GeoVax Labs, Inc.
Form 10-Q
August 07, 2018

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
For the transition period from ______ to ______

Commission file number 000-52091

GEOVAX LABS, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**87-0455038**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1900 Lake Park Drive Suite 380 Smyrna, Georgia	**30080**
(Address of principal executive offices)	(Zip Code)

(678) 384-7220

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant

was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)
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 standards 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 August 7, 2018, 169,736,810 shares of the Registrant's common stock, $.001 par value, were issued and outstanding.

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Part I -- FINANCIAL INFORMATION

Item 1 Financial Statements

GEOVAX LABS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$*190,969*	$*312,727*
Grant funds and other receivables	-	*59,758*
Prepaid expenses and other current assets	*148,180*	*75,589*
Total current assets	*339,149*	*448,074*
Property and equipment, net	*21,221*	*31,151*
Deposits	*11,010*	*11,010*
Total assets	$*371,380*	$*490,235*
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable	$*66,032*	$*77,581*
Accrued expenses (Note 6)	*998,062*	*733,711*
Current portion of note payable	*4,168*	-
Total current liabilities	*1,068,262*	*811,292*
Note payable, net of current portion	*45,832*	-
Total liabilities	*1,114,094*	*811,292*
Commitments (Note 8)		
Stockholders' equity (deficiency):		
Preferred stock, $.01 par value:		
Authorized shares – 10,000,000		
Series B convertible preferred stock, $1,000 stated value; 100 shares issued and outstanding at June 30, 2018 and December 31, 2017	*76,095*	*76,095*
Series C convertible preferred stock, $1,000 stated value; 2,570 shares issued and outstanding at June 30, 2018 and December 31, 2017	*842,990*	*842,990*
Series D convertible preferred stock, $1,000 stated value; 205 and 1,000 shares issued and outstanding at June 30, 2018 and December 31, 2017	*200,900*	*980,000*

Series E convertible preferred stock, $1,000 stated value; 600 and -0- shares issued and outstanding at June 30, 2018 and December 31, 2017	*590,000*	-
Common stock, $.001 par value:		
Authorized shares – 600,000,000		
Issued and outstanding shares – 164,736,810 and 106,736,810 at June 30, 2018 and December 31, 2017	*164,737*	*106,737*
Additional paid-in capital	*36,558,210*	*35,589,911*
Accumulated deficit	*(39,175,646*)	*(37,916,790*)
Total stockholders' equity (deficiency)	*(742,714*)	*(321,057*)
Total liabilities and stockholders' equity (deficiency)	$*371,380*	$*490,235*

See accompanying notes to condensed consolidated financial statements.

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GEOVAX LABS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Grant and collaboration revenue	$*93,265*	$*352,137*	$*314,564*	$*647,872*
Operating expenses:				
Research and development	*372,202*	*518,098*	*859,196*	*1,069,893*
General and administrative	*359,197*	*352,191*	*716,425*	*644,858*
Total operating expenses	*731,399*	*870,289*	*1,575,621*	*1,714,751*
Loss from operations	*(638,134*)	*(518,152*)	*(1,261,057*)	*(1,066,879*)
Other income (expense):				
Interest income	*1,716*	*1,271*	*3,034*	*1,657*
Interest expense	*(625*)	-	*(833*)	-
Total other income (expense)	*1,091*	*1,271*	*2,201*	*1,657*
Net loss	$*(637,043*)	$*(516,881*)	$*(1,258,856*)	$*(1,065,222*)
Basic and diluted:				
Loss per common share	$*(0.00*)	$*(0.01*)	$*(0.01*)	$*(0.02*)
Weighted averages shares outstanding	*155,209,337*	*59,791,475*	*139,775,484*	*57,583,491*

See accompanying notes to condensed consolidated financial statements.

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GEOVAX LABS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(1,258,856)	$(1,065,222)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,930	13,796
Stock-based compensation expense	132,913	29,102
Changes in assets and liabilities:		
Grant funds receivable	59,758	(50,698)
Prepaid expenses and other current assets	41,695	30,027
Accounts payable and accrued expenses	252,802	281,745
Total adjustments	497,098	303,972
Net cash used in operating activities	(761,758)	(761,250)
Cash flows from investing activities:		
Purchase of property and equipment	-	(4,350)
Net cash used in investing activities	-	(4,350)
Cash flows from financing activities:		
Net proceeds from sale of preferred stock	590,000	980,000
Net proceeds from sale of common stock	-	154,167
Proceeds from issuance of note payable	50,000	-
Net cash provided by financing activities	640,000	1,134,167
Net increase (decrease) in cash and cash equivalents	(121,758)	368,567
Cash and cash equivalents at beginning of period	312,727	454,030
Cash and cash equivalents at end of period	$190,969	$822,597

Supplemental disclosure of cash flow information:

During the six months ended June 30, 2018, 795 shares of Series D Convertible Preferred Stock were converted into 53,000,000 shares of common stock. During the six months ended June 30, 2017, 58 shares of Series C Convertible Preferred Stock were converted into 3,862,000 shares of common stock (Note 9).

See accompanying notes to condensed consolidated financial statements.

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GEOVAX LABS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(unaudited)

1. Description of Business

GeoVax Labs, Inc. ("GeoVax" or the "Company"), is a clinical-stage biotechnology company developing human vaccines using our novel vaccine platform. Our current development programs are focused on preventive vaccines against Human Immunodeficiency Virus (HIV), Zika Virus, hemorrhagic fever viruses (Ebola, Sudan, Marburg, Lassa), and malaria, as well as therapeutic vaccines for chronic Hepatitis B infections and cancers. We believe our technology and vaccine development expertise are well-suited for a variety of human infectious diseases and we intend to pursue further expansion of our product pipeline.

Certain of our vaccine development activities have been, and continue to be, financially supported by the U.S. government. This support has been both in the form of research grants and contracts awarded directly to us, as well as indirect support for the conduct of preclinical animal studies and human clinical trials.

We operate in a highly regulated and competitive environment. The manufacturing and marketing of pharmaceutical products require approval from, and are subject to, ongoing oversight by the Food and Drug Administration (FDA) in the United States, by the European Medicines Agency (EMA) in the European Union, and by comparable agencies in other countries. Obtaining approval for a new pharmaceutical product is never certain, *may* take many years and often involves expenditure of substantial resources. Our goal is to build a profitable company by generating income from products we develop and commercialize, either alone or with *one* or more potential strategic partners.

GeoVax is incorporated under the laws of the State of Delaware and our principal offices are located in Smyrna, Georgia (metropolitan Atlanta area).

2. Basis of Presentation

The accompanying condensed consolidated financial statements at *June 30, 2018* and for the *three*-month and *six*-month periods ended *June 30, 2018* and *2017* are unaudited, but include all adjustments, consisting of normal recurring entries, which we believe to be necessary for a fair presentation of the dates and periods presented. Interim results are *not* necessarily indicative of results for a full year. The financial statements should be read in conjunction with our audited consolidated financial statements included in our Annual Report on Form *10*-K for the year ended *December 31, 2017.* We expect our operating results to fluctuate for the foreseeable future; therefore, period-to-period comparisons should *not* be relied upon as predictive of the results in future periods.

