such samples may be obtained from universities or research institutions and will often be provided, subject to satisfaction of certain terms and conditions. There can be no guarantee that we will be able to obtain samples in sufficient quantities to enable development of and use of the full preclinical safety testing program for all SPEAR T-cells undergoing development. In addition, the terms under which such samples are available may not be acceptable to us or may restrict our use of any generated results or require us to make

payments to the third parties.

Table of Contents

SPEAR T-cells and their application are not fully scientifically understood and are still undergoing validation and investigation.

Our SPEAR T-cells (including the NY-ESO SPEAR T-cell) and their potential associated risks are still under investigation. For example, there is a potential risk that, given that the TCR chains are produced separately and then assembled within patient T cells into full TCRs, the TCR chains from both transduced and naturally occurring T cells could be assembled into an unintended end TCR due to mis-pairing of TCR chains, which could create unknown recognition and cross-reactivity problems within patients. Although this phenomenon has not been reported in humans, it remains a theoretical risk for our SPEAR T-cells and is still being studied and investigated. This could delay regulatory approval, if any, for the relevant SPEAR T-cells. To the extent that any mis-pairing of TCR chains is identified, either in our or our competitors' clinical trials, additional investment may be required in order to modify relevant SPEAR T-cells and to further assess and validate the risk of such mis-pairing to patients. There is also no guarantee that following modification of the relevant SPEAR T-cell, such modified SPEAR T-cell will remain suitable for patient treatment, that it will eliminate the risk of mis-pairing of TCR chains or that regulatory approval will be obtained at all or on a timely basis in relation to such modified SPEAR T-cells. The occurrence of such events would significantly harm our business, prospects, financial condition and results of operations.

We may not be able to identify and validate additional target peptides or isolate and develop affinity-enhanced TCRs that are suitable for validation and further development.

The success of our SPEAR T-cells depends on both the identification of target peptides presented on cancer cells, which can be bound by TCRs, and isolation and affinity enhancement of TCRs, which can be used to treat patients if regulatory approval is obtained. There is an inherent risk that the number of target peptides that can be identified and/or our ability to develop and isolate suitable TCRs for affinity enhancement could be significantly lower than projected or that no additional SPEAR T-cells suitable for further development can be identified. Any failure to identify and validate further target peptides will reduce the number of potential SPEAR T-cells that we can successfully develop, which in turn will reduce the commercial opportunities available to us and increase our reliance on our existing SPEAR T-cells.

In addition, there is no guarantee that our attempts to develop further SPEAR T-cells will result in candidates for which the safety and efficacy profiles enable progression to and through preclinical testing. Failure to identify further candidates for progression into preclinical testing and clinical programs will significantly impact our commercial returns, increase our reliance on the success of our existing SPEAR T-cell programs and may significantly harm our business, prospects, financial condition and results of operations. If resources become limited or if we fail to identify suitable target peptides, TCRs or affinity-enhanced TCRs, our ability to submit INDs for further SPEAR T-cells may be delayed or never realized, which would have a materially adverse effect on our business. We have multiple research projects ongoing both internally and with third parties, for example Universal Cells, Inc. and Bellicum, Inc. The outcomes of these research projects are uncertain and such research projects may or may not generate next generation SPEAR T-cells with profiles suitable for further development or progression into clinical trials.

We may encounter substantial delays in our clinical trials or may not be able to conduct our trials on the timelines we expect.

Conduct of clinical trials is dependent on finding clinical sites prepared to carry out the relevant clinical trials, screening of patients by the clinical sites, recruitment of patients both in terms of number and type of patients and general performance of the relevant clinical site. It is difficult to predict how quickly we or our collaborators will be able to recruit suitable patients, find suitable sites, begin clinical programs and administer our SPEAR T-cells. The patient population in which any required peptide antigen is presented may be lower than expected which will increase the timescales required to find and recruit patients into the applicable clinical trial. Screening of a large number of patients is required to identify HLA and tumor antigen positive patients for most of our clinical trials. For example, it has taken longer to recruit patients into our

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

NSCLC trials with both the NY-ESO SPEAR T-cell and MAGE-A10 SPEAR T-cell due to the low percentage expression of peptide antigen seen in the patient populations at the relevant clinical trial sites. With the NY-ESO SPEAR T-cell, presentation of the antigen occurs predominantly in certain sub-types of NSCLC and additional clinical sites may need to be initiated in order to identify patients with those certain NSCLC sub-types. With MAGE-A10, presentation of the peptide antigen is seen in a lower number of patients than anticipated and with our AFP SPEAR T-cells recruitment of patients remains difficult due to the nature of the patient population targeted for the trial. This has delayed recruitment of patients into trials and has resulted in the Company incurring additional costs associated with the need to find and initiate additional clinical trial sites. It is also difficult to predict whether changes may be required to any clinical trial design as our clinical trials progress. For example, initial results from current Phase 1/2 clinical trials with the NY-ESO SPEAR T-cell have suggested that fludarabine is required as part of any patient pre-conditioning regimen. This has required amendment to protocol designs, which did not previously include fludarabine, to include fludarabine.

Table of Contents

Our and our collaborator's clinical trials will compete with other clinical trials that are in the same therapeutic areas as our SPEAR T-cells, which will reduce the number and types of patients available to us, because some patients who might have opted to enroll in our trials may instead opt to enroll in a trial being conducted by one of our competitors. Because the number of qualified clinical investigators is limited, we will conduct some of our clinical trials at the same clinical trial sites where competing trials are ongoing, which will reduce the number of patients who are available for our clinical trials at such clinical trial sites. Moreover, because our SPEAR T-cells represent a departure from more commonly used methods for cancer treatment, potential patients and their physicians may opt to use conventional therapies, such as chemotherapy and hematopoietic cell transplantation, rather than enrollment in any of our current or future clinical trials. This may also mean we cannot recruit patients at a suitable time in their disease progression. In addition, in relation to any indication, the standard of care for patients in that indication may change or further develop meaning that clinical sites are no longer prepared to continue with any clinical trial or require amendments to agreed protocols for clinical trials. For example, the standard of care in melanoma has changed since the start of our clinical trials in melanoma with the NY-ESO SPEAR T-cell and as a result the clinical trial has been halted due to anticipated unavailability of patients. Such circumstances can lead to the suspension of the relevant clinical trial at a site, inability to recruit further patients at that clinical site or a requirement to amend the protocol, all of which will delay or potentially halt progression of a SPEAR T-cell through clinical trials.

Even if we are able to enroll a sufficient number of patients in our clinical trials, delays in patient enrollment may result, and have resulted in, increased costs or may affect the timing or outcome of the planned clinical trials, which could prevent completion of these trials and adversely affect our and our collaborator's ability to advance the development of our SPEAR T-cells.

Comparability studies related to the manufacturing of any SPEAR T-cells may be required ahead of any pivotal trial start date or ahead of use in the European Union or alternatively in connection with any changes made to our manufacturing process. The requirement to carry out such comparability studies may delay the uptake of any changed process, start of any pivotal trial or use of the relevant SPEAR T-cells in Europe. If the results from the comparability studies are not acceptable, this may further delay the start of such trials or changed process and require re-evaluation of the process used to manufacture of such SPEAR T-cells. For example, comparability studies are ongoing in relation to changes made to the process for manufacture of the NY-ESO SPEAR T-cells. The results from these comparability studies may impact the start date for any registrational study or impact what data can be used for any marketing application for the NY-ESO SPEAR T-cells. Failure in such comparability studies may also impact other studies in which the modified process is already being used.

We may not be able to develop or obtain approval for the analytical assays and companion diagnostics required for commercialization of our SPEAR T-cells.

Administration of our SPEAR T-cells requires the use of an immuno-chemistry or other screening assay in which patients are screened for the presence of the cancer peptide targeted by our SPEAR T-cells. This assay requires the identification of suitable antibodies which can be used to identify the presence of the relevant target cancer peptide.

If safe and effective use of a biologic product depends on an *in vitro* diagnostic, such as a test to detect patients with HLA type A2, then the FDA generally requires approval or clearance of the diagnostic, known as a companion diagnostic, concurrently with approval of the therapeutic product. To date, the FDA has generally required *in vitro* companion diagnostics that are intended for use in selection of patients who will respond to cancer treatment to obtain a pre-market approval, or PMA, which can take up to several years, for that diagnostic approval or clearance to occur simultaneously with approval of the biologic product.