Our financial statements have been prepared assuming that we will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business for the *twelve*-month period following the date of the financial statements. We are devoting substantially all of our present efforts to research and development of our vaccine candidates. We have funded our activities to date from government grants and clinical trial assistance, and from sales of our equity securities. We will continue to require substantial funds to continue these activities.

We believe that our existing cash resources and government funding commitments will be sufficient to continue our planned operations to mid- *September 2018.* Due to our history of operating losses and our continuing need for capital to conduct our research and development activities, there is substantial doubt concerning our ability to operate as a going concern beyond that date. We are currently exploring sources of capital through additional government grants and contracts. We also intend to secure additional funds through sales of our equity securities or by other means. Management believes that we will be successful in securing the additional capital required to continue the Company's planned operations, but that our plans do *not* fully alleviate the substantial doubt about the Company's ability to operate as a going concern. Additional funding *may not* be available on favorable terms or at all. If we fail to obtain additional capital when needed, we will be required to delay, scale back, or eliminate some or all of our research and development programs as well as reduce our general and administrative expenses.

3. Significant Accounting Policies and Recent Accounting Pronouncements

We disclosed in Note *2* to our consolidated financial statements included in our Annual Report on Form *10*-K for the year ended *December 31, 2017* those accounting policies that we consider significant in determining our results of operations and financial position. Other than as described below, there have been *no* material changes to, or in the application of, the accounting policies previously identified and described in the Form *10*-K.

In *May 2014,* the Financial Accounting Standards Board (FASB) issued Accounting Standards Update *2014-09, Revenue from Contracts with Customers* (ASU *2014-09*), which creates a new Topic, Accounting Standards Codification Topic *606.* The standard is principle-based and provides a *five*-step model to determine when and how revenue is recognized. The core principle is that an entity should recognize revenue when it transfers 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. We adopted ASU *2014-09* effective *January 1, 2018;* such adoption had *no* material impact on our financial statements.

In *May 2017,* the FASB issued Accounting Standards Update *2017-09, Scope of Modification Accounting* (ASU *2017-09*), which amends Accounting Standards Codification Topic *718,* Compensation – Stock Compensation. ASU *2017-09* is an attempt to provide clarity and reduce both (*1*) diversity in practice and (*2*) cost and complexity when applying the guidance in Topic *718* to a change to the terms or conditions of a share-based payment award. We adopted ASU *2017-09* effective *January 1, 2018;* such adoption had *no* material impact on our financial statements.

In *June 2018,* the FASB issued Accounting Standards Update *2018-07, Improvements to Nonemployee Share-Based Payment Accounting* (ASU *2018-07*), that expands the scope of Topic *718* to include share-based payment transactions for acquiring goods and services from nonemployees. The guidance is effective for fiscal years beginning after *December 15, 2018,* including interim reporting periods within that fiscal year. We are currently evaluating the impact of the adoption of ASU *2018-07* on our financial statements.

There have been *no* other recent accounting pronouncements or changes in accounting pronouncements during the *six* months ended *June 30, 2018,* as compared to the recent accounting pronouncements described in our Annual Report on Form *10*-K for the fiscal year ended *December 31, 2017,* which we expect to have a material impact on our financial statements.

4. **Basic and Diluted Loss Per Common Share**

Basic net loss per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed using the weighted-average number of common shares and potentially dilutive common share equivalents outstanding during the period. Potentially dilutive common share equivalents consist of convertible preferred stock, stock options and stock purchase warrants. Common share equivalents which potentially could dilute basic earnings per share in the future, and which were excluded from the computation of diluted loss per share, as the effect would be anti-dilutive, totaled approximately *199.9* million and *285.5* million shares at *June 30, 2018* and *2017,* respectively.

5. Property and Equipment

Property and equipment as shown on the accompanying Condensed Consolidated Balance Sheets is composed of the following as of *June 30, 2018* and *December 31, 2017:*

	June 30, 2018	December 31, 2017
Laboratory equipment	$*530,306*	$*530,306*
Leasehold improvements	*115,605*	*115,605*
Other furniture, fixtures & equipment	*28,685*	*28,685*
Total property and equipment	*674,596*	*674,596*
Accumulated depreciation and amortization	*(653,375*)	*(643,445*)
Property and equipment, net	$*21,221*	$*31,151*

6. Accrued Expenses

Accrued expenses as shown on the accompanying Condensed Consolidated Balance Sheets is composed of the following as of *June 30, 2018* and *December 31, 2017:*

	June 30, 2018	December 31, 2017
Accrued management salaries	$*710,643*	$*532,615*
Accrued directors’ fees	*238,669*	*182,620*
Other accrued expenses	*48,750*	*18,476*
Total accrued expenses	$*998,062*	$*733,711*

7. Note Payable

On *February 28, 2018,* we entered into a Senior Note Purchase Agreement with Georgia Research Alliance, Inc. (GRA) pursuant to which we issued a *five*-year Senior Promissory Note (the "Note") to GRA in exchange for *$50,000.* The Note bears an annual interest rate of *5%,* payable monthly, with principal repayments beginning in the *second* year. Principal repayments are expected to be $-*0*- in *2018, $10,417* in *2019, $12,500* in *2020, 2021* and *2022,* and *$2,083* in *2023.* In connection with the Note, we also issued to GRA a *five*-year warrant to purchase *178,571* shares of our common stock (see Note *9*). Interest expense related to the Note for the *three*-month and *six*-month periods ended *June 30, 2018* was *$625* and *$833,* respectively.

8. Commitments

We lease approximately *8,400* square feet of office and laboratory space pursuant to an operating lease which expires on *December 31, 2018,* with annual extension options through *December 31, 2022.* As of *June 30, 2018,* our future minimum lease payments total *$78,273* all of which will be payable during *2018.* In the normal course of business, we *may* enter into various firm purchase commitments related to our research-related activities and, as of *June 30, 2018,* such unrecorded outstanding purchase commitments totaled approximately *$248,000,* all of which we expect to be reimbursable to us pursuant to our existing government grants.

9. Stockholders' Equity

Series B Convertible Preferred Stock

As of *June 30, 2018,* there are *100* shares of our Series B Convertible Preferred Stock ("Series B Preferred Stock") outstanding. The Series B Preferred Stock *may* be converted at any time at the option of the holder into shares of our common stock at a conversion price of *$0.35* per share, or *285,714* shares. During the *six* months ended *June 30, 2018,* there were *no* conversions or other transactions involving our Series B Preferred Stock.

Series C Convertible Preferred Stock

As of *June 30, 2018,* there are *2,570* shares of our Series C Convertible Preferred Stock ("Series C Preferred Stock") outstanding. The Series C Preferred Stock *may* be converted at any time at the option of the holder into shares of our common stock at a conversion price of *$0.015* per share, or *171,349,733* shares. During the *six* months ended *June 30, 2018,* there were *no* conversions or other transactions involving our Series C Preferred Stock.