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

We expect that, for all SPEAR T-cells, the FDA and similar regulatory authorities outside of the United States will require the development and regulatory approval of a companion diagnostic assay as a condition to approval. We also expect that the FDA may require PMA supplemental approvals for use of that same companion diagnostic as a condition of approval of additional SPEAR T-cells. We do not have experience or capabilities in developing or commercializing these companion diagnostics and plan to rely in large part on third parties to perform these functions.

If we or our collaborators, or any third parties that we engage to assist us, are unable to successfully develop companion diagnostic assays for use with any SPEAR T-cells, or are unable to obtain regulatory approval or experience delays in either development or obtaining regulatory approval, we may be unable to identify patients with the specific profile targeted by the relevant SPEAR T-cells for enrollment in our clinical trials. Accordingly, further investment may be required to further develop or obtain the required regulatory approval for the relevant companion diagnostic assay, which would delay or substantially impact our ability or our collaborators' ability to conduct further clinical trials or obtain regulatory approval.

Table of Contents

Manufacturing and administering SPEAR T-cells is complex and we and our collaborators may encounter difficulties in production, particularly with respect to process development or scaling up of manufacturing capabilities. If we or our collaborators encounter such difficulties, our or our collaborators' ability to provide supply of our SPEAR T-cells for clinical trials or for commercial purposes could be delayed or stopped.

The process of manufacturing and administering SPEAR T-cells is complex and highly regulated. The manufacture of SPEAR T-cells involves complex processes, including manufacture of a lentiviral delivery vector containing the gene for our affinity-enhanced engineered TCR. Administration of SPEAR T-cells includes harvesting white blood cells from the patient, isolating certain T cells from the white blood cells, combining patient T cells with our lentiviral delivery vector through a process known as transduction, expanding the transduced T cells to obtain the desired dose, and ultimately infusing the modified T cells back into the patient. As a result of the complexities, our manufacturing and supply costs are likely to be higher than those at more traditional manufacturing processes and the manufacturing process is less reliable and more difficult to reproduce.

Delays or failures in the manufacture of SPEAR T-cells (whether by us, any collaborator or our third party contract manufacturer) can result in a patient being unable to receive their SPEAR T-cells or a requirement to re-manufacture SPEAR T-cells which itself then causes delays in manufacture for other patients. Any delay or failure or inability to manufacture on a timely basis can adversely affect a patient's outcomes and delay the timelines for our clinical trials. Such delays or failure or inability to manufacture can result from:

- A failure in the manufacturing process itself for example by an error in manufacturing process (whether by us or our third party contract manufacturing organization), equipment or reagent failure (including failure in the bags the Company uses to freeze), differences in patient material, failure in any step of the manufacturing process, failure to maintain a GMP environment, contamination during process;
- A lack of reliability or reproducibility in the manufacturing process itself leading to variability in end manufacture of SPEAR T-cells. Should the process be unreliable, the relevant regulatory agency (for example the FDA in the United States) may place a hold on a clinical trial or request further information on the process which could in turn result in delays to the clinical trials;
- Variations in patient starting material resulting in less product than expected or product which is not viable or can not be manufactured;
- Product loss or failure due to logistical issues including issues associated with the differences between patients' white blood cells or characteristics, interruptions to process, contamination, failure to supply patient apheresis material within required timescales (for example as a result of an import or export hold-up) or supplier error;

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

- Inability to obtain manufacturing slots from third party contract manufacturers or to have enough manufacturing slots (including those at our Navy Yard facility) to manufacture SPEAR T-cells for patients as and when those patients require manufacture;
- Inability to procure starting materials, for example vector required for SPEAR T-cell manufacture;
- Inability to procure manufacturing slots from third party manufacturers (whether for SPEAR T-cell manufacture or for starting materials manufacture, including vector) at all or on a timely basis. Even where manufacturing slots are agreed in advance with third party manufacturers we cannot guarantee they will not be delayed or cancelled or that any manufacturing process will be successful;
- Loss of or close-down of any manufacturing facility used in the manufacture of SPEAR T-cells. For example we will be manufacturing MAGE-A10 and MAGE-A4 SPEAR T-cells at our Navy Yard manufacturing facility. Should there be a contamination event at the facility resulting in the close-down of that facility it may not be possible to find alternative manufacturing capability for the MAGE-A10 and MAGE-A4 SPEAR T-cells within the timescales required for ongoing clinical trials;
- Loss or contamination of patient starting material, requiring the starting material to be obtained again from the patient or the manufacturing process to be re-started; and