Series D Convertible Preferred Stock

As of *June 30, 2018,* there are *205* shares of our Series D Convertible Preferred Stock ("Series D Preferred Stock") outstanding. The Series D Preferred Stock *may* be converted at any time at the option of the holder into shares of our common stock at a conversion price of *$0.015* per share, or *13,666,666* shares. During the *six* months ended *June 30, 2018, 795* shares our Series D Preferred Stock were converted into *53,000,000* shares of our common stock.

Series E Convertible Preferred Stock

In *March 2018,* we issued *600* shares of our Series E Convertible Preferred Stock, *$1,000* stated value ("Series E Preferred Stock"), for net proceeds, after deduction of certain expenses, of *$590,000.*

Each share of Series E Preferred Stock is entitled to a liquidation preference equal to the initial purchase price, has *no* voting rights, and is *not* entitled to a dividend. The Series E Preferred Stock is convertible at any time at the option of the holders into shares of our common stock, with an initial conversion price of *$0.08* per share. The Series E Preferred Shares contains price adjustment provisions, which *may,* under certain circumstances, reduce the conversion price on future dates according to a formula based on the then-current market price for our common stock.

We assessed the Series E Preferred Stock under ASC Topic *480,* "*Distinguishing Liabilities from Equity*" ("ASC *480"*), ASC Topic *815,* "*Derivatives and Hedging*" ("ASC *815"*), and ASC Topic *470,* "*Debt*" ("ASC *470"*). The preferred stock contains an embedded feature allowing an optional conversion by the holder into common stock which meets the definition of a derivative. However, we determined that the preferred stock is an "equity host" (as described by ASC *815*) for purposes of assessing the embedded derivative for potential bifurcation and that the optional conversion feature is clearly and closely associated to the preferred stock host; therefore, the embedded derivative does *not* require bifurcation and separate recognition under ASC *815.* During the *six* months ended *June 30, 2018,* there were *no* conversions or other transactions involving our Series E Preferred Stock

Common Stock Transactions

As discussed above, during the *six* months ended *June 30, 2018,* we issued *53,000,000* shares of our common stock pursuant to the conversion of *795* shares of our Series D Preferred Stock.

During the *six* months ended *June 30, 2018,* we issued *5,000,000* shares of our common stock in connection with our entering into a financial advisory and investment banking agreement (see "Stock-Based Compensation Expense" below).

Stock Options

The following table presents a summary of our stock option transactions during the *six* months ended *June 30, 2018:*

	Number of Shares	Weighted Average Exercise Price
Outstanding at December 31, 2017	*7,024,275*	$ *0.29*
Granted	--	--
Exercised	--	--
Forfeited or expired	*(138,000*)	*3.01*
Outstanding at June 30, 2018	*6,886,275*	$ *0.24*
Exercisable at June 30, 2018	*1,890,618*	$ *0.71*

Stock Purchase Warrants

On *February 28, 2018,* in connection with issuance of the note payable discussed in Note *7,* we issued a *five*-year warrant to purchase *178,571* shares of our common stock at a purchase price of *$0.042* per share. We had *no* other stock purchase warrants outstanding at *June 30, 2018.*

Stock-Based Compensation Expense

Stock-based compensation expense related to our stock option plans was *$23,221* and *$47,199* for the *three*-month and *six*-month periods ended *June 30, 2018,* respectively, as compared to *$14,522* and *$29,102* for the *three*-month and *six*-month periods ended *June 30, 2017,* respectively. Stock-based compensation expense for stock options is recognized on a straight-line basis over the requisite service period for the award and is allocated to research and development expense or general and administrative expense based upon the related employee classification. As of *June 30, 2018,* there was *$168,503* of unrecognized compensation expense related to stock options, which we expect to recognize over a weighted average period of *2.1* years.

Additionally, during the *three*-month and *six*-month periods ended *June 30, 2018* we recorded stock-based compensation expense of *$57,143* and *$85,714,* respectively, associated with common stock issued for financial advisory services. As of *June 30, 2018,* there was *$114,286* of unrecognized stock-based compensation expense associated with this arrangement, which we expect to recognize during the remainder of *2018.*

10. Income Taxes

Because of our historically significant net operating losses, we have *not* paid income taxes since inception. We maintain deferred tax assets that reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. These deferred tax assets are comprised primarily of net operating loss carryforwards and also include amounts relating to nonqualified stock options and research and development credits. The net deferred tax asset has been fully offset by a valuation allowance because of the uncertainty of our future profitability and our ability to utilize the deferred tax assets. Utilization of operating losses and credits will be subject to substantial annual limitations due to ownership change provisions of Section *382* of the Internal Revenue Code. The annual limitation will result in the expiration of net operating losses and credits before utilization.

11. Grants and Collaboration Revenue

We receive payments from government entities under our grants and contracts with the National Institute of Allergy and Infectious Diseases (NIAID) in support of our vaccine research and development efforts. We record revenue associated with government grants and contracts as the reimbursable costs are incurred. During the *three*-month and *six*-month periods ended *June 30, 2018,* we recorded *$93,265* and *$309,564,* respectively, of revenues associated with these grants and contracts, as compared to *$257,137* and *$552,872,* respectively, for the comparable periods of *2017.* As of *June 30, 2018,* there is an aggregate of *$771,951* in approved grant and contract funds available for use.

During the *first* quarter of *2018,* we recorded *$5,000* of revenue associated with a collaboration with the U.S. Naval Research Laboratory (USNRL) for development of high-quality antibodies useful for detection of Lassa virus.

In *March 2017,* we entered into a clinical trial collaboration agreement with American Gene Technologies International, Inc. (“AGT”) whereby AGT intends to conduct a phase *1* human clinical trial investigating our combined technologies as a functional cure for HIV infection. In connection with the agreement, during the *second* quarter of *2017* AGT paid to us a non-refundable upfront fee of *$95,000,* which we recorded as collaboration revenue during the *three* and *six*-month periods ended *June 30, 2017.*

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12. **Subsequent Events**

During *July 2018,* we issued *5,000,000* shares of our common stock pursuant to the conversion of *75* shares of our Series D Preferred Stock.

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

FORWARD LOOKING STATEMENTS

In addition to historical information, the information included in this Form 10-Q contains forward-looking statements. Forward-looking statements involve numerous risks and uncertainties, including but not limited to the risk factors set forth under the heading "Risk Factors" in the Annual Report on Form 10-K for the year ended December 31, 2017, and should not be relied upon as predictions of future events. Certain such forward-looking statements can be identified by the use of forward-looking terminology such as ''believes,'' ''expects,'' ''may,'' ''will,'' ''should,'' ''seeks,'' ''approximately," ''intends,'' ''plans,'' ''pro forma,'' ''estimates,'' or ''anticipates'' or other variations thereof or comparable terminology, or by discussions of strategy, plans, or intentions. Such forward-looking statements are necessarily dependent on assumptions, data, or methods that may be incorrect or imprecise and may be incapable of being realized. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- *whether we can raise additional capital as and when we need it;*
- *whether we are successful in developing our products;*
- *whether we are able to obtain regulatory approvals in the United States and other countries for sale of our products;*
- *whether we can compete successfully with others in our market; and*
- *whether we are adversely affected in our efforts to raise cash by the volatility and disruption of local and national economic, credit and capital markets and the economy in general.*

Readers are cautioned not to place undue reliance on forward-looking statements, which reflect our management's analysis only. We assume no obligation to update forward-looking statements.

Overview

GeoVax is a clinical-stage biotechnology company developing human vaccines against infectious diseases and cancer using a novel patented Modified Vaccinia Ankara-Virus Like Particle (MVA-VLP) vaccine platform. In this platform, MVA, a large virus capable of carrying several vaccine antigens, expresses proteins that assemble into highly effective VLP immunogens in the person being vaccinated. The MVA-VLP derived vaccines elicit durable immune responses in the host similar to a live-attenuated virus, while providing the safety characteristics of a replication-defective vector.

Our current development programs are focused on preventive vaccines against Human Immunodeficiency Virus (HIV), Zika Virus, hemorrhagic fever viruses (Ebola, Sudan, Marburg, and Lassa), and malaria, as well as therapeutic vaccines for chronic Hepatitis B infections and cancers. Our most advanced vaccine program is focused on the clade B subtype of HIV prevalent in the larger commercial markets of the Americas, Western Europe, Japan and Australia; this program is currently undergoing human clinical trials.

Our corporate strategy is to advance and protect our vaccine platform and use its unique capabilities to design and develop an array of products. We aim to advance products through to human clinical testing, and to seek partnership or licensing arrangements for commercialization. We will also leverage third party resources through collaborations and partnerships for preclinical and clinical testing. Our collaborators and partners include the National Institute of Allergy and Infectious Diseases (NIAID) of the National Institutes of Health (NIH), the HIV Vaccines Trial Network (HVTN), Centers for Disease Control and Prevention (CDC), United States Army Research Institute of Infectious Disease (USAMRIID), U.S. Naval Research Laboratory (USNRL), Emory University, University of Pittsburgh, Georgia State University Research Foundation, Peking University, University of Texas Medical Branch (UTMB), the Institute of Human Virology (IHV) at the University of Maryland, the Scripps Research Institute (TSRI), Burnet Institute in Australia, American Gene Technologies, Inc. (AGT), ViaMune, Inc., Vaxeal Holding SA, and CaroGen Corporation.

We have not generated any revenues from the sale of any such products, and we do not expect to generate any such revenues for at least the next several years. Our product candidates will require significant additional research and development efforts, including extensive preclinical and clinical testing. All product candidates that we advance to clinical testing will require regulatory approval prior to commercial use and will require significant costs for commercialization. We may not be successful in our research and development efforts, and we may never generate sufficient product revenue to be profitable.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates make adjustments as necessary. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

For a description of critical accounting policies that affect our significant judgments and estimates used in the preparation of our financial statements, refer to Item 7 in Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 2 to our Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no significant changes to our critical accounting policies from those disclosed in our 2017 Annual Report.

Recent Accounting Pronouncements

Information regarding recent accounting pronouncements is contained in Note 3 to the Condensed Consolidated Financial Statements, included in this Quarterly Report.

Liquidity and Capital Resources

Our principal uses of cash are to finance our research and development activities. Since inception, we have funded these activities primarily from government grants and clinical trial assistance, and from sales of our equity securities. At June 30, 2018, we had cash and cash equivalents of $190,969 and total assets of $371,380, as compared to $312,727 and $490,235, respectively, at December 31, 2017. At June 30, 2018, we had a working capital deficit of $729,113, compared to a deficit of $363,218 at December 31, 2017. Our current liabilities at June 30, 2018 includes $949,312 of accrued management salaries and director fees, payment of which is continuing to be deferred as discussed further below.

Net cash used in operating activities was $761,758 and $761,250 for the six-month periods ended June 30, 2018 and 2017, respectively. The variances between periods are due to fluctuations in our net losses, offset by non-cash charges such as depreciation and stock-based compensation expense, and by net changes in our assets and liabilities. Our net losses generally fluctuate based on expenditures for our research activities, partially offset by government grant revenues. As of June 30, 2018, there is $771,951 in approved grant funds available for use. See "Results of Operations – Grant and Collaboration Revenues" below for additional details concerning our government grants.

Members of our executive management team and our board of directors have deferred receipt of portions of their salaries and fees in order to help conserve the Company's cash resources. As of June 30, 2018, the accumulated deferrals totaled $949,312. We expect the ongoing deferrals of approximately $29,100 per month for the management salaries to continue until such time as a significant financing event (as determined by the board of directors) is consummated.

NIAID has funded the costs of conducting all of our human clinical trials (Phase 1 and Phase 2a) to date for our preventive HIV vaccines, with GeoVax incurring certain costs associated with manufacturing the clinical vaccine supplies and other study support. NIAID is also currently funding the cost of an ongoing Phase 1 trial (HVTN 114), which is investigating the effect of adding a "protein boost" component to our vaccine. Concurrently, a preclinical study in non-human primates (funded by a NIAID grant) is evaluating two additional proteins specifically chosen as boosting agents for GOVX-B11, and planning is underway for a Phase 1 trial to evaluate the safety and immunogenicity of these proteins in humans, which we expect to begin in the second half of 2018. Based on the results from these studies, we expect NIAID may then be ready to support a large phase 2b efficacy trial.

Net cash used in investing activities was $-0- and $4,350 for the six-month periods ended June 30, 2018 and 2017, respectively. Our investing activities have consisted predominantly of capital expenditures.

Net cash provided by financing activities was $640,000 and $1,134,167 for the six-month periods ended June 30, 2018 and 2017, respectively. During February 2018, we entered into a Senior Note Purchase Agreement with Georgia Research Alliance, Inc. pursuant to which we issued a five-year Senior Promissory Note (the "Note") for $50,000. The Note bears an annual interest rate of 5%, payable monthly, with principal repayments beginning in the second year. During March 2018, we sold shares of our Series E convertible preferred stock for net proceeds of $590,000. During the six-month period ended June 30, 2017, warrants to purchase shares of our common stock were exercised for total net proceeds of $154,167. During May 2017, we sold shares of our Series D convertible preferred stock to certain institutional investors for net proceeds of $980,000.

As of June 30, 2018, we had an accumulated deficit of $39.2 million. We expect for the foreseeable future we will continue to operate at a loss. The amount of the accumulated deficit will continue to increase, as it will be expensive to continue our research and development efforts. We will continue to require substantial funds to continue our activities and cannot predict the outcome of our efforts. We believe that our existing cash resources, combined with funding from existing NIH grants and clinical trial support will be sufficient to fund our planned operations to mid-September 2018. We will require additional funds to continue our planned operations beyond that date. We are currently seeking sources of capital through additional government grant programs and clinical trial support, and we may also conduct additional offerings of our equity securities. However, additional funding may not be available on favorable terms or at all and if we fail to obtain additional capital when needed, we may be required to delay, scale back, or eliminate some or all of our research and development programs as well as reduce our general and administrative expenses.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that are likely or reasonably likely to have a material effect on our financial condition or results of operations.