Table of Contents

- A requirement to modify or make changes to any manufacturing process. Such changes may additionally require comparability testing which then may reduce the amount of manufacturing slots available for manufacture of patient SPEAR T-cells. Delays in our ability to make the required modifications or perform any required comparability testing within currently anticipated timeframes or that such modifications or comparability testing, when made, will obtain regulatory approval or that the new processes or modified processes will successfully be transferred to the third party contract suppliers within currently anticipated timeframes can also impact timelines for manufacture.

The requirements for manufacture and supply of SPEAR T-cells for clinical trials in Europe have additional complexities and the manufacture and supply of SPEAR T-cells is raising issues which have not previously been regulated or observed by the relevant regulatory authorities. For example, supply of SPEAR T-cells for European clinical trials will either require manufacture of SPEAR T-cells in the United States or use of a new CMO in Europe. Where manufacture continues in the United States, there is a need to transfer patient product from clinical sites in Europe to the manufacturer in the United States, for the patient product to be converted into our end SPEAR T-cell product and then for that SPEAR T-cell product to be transported back to the site in Europe for administration to the patient. The supply and manufacturing chain required to achieve this is very complex and could be subject to failures at any point in the supply and manufacturing chain. Any inability to set up acceptable manufacturing and supply chains to enable treatment of patients in Europe could result in a delay to those trials starting in Europe or could result in a delay in patient treatment, requirement to re-apherese a patient or a requirement to re-manufacture patient material.

As our SPEAR T-cells progress through preclinical programs and clinical trials towards approval and commercialization, it is expected that various aspects of the manufacturing and administration process will be altered in an effort to optimize processes and results. We have already identified some improvements to our manufacturing and administration processes, but these changes may not achieve the intended objectives, may not be transferable to third parties or able to be used at larger scales and could cause our SPEAR T-cells to perform differently or affect the results of planned clinical trials or other future clinical trials. In addition, such changes may require amendments to be made to regulatory applications or comparability tests to be conducted which may further delay the timeframes under which modified manufacturing processes can be used for any SPEAR T-cell. If SPEAR T-cells manufactured under the new process has a worse safety or efficacy profile than the prior investigational product or the process is less reproducible than the previous process, we may need to re-evaluate the use of that manufacturing process, which could significantly delay or even result in the halting of our clinical trials.

Developing a commercially viable process is a difficult and uncertain task, and there are risks associated with scaling to the level required for advanced clinical trials or commercialization, including, among others, increased costs, potential problems with process scale-out, process reproducibility, stability issues, lot consistency, loss of product, and timely availability of reagents or raw materials or contract manufacturing services or facilities. A failure to develop such a commercially viable process within anticipated timescales may prevent or delay progression of our T-cell therapies into pivotal clinical trials and ultimately commercialization. In addition, we may ultimately be unable to reduce the expenses associated with our SPEAR T-cells to levels that will allow us to achieve a profitable return on investment. We have entered into an alliance with Universal Cells, Inc. that, if successful, will enable us to treat patient populations with an off-the-shelf product. However, there is no guarantee that the research program with Universal Cells, Inc. will be successful, will be carried out within the timescales currently anticipated or that even if successful it will result in a SPEAR T-cell that can be used to treat patients or that such SPEAR T-cell will allow us to achieve a profitable return on investment.

We have insurance to cover certain business interruption events, particularly research and development expenditure (capped at £10 million) and committed costs (capped at £250,000). However, because our level of insurance is capped, it may be insufficient to fully compensate us if any of these events were to occur in the future.

Table of Contents

Our manufacturing process needs to comply with FDA regulations and foreign regulations relating to the quality and reliability of such processes. Any failure to comply with relevant regulations could result in delays in or termination of our clinical programs and suspension or withdrawal of any regulatory approvals.