Contractual Obligations

As of June 30, 2018, we had noncancelable lease obligations and other firm purchase obligations totaling approximately $326,000, as compared to approximately $235,000 at December 31, 2017. We have no committed lines of credit and no other committed funding or long-term debt, with the exception of the $50,000 note payable to GRA. We have employment agreements with our senior management team, each of which may be terminated with 30 days advance notice. There have been no other material changes to the table presented in our Annual Report on Form 10-K for the year ended December 31, 2017.

Results of Operations

Net Loss

We recorded a net loss of $637,043 for the three months ended June 30, 2018, as compared to $516,881 for the three months ended June 30, 2017. For the six months ended June 30, 2018, we recorded a net loss of $1,258,856, as compared to $1,065,222 for the six months ended June 30, 2017. Our net losses will typically fluctuate due to the timing of activities and related costs associated with our vaccine research and development activities and our general

and administrative costs, as described in more detail below.

Grant and Collaboration Revenues

During the three-month and six-month periods ended June 30, 2018, we recorded grant and collaboration revenues of $93,265 and $314,564, respectively, as compared to $352,137 and $647,872, respectively, during the comparable periods of 2017. Grant revenues relate to grants and contracts from NIAID in support of our vaccine development activities. We record revenue associated with these grants as the related costs and expenses are incurred. The difference in our grant revenues from period to period is dependent upon our expenditures for activities supported by the grants, and fluctuates based on the timing of the expenditures

Additional detail concerning our grant revenues and the remaining funds available for use as of June 30, 2018 is presented in the table below.

	Grant Revenues Recorded During the Periods				Unused Funds Available at June 30, 2018
	Three Months Ended June 30,		Six Months Ended June 30,		
	2018	2017	2018	2017	
HIV – SBIR Grant	$35,685	$113,097	$223,196	$307,223	$32,854
HIV – SBIR Grant	-	104,169	-	158,972	-
HIV – Vaccine Development Contract	-	39,871	-	86,677	-
Zika – SBIR Grant	25,346	-	54,134		471,511
Lassa Fever – SBIR Grant	32,234	-	32,234	-	267,586
Total	$93,265	$257,137	$309,564	$552,872	$771,951

During the six-month period ended June 30, 2018, we recorded $5,000 of revenue associated with a collaboration with the U.S. Naval Research Laboratory (USNRL) for development of high-quality antibodies useful for detection of Lassa virus.

In March 2017, we entered into a collaboration with American Gene Technologies International, Inc. (AGT) whereby AGT intends to conduct a Phase 1 human clinical trial with our combined technologies, with the goal of developing a functional cure for HIV infection. The cost of the clinical trial (expected to begin in early 2019) will be borne by AGT. The primary objectives of the trial will be to assess the safety and efficacy of the therapy, with secondary objectives to assess the immune responses as a measure of efficacy. In exchange for use of our vaccine product in the clinical trial, AGT paid us a fee of $95,000 which we received during the second quarter of 2017 and which we recorded as revenue during the three and six month periods ended June 30, 2017. No commercial rights or licenses have yet been granted to AGT.

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Research and Development Expenses

During the three-month and six-month periods ended June 30, 2018, we recorded research and development expense of $372,202 and $859,196, respectively, as compared to $518,098 and $1,069,893, respectively, during the comparable periods of 2017. Research and development expense for the three-month and six-month periods of 2018 includes stock-based compensation expense of $10,511 and $21,462 respectively, as compared to $6,602 and $13,262, respectively, for the comparable periods of 2017 (see discussion under “Stock-Based Compensation Expense” below).

Our research and development expenses can fluctuate considerably on a period-to-period basis, depending on our need for vaccine manufacturing by third parties, the timing of expenditures related to our grants from NIAID, the timing of costs associated with any clinical trials being funding directly by us, and other factors. The overall decrease in research and development expense from the 2017 period to 2018 is primarily attributable to lower expenditures related to the activities supported by our grants from NIAID. Our research and development costs do not include costs incurred by the HVTN in conducting clinical trials of our preventive HIV vaccines; those costs are funded directly to the HVTN by NIAID.

We do not disclose our research and development expenses by project, since our employees’ time is spread across multiple programs and our laboratory facility is used for multiple vaccine candidates. We track the direct cost of research and development expenses related to government grant revenue by the percentage of assigned employees’ time spent on each grant and other direct costs associated with each grant. Indirect costs associated with grants are not tracked separately but are applied based on a contracted overhead rate negotiated with the NIH. Therefore, the recorded revenues associated with government grants approximates the costs incurred.

We do not provide forward-looking estimates of costs and time to complete our research programs due to the many uncertainties associated with vaccine development. Due to these uncertainties, our future expenditures are likely to be highly volatile in future periods depending on the outcomes of the trials and studies. As we obtain data from pre-clinical studies and clinical trials, we may elect to discontinue or delay vaccine development programs to focus our resources on more promising vaccine candidates. Completion of preclinical studies and human clinical trials may take several years or more, but the length of time can vary substantially depending upon several factors. The duration and the cost of future clinical trials may vary significantly over the life of the project because of differences arising during development of the human clinical trial protocols, including the number of patients that ultimately participate in the clinical trial; the duration of patient follow-up that seems appropriate in view of the results; the number of clinical sites included in the clinical trials; and the length of time required to enroll suitable patient subjects.

General and Administrative Expenses

During the three-month and six-month periods ended June 30, 2018, we recorded general and administrative expense of $359,197 and $716,425, respectively, as compared to $352,191 and $644,858, respectively, during the comparable periods of 2017. General and administrative costs include officers' salaries, legal and accounting costs, patent costs, and other general corporate expenses. General and administrative expense for the three-month and six-month periods of 2018 include stock-based compensation expense of $69,853 and $111,451, respectively; as compared to $7,920 and $15,840, respectively, for the comparable periods of 2017 (see discussion under "Stock-Based Compensation Expense" below). Excluding stock-based compensation expense, general and administrative expenses were $289,344 and $604,974 during the three-month and six-month periods ended June 30, 2018, respectively, as compared to $344,271 and $629,018, respectively during the comparable periods of 2017. The overall decrease in general and administrative expense from 2017 to 2018 is mostly attributable to costs incurred during 2017 for a special meeting of stockholders. We expect that our general and administrative costs may increase in the future in support of expanded research and development activities and other general corporate activities.

Stock-Based Compensation Expense

For the three-month and six-month periods ended June 30, 2018 and 2017, the components of stock-based compensation expense were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Stock option expense	$23,221	$14,522	$47,199	$29,102
Stock issued for services	57,143	-	85,714	-
Total stock-based compensation expense	$80,364	$14,522	$132,913	$29,102

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In general, stock-based compensation expense is allocated to research and development expense or general and administrative expense according to the classification of cash compensation paid to the employee, consultant or director to whom the stock compensation was granted. For the three-month and six-month periods ended June 30, 2018 and 2017, stock-based compensation expense was allocated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Expense Allocated to:	2018	2017	2018	2017
General and administrative expense	$69,853	$7,920	$111,451	$15,840
Research and development expense	10,511	6,602	21,462	13,262
Total stock-based compensation expense	$80,364	$14,522	$132,913	$29,102

Other Income (Expense)

Interest income for the three-month and six-month periods ended June 30, 2018 was $1,716 and $3,034, respectively, as compared to $1,271 and $1,657, respectively, for comparable periods of 2017. The variances between periods are primarily attributable to cash available for investment and interest rate fluctuations. Interest expense for the three-month and six-month periods ended June 30, 2018 was $625 and $833, respectively, related to the note payable issued to the GRA in February 2018; there was no interest expense during the comparable periods in 2017.

Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>

Not applicable.

Item 4 <u>Controls and Procedures</u>

Evaluation of disclosure controls and procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that the information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934, as amended (Exchange Act), is (1) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to management, including the Chief Executive Officer and Principal Financial and Accounting Officer, as appropriate to allow timely decisions regarding required disclosure.

Our management has carried out an evaluation, under the supervision and with the participation of our Principal Executive Officer and our Principal Financial and Accounting Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15 as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are 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 Securities and Exchange Commission's rules and forms.

Changes in internal control over financial reporting

There was no change in our internal control over financial reporting that occurred during the three months ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II -- OTHER INFORMATION

Item 1 Legal Proceedings

None.

Item 1A Risk Factors

For information regarding factors that could affect our results of operations, financial condition or liquidity, see the risk factors discussed under "Risk Factors" in Item 1A of our most recent Annual Report on Form 10-K. See also "Forward-Looking Statements," included in Item 2 of this Quarterly Report on Form 10-Q. There have been no material changes from the risk factors previously disclosed in our most recent Annual Report on Form 10-K.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

None not previously disclosed on Form 8-K.

Item 3 Defaults Upon Senior Securities

None.

Item 4 Mine Safety Disclosures

Not applicable

Item 5 **Other Information**

During the period covered by this report, there was no information required to be disclosed by us in a Current Report on Form 8-K that was not so reported, nor were there any material changes to the procedures by which our security holders may recommend nominees to our board of directors.

Item 6 **Exhibits**

The exhibits filed with this report are set forth on the exhibit index following the signature page and are incorporated by reference in their entirety into this item.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this quarterly report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

GEOVAX LABS, INC.

(Registrant)

Date:	August 7, 2018	By:	/s/ Mark W. Reynolds Mark W. Reynolds Chief Financial Officer (duly authorized officer and principal financial officer)

EXHIBIT INDEX

Exhibit Number	Description
4.1	Certificate of Designation of Preferences, Rights and Limitations of Series E Convertible Preferred Stock filed March 5, 2018 (1)
4.2	Form of Stock Certificate for the Series E Convertible Preferred Stock (1)

(ii) If there is an alteration of the premises on which the resolution of the general assembly was passed, the matter is framed differently: the board of directors retains its authority to take action in light of the new circumstances, although it may deem it appropriate to have the shareholders intervene in a general manner.

As such, the existence of a prior resolution does not have the effect of eliminating the board of directors liability in the event of fulfillment of the agreement, if the purpose thereof, the premise of the resolution, is frustrated: in other words, the shareholders, in abstract, did not accept the execution of such contracts; on the contrary, the acts at issue were approved by the general assembly to the extent that they were instrumental for the Business Combination. The shareholders authorized the carrying out of specific acts as part of a broader business context and not in merely abstract terms: they accepted the exchange and the purchase option on the basis of the objective to join the businesses of Oi and Portugal Telecom. To this extent, as the Business Combination became impossible or unviable, the premise for the exculpatory effect of the resolution lapsed.

Naturally, this does not mean that the board of directors lost the authority to take action on the matter: the prior resolution of the board of directors does not have the effect of limiting the authority of the directors which is legally attributed thereto by articles 405 and 406. This could only occur by imposition of the principle of good faith, if required as such by the matter, which we have already seen is not applicable. As such, the board of directors of PT, SGPS, S.A. maintains intact its legal powers(/duties) for the fulfillment of the agreement executed with Oi. In any case, it could opt for submitting the matter for deliberation by the shareholders pursuant to art. 373/3, for protection in light of the risk of liability, particularly taking account of the practical importance of the matter.

On the other hand, even where the board s actions are not being supported by a resolution of a general assembly, the same will be evidently legitimate, generally speaking, if the diligence standards which require the directors to maximize the interests of the shareholders of PT, SGPS, S.A. are observed. One notes that it is not sufficient to invoke the financial interest resulting from any appreciation of the shareholding in a third company arising from the deal: an entity in SGPS form, governed by decree-law no. 495/88, of December 30, 1988, is classified as a management holding company or administrative holding company, which means that, despite not

engaging in the business activity directly, it uses the acquisition and management of equity interests not as an end in itself but as a means to an end, (47) thereby intending to intervene actively in the running of the corporate business of the companies in which it has a stake. As opposed to a purely financial holding company, it merely has as an objective capitalizing on the investment through the management of equity interests, based on a logic of risk apportionment. Beforehand, one aims to intervene and control actively the life of the companies in which one has a stake. Even someone who rejects the right to give instructions, due to understanding that this already constitutes direct engagement in the activity, does not fail to recognize that the SGPS has as its exclusive objective the holding of equity interests in other companies, in order, in this way, to intervene in the running of the respective business. (48)

As such, the reference to the management of the equity interests *as an indirect form of engagement in the business activity* must not be understated and must also not be viewed as a mere formula which is systematically reproduced in the by-laws of various SGPSs, as the law requires, but without having any actual material meaning. In truth, the law expressly sets forth that the company engages in a business activity, albeit through the exercise of powers inherent to the ownership of capital stock, which means that SGPSs are formed not just to manage corporate stakes, but to influence the exercise of business activity though the powers resulting from its corporate status.

This means that, even if the transfer by Oi of the stake in PT Portugal, SGPS, S.A. is financially favorable for Oi and indirectly for PT, SGPS, S.A. and its shareholders, this does not mean that the directors of PT, SGPS, S.A. automatically gain legitimate authority from the prior resolution (and benefit from the removal of liability resulting therefrom) for the fulfillment of the agreement where the Business Combination is not concluded: one must always take into consideration any strategic objectives, to be evaluated in the specific case.

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(47) ENGRACIA ANTUNES, *As Sociedades gestoras de participações sociais* [Holding Companies] DSR Mar.-2009, year 1, vol. 1, 77-113, note 5.

(48) MENEZES CORDEIRO, *Sociedades* cit., 574.