In order to commercially produce our products, we will need to comply with the FDA's cGMP requirements at both our Navy Yard facility and at our third party contract manufacturing facilities. We may encounter difficulties in achieving quality control and quality assurance and may experience shortages in qualified personnel. We and our third party contract manufacturers are subject to inspections by the FDA and comparable agencies in other jurisdictions to confirm compliance with applicable regulatory requirements once the process has been approved. Any failure to follow cGMP or other regulatory requirements, reliably manufacture product or delay, interruption or other issues that arise in the manufacture, fill- finish, packaging, or storage of our SPEAR T-cells as a result of a failure of our facilities or the facilities or operations of third parties to comply with regulatory requirements or pass any regulatory authority inspection could significantly impair our ability to develop and commercialize our SPEAR T-cells, including leading to significant delays in the availability of our SPEAR T-cells for our clinical trials or the termination of or suspension of a clinical trial, or the delay or prevention of a filing or approval of marketing applications for our SPEAR T-cells. Significant non-compliance could also result in the imposition of sanctions, including warning letters, fines, injunctions, civil penalties, failure of regulatory authorities to grant marketing approvals for our SPEAR T-cells, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of products, operating restrictions and criminal prosecutions, any of which could damage our reputation and our business.

We now manufacture SPEAR T-cells at our own manufacturing facility. There is no guarantee that regulatory authorities will not raise non-compliance issues or that regulatory authorities may require us to make changes to the way in which the facility is operated. This may result in a delay in our ability to manufacture SPEAR T-cells at our own facility. In addition, now our manufacturing facility is operating there is no guarantee that any SPEAR T-cells produced in such facility will be able to meet regulatory requirements or that we will be able to recruit and maintain sufficient staff to enable manufacture of products within required timescales. Any failure to meet regulatory requirements or produce SPEAR T-cells according to regulatory requirements could result in delays to our clinical programs, potential side effects and even fatalities to patients and may result in withdrawal of regulatory approval for our manufacturing facility.

The outcome of clinical trials is uncertain and clinical trials may fail to demonstrate adequately the safety and efficacy of any SPEAR T-cells which would prevent or delay regulatory approval and commercialization.

There is a risk in any clinical trial (whether sponsored by us, a collaborator, or investigator-initiated) that side effects from SPEAR T-cells will require a hold on, or termination of, clinical programs or further adjustments to clinical programs in order to progress any SPEAR T-cell. The SPEAR T-cells are novel and unproven and regulators will therefore require evidence that the SPEAR T-cells are safe before permitting clinical trials to commence and evidence that the SPEAR T-cells are safe and effective before granting any regulatory approval. In particular, because our SPEAR T-cells are subject to regulation as biological products, we will need to demonstrate that they are safe, pure and potent for use in each target indication. The SPEAR T-cell must demonstrate an acceptable benefit:risk profile in its intended patient population and for its intended use. The benefit:risk profile required for product licensure will vary depending on these factors and may include not only the ability to show tumor shrinkage, but also adequate duration of response, a delay in the progression of the disease and/or an improvement in survival. For example, response rates from the use of the SPEAR T-cells will not be sufficient to obtain regulatory approval unless we or our collaborators can also show an adequate duration of response.

The regulatory authorities (including the FDA) may issue a hold on our or our collaborators' clinical trials as a result of safety information and data obtained in third party clinical trials or in relation to third party products. For example, safety concerns have been reported in combination trials with KEYTRUDA which resulted in clinical holds to those combination trials. The clinical holds to such trials have not, as yet, impacted our own combination study with KEYTRUDA in multiple myeloma but there is no guarantee that the FDA or other regulatory authorities will

Edgar Filing: Adaptimmune Therapeutics PLC - Form 10-Q

not issue a similar hold in relation to our combination trials as data continues to emerge. Any such hold will require addressing by the us and our collaborators and will inevitably delay progression of the clinical trials concerned, if such clinical trials progress at all.

Table of Contents

Clinical testing is expensive and can take many years to complete, and its outcome is inherently uncertain. Failure can occur at any time during the clinical trial process. Success in preclinical programs and early clinical trials does not ensure that later clinical trials will be successful. Moreover, the results of preclinical programs and early clinical trials of SPEAR T-cells may not be predictive of the results of later-stage clinical trials. To date, we have only obtained interim results from Phase 1/2 clinical trials that are uncontrolled, involve small sample sizes and are of shorter duration than might be required for regulatory approval. There may be other reasons why our early clinical trials are not predictive of later clinical trials. In addition, the results of trials in one set of patients or line of treatment may not be predictive of those obtained in another and protocols may need to be revised based on unexpected early results. For example, in our ovarian cancer trial with the NY-ESO SPEAR T-cell, the first patient treated experienced a grade 3 cytokine release syndrome at day seven post-infusion, concomitant with a significant proliferation of the engineered T cells that constituted nearly 100% of the peripheral blood at day 14. This level of cytokine release syndrome had not been seen in previous patients from trials using the NY-ESO SPEAR T-cell. As another example, in both the European investigator-initiated clinical program in gastro-esophageal cancer and in our own sponsored synovial sarcoma trial there has been one patient death considered to be related to treatment according to the investigator.

We expect there may be greater variability in results for SPEAR T-cells which are administered on a patient-by-patient basis than for off-the-shelf products, like many other biologics. There is typically an extremely high rate of attrition from the failure of any products proceeding through clinical trials. SPEAR T-cells in later stages of clinical trials may fail to show the desired safety and efficacy profile despite having progressed through preclinical programs and initial clinical trials. A number of companies in the biopharmaceutical industry have suffered significant setbacks in advanced clinical trials due to lack of efficacy or unacceptable safety issues, notwithstanding promising results in earlier trials. Most biologic candidates that begin clinical trials are never approved by regulatory authorities for commercialization. We cannot therefore guarantee that we will be successful in obtaining the required efficacy and safety profile from the performance of any of our clinical programs.

Certain of our clinical trials include dose escalation studies in which the dose of SPEAR T-cells administered to patients is varied or initial studies in which the pre-treatment regimen may be varied, for example a regimen with and without fludarabine. The outcome of such dose escalation or initial studies will inform the clinical study going forward. However, the need to carry out dose escalation or other initial studies may result in delays in data from such clinical programs while the most suitable dose or regimen is assessed. For example, the trial design for our MAGE-A4, MAGE-A10 and AFP trials includes dose escalation and therefore efficacy data may not be obtained from initial patients treated in such studies.

In addition, even if such trials are successfully completed, we cannot guarantee that the FDA or foreign regulatory authorities will interpret the results as we or our collaborators do. Accordingly, more trials may be required before we can submit any SPEAR T-cell for regulatory approval. To the extent that the results of the trials are not satisfactory to the FDA or foreign regulatory authorities for support of a marketing application, we may be required to expend significant resources, which may not be available to us, to conduct additional trials in support of potential approval of our SPEAR T-cells. We cannot predict whether any SPEAR T-cells will satisfy regulatory requirements at all or for indications in which such SPEAR T-cells are currently being evaluated as part of any clinical programs.

We have limited experience conducting clinical trials which may cause a delay in any clinical program and in the obtaining of regulatory approvals.

Although we have recruited a team that has significant experience with clinical trials, as a company we have limited experience in conducting clinical trials and no experience in conducting clinical trials through to regulatory approval. In part because of this lack of experience, we cannot be certain that planned clinical trials will begin or be completed on time, if at all. Large-scale trials would require significant additional financial and management resources, and reliance on third-party clinical investigators, contract research organizations, or CROs, or consultants. Relying on third-party clinical investigators, consultants or CROs may force us to encounter delays that are outside of our control.

SPEAR T-cells may have undesirable side effects or have other properties that could halt their clinical development, prevent their regulatory approval, limit their commercial potential or otherwise result in significant negative consequences.

Where any SPEAR T-cell has undesirable side effects, regulatory approval for such therapeutic may be delayed or suspended, or alternatively may be restricted to particular disease indications or states that are more limited than desirable. This could result in the failure of any products reaching the market or a reduction in the patient population for which any SPEAR T-cell can be used.

Table of Contents

Common and more severe adverse events as of September 5, 2017 considered by investigators to be at least possibly related to administration of SPEAR T-cells (including the NY-ESO SPEAR T-cell) include: fever, fatigue, chest pain, nausea, diarrhea, enterocolitis, anemia, leukopenia, neutropenia, febrile neutropenia, lymphopenia, thro