For the same reasons, one cannot automatically consider that the pursuit of capital appreciation by a holding company (even if such investment is the main asset of the aforesaid company) and according to the duty to perform due diligence or duty of care of the directors, which implies a (i) duty of organizational and functional control or oversight; (ii) duty of correct procedure (for decision making); (iii) duty of taking decisions that are (substantially) reasonable.(49) If changes are observed in the initially agreed-upon scenario, the conformity of execution of the agreements with the duties of diligence of the directors can only be assessed, bearing in mind the financial interest (from its shareholding in Oi), but also strategic interests.

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(49) Cf. v.g. COUTINHO DC ABREU, Duties of care and loyalty by directors and corporate interest, in Reform of the Corporate Code, Coimbra, 2007, 16-47 (19 ss.).

CONCLUSIONS

1. The Memoranda of Understanding entered into between PT, SGPS, S.A. and Oi S.A. imposes a legal duty upon the parties to execute the Business Combination of the two companies.

2. The second Memorandum of Understanding, signed to adapt the initial plan to the circumstance presented by the breach of Rioforte, contains a concrete duty execute the exchange contract and the option contract, as well as a general obligation to undertake the business combination, notwithstanding the failure to achieve the terms of the alternative structure to be established.

3. This goal of putting into practice the consolidation of the two companies, regardless of the alternative found, has a binding character and implies that the autonomy of the parties is restricted, notwithstanding the character of the Memorandum of Understanding, as a preliminary contract or mitigated contract .

4. In the appropriate terms of a base understanding, the parties are legally bound to execute the Business Combination, while the continuation of negotiations shall be enforced only as a technical measure, in order to find a concrete way for it to take place.

5. It results from the interpretation of the aforesaid legal transaction, including its context, that the parties place the swap and the purchase option under the premise that the Business Combination would be undertaken, in such a way that any measure that may hinder this goal, undertaken by any of the parties, is contrary to the Memorandum.

6. This arises with the transfer of the shareholdings in PT Portugal, SGPS, S.A.

7. The freedom to dispose of the shares by Oi is therefore limited, which is not contrary to company autonomy or the nature of a corporation, bearing in mind the principle of *sunt servanda* and, as an accessory, the principle of good faith.

8. The crucial necessity of the transfer for Oi, namely from the perspective of the participation of the company in the consolidation taking place in the telecommunications sector in Brazil or the need to avoid violating financial covenants with financial institutions, does not constitute a legitimate motive for failing to execute the agreement.

9. Only a legally significant change in circumstances will release Oi from the terms of the Memorandum of Understanding.

10. Even in view of the Rioforte securities situation, the institution would still not be applicable where the parties expressly affirmed the intention to proceed with the Business Combination in the second Memorandum

11. In case of breach, general corresponding consequences result, namely civil liability (binding, with presumption of unlawfulness, guilt and causal link), and termination.

12. The preliminary nature of the contract does not alter the conclusion: it creates true legal duties, even though different from the classic duties.

13. Any decision to be made by the Oi Board of Directors as to the transfer of PT Portugal may be deemed to be an anticipatory breach and thus immediately considered a definitive breach, allowing immediate execution of corresponding consequences, with no necessity to wait for the occurrence of the sale.

14. The decision to execute the exchange and option contracts is under the authority of the board of directors, even though it is legitimate to put the subject forward for shareholder deliberation under article 373.73 of the Code of Corporations for purposes of protecting the directors from risk of liability.

15. The deliberation that occurred was based upon the presumption, explicitly present in the second Memorandum of Understanding, that the Business Combination would be concluded on the terms set forth to the market on October 2, 2013, and on February 19, 2014, including the creation of a telecommunications operator present in Portugal and Brazil, with only the changes set forth in this second Memorandum.

16. Observing changes to the presumptions under which the decision was taken, the Board of Directors maintains its powers to act in view of the new circumstances, while being able, however, to choose to ask for shareholder intervention on general terms.

17. Considering the changes in context, the Board of Directors is no longer relieved of liability in a scenario where the Business Combination is not executed.

18. The action of the board will be legitimate, in general terms, if it observes the duty of due diligence applicable to directors, which bind them to attend to financial, but also strategic, goals.

19. Therefore, it is not sufficient that the sale of PT Portugal brings financial value to Oi from its equity interest in PT SGPS, S.A. as a consequence of the investment this company would benefit from.

20. PT, SGPS, S.A. is, in fact, as *management holding company* and not merely a financial *holding company*. Therefore, its goals imply the active intervention in the life of the

holding companies as an indirect economic activity, instead of having as its exclusive goal the return on investment through the management of shareholdings.

21. Under these terms, the directors should take into account the strategic dimension of PT, SGPS, S.A., its mere financial goals not being considered legitimate.

Such is the opinion, unless otherwise stated, of

[signature]

Eduardo Paz Ferreira

Doctorate in Law

Full Professor

of the Lisbon Faculty of Law

[signature]

Ana Perestrelo de Oliveira

Doctorate in Law Auxiliary Professor

of the Lisbon Faculty of Law

Lisbon, November 21, 2014

São Paulo, January 7, 2015

Portugal Telecom SGPS, S.A.

C/O Board of Directors

Re: Capital Increase of Oi S.A. validated on 5.5.2014

Dear Sirs,

In response to the consultation presented by Board Member Mr. Rafael Mora, we confirm our understanding that the capital increase of Oi S.A., realized by means of a public offer, under which PT SGPS paid up subscribed shares using PT Assets and other subscribers paid up for their shares in cash, was duly validated by the Board of Directors of Oi S.A., on May 5, 2014, thus being valid and effective.

While paying for the capital increase of Oi S.A., PT SPGS transferred PT Assets to Oi S.A., which acquired them, being entitled to freely dispose of them, subject to eventual restrictions that could apply to the sale of assets by the company (creditors rights, corporate authorizations, and others).

The capital increase of Brazilian companies may be considered to be void if (i) it has violated public order rules, including with illicit or impossible purpose, or violated public rules of general interest, as, for instance, increase approved by the Board in amount exceeding authorized capital; or (ii) it has infringed irrevocable shareholders rights. In such case, the capital increase defect would be incurable and, once declared to be void, it would have the same effect as if there has never been any increase. On the other hand, the capital increase could be annulled if there were (i) formal defects , including calling, advertising, and term defects, power abuse and lack of deliberation by the Audit Board; or (ii) violation against shareholders irrevocable rights.

In the case of the capital increase of Oi S.A., if none of the defects above are found, we understand the capital increase is irreversible.

Lastly, we clarify that under Brazilian law, once the capital increase is validated, in case of error or defect in the evaluation of the asset provided as capital increase, Brazilian legislation determines that the subscriber and the evaluator may be liable for losses and damages caused to the company, due to guilt or intention.

These were the clarifications and comments we understand to be appropriate at the time. Notwithstanding, we are available for any clarification eventually needed.

Sincerely,

[signature]

Maria Cristina Cescon

Souza, Cescon, Barrieu, & Flesch Advogados

[INITIALS]

PEDRO MAIA

Assistant Professor at the School of Law of Coimbra

Doctor in Law by the University of Coimbra

To:

Dr. Luís Cortes Martins

M.I. Lawyer,

[handwritten]

Dear Dr. Cortes Martins,

Following our telephone conversation and your request, I present a brief summary on the question raised as contribution to the analysis to be carried out with the stakeholders.

1. Despite subscription by PT, SGPS related to the capital increase of OI, S.A. in compliance with an agreement executed between these companies (I believe, known as the strategic partnership agreement), the truth is that such capital increase has its own legal corporate regime.

2. Analysis of the consequences of an eventual termination by PT, SGPS of such strategic partnership agreement should be prepared *regarding the effects applicable to such capital increase and the subscription of shares by PT, SGPS, under the terms in Brazilian law*: only Brazilian law is competent to regulate corporate nature acts of companies with registered offices in Brazil and incorporated under Brazilian laws.

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3. I have no knowledge about Brazilian law to concretely position myself about the regime in force and applicable to this case, but, admitting that it is not relevantly different from Portuguese law, I briefly present what, in my understanding, would be the placement of this issue *in view of Portuguese law*:

a. Eventual termination of an agreement executed between the company and the shareholders providing for the subscription of capital increase, due to non-compliance, per se, does not determine, necessarily, the termination of the increase;

b. The capital increase is subject to its own voidance regime, and the termination is even questionable;

c. The causes that could determine a void on an increase of capital or its termination, should it be admitted, which is highly improbable respect, necessarily, the *increase per se* e.g., call of meeting, deliberation quorum, nature of entries, rights attributed to subscribing shareholders and for that end, *agreements executed between the company and third-parties/shareholders are irrelevant,* as well as its eventual *later non-compliance*;

d. Due to legal safety and certainty, third party stakeholders and the traffic in general cannot be exposed to the destruction of a capital increase (with consequent loss, by the company, of the equity value received by the company under the

e. operation), *due to facts outside the scope of the increase*, and, much less, *later than them*, especially considering that OI is a listed company.

4. The legal regime applicable to the *errors in the evaluation of entries* or *the impossibility of compliance by a shareholder* or *dispossession of the asset object of the entry (?)*, clearly reveals the guidance assumed by the legislator, aiming to safeguard, even upon sacrificing the interest of the shareholders, the protection of third parties: in none of these cases the increase is destroyed, on the contrary, the shareholder is required to provide the company, in cash, with the value corresponding to the difference or equity loss of the company (see article 25, item 3 and 4, CSC); in other words, in order to protect the increase, the shareholder is required to make investments he did not want or showed interest in doing;

5. The Portuguese legal regime is even more limiting regarding capital increases realized by *listed companies* (see articles 25 and 26 CVM) where, additional to the short timeframe to file actions claiming increases to be void, the law has the exception of undue repetition (applicable in general to the voidance of legal businesses), establishing that the shareholder should receive from the company not the amount provided to the company, but the *actual value of shares* (article 26, no. 2, CVM), and the company should not even provide this amount to the shareholder if there is any risk of non-compliance with its obligations before creditors (article 26, nos. 3 and 4, CVM).

6. I am not aware of the full terms of the agreement executed between PT, SGPS and OI, and I m not even aware of the law governing such agreement. Therefore, I have no knowledge if the regime determined by the parties for this agreement or arising out of the applicable law (should it be any law other than Portuguese) provides for and regulates the case of non-compliance and termination of the agreement under terms other than usual terms. However, except for any contractual or legal provision (in other legal systems applicable to the case) which I am not aware of, I cannot perceive, in any event regardless of the possibility to terminate the agreement, under general terms, for non-compliance by the party how this termination could imply, per se, destruction of the capital increase in OI, related to the portion subscribed by PT, SGPS. Effects of such termination, if any, would have to necessarily succeed pure repetition of everything that was provided and it is important to clarify that the provision of goods in cash by PT within the scope of the capital increase arises directly from the increase and not the agreement (the legal source is the subscription of the increase and not the execution of the agreement with OI), reason being, if the increase is valid, there should be no repetition of delivery of such assets, in abstract or in principle, and, consequently, even in case of termination due to non-compliance, PT SGPS would not receive the assets provided under such capital increases.

Coimbra, January 7, 2015

ANTONIO MENEZES CORDEIRO

Professor of the School of Law

of the University of Lisbon

Doctor in Law

To:

Mr. President of the Board of Directors

of Portugal Telecom, SGPS, SA

Copy: Mr. President of CMVM

Lisbon, January 6, 2015

Dear João Melo Franco

Following my recent communications, upon analysis of the letter from the Comissão de Mercado de Valores Mobiliários and after a long exchange of ideas with Mr. Dr. André Luiz Gomes, a highly regarded lawyer whom I admire and respect, I hereby confirm as follows:

1. The agreements executed by and between PT, SGPS, SA and OI SA were breached, from the time the latter arranged the sale of PT, Portugal SA;

2. Such breach entitles PT SGPS, SA, pursuant to Portuguese and Brazilian law, to terminate the agreement;

3. Termination is retroactive and places Portugal Telecom, SGPS, SA, under the exact status it held prior to the execution of the agreement: the company receives all of PT, Portugal, SA and, in exchange, returns the shares received;

4. Termination is extrajudicial, compulsory and immediately enforceable;

5. Termination is not limited on account of the capital increase: the increase remains in force, but with the refund of amounts received by PT, SGPS, SA;

6. Any collateral damages are born by Oi, SA: Brazilian law, on this point, is even clearer than Portuguese law;

7. PT, SGPS, SA holds, at this time, an asset in continuous decline; should it recover PT, Portugal, the company would be strongly valued;

8. Shareholders of PT, SGPS, SA, stand to benefit from the termination of the agreement : they could only consider otherwise due to lack of information.

This strategy is easily and clearly explainable to the market. There is no difficulty to find support with the best Portuguese and if needed Brazilian scholars. This can be in effect as soon as the Board over which you preside allows.

The information mentioned above was not communicated, in whole, to the market and to the shareholders. I do not believe that it could be rejected *ad nutum*, without a careful and independent examination that, as known, was not conducted. This is crucial to validate the decision.

Regarding the general meeting: I understand this should be called off, with the arrangement of a new meeting, with the following agenda:

1. Termination of the agreement executed with Oi SA, due to serious breach by it;

2. Appreciation of Oi SA s plan to sell to Altice the entire capital stock of PT Portugal SA, and authorization for such sale.

Item 2 should only be discussed if item 1 is not approved. Logically: if the agreement is retroactively terminated, there is nothing else to authorize.

Mr. President, I act independently and in connection with a grave imperative. I only intend to defend the value of the PT share and, thus, the shareholders equity, noting that I am not a shareholder.

Best regards,

President of the General Shareholders Meeting

[signature]

Prof. Dr. Antonio Menezes Cordeiro)

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: January 15, 2015

PORTUGAL TELECOM, SGPS, S.A.

By: /s/ Nuno Vieira
Nuno Vieira
Investor Relations Director

FORWARD-LOOKING STATEMENTS

This document may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management s current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words anticipates , believes , estimates , expects , plans and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.