

CLEVELAND BIOLABS INC  
Form 10-Q  
August 09, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from \_\_\_\_ to \_\_\_\_

Commission file number 001-32954

CLEVELAND BIOLABS, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

20-0077155  
(I.R.S. Employer Identification No.)

73 High Street, Buffalo, New York  
(Address of principal executive offices)

14203  
(Zip Code)

(Registrant's telephone number, including area code) (716) 849-6810

---

(Former name, former address and former fiscal year,  
if changed since last report)

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, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]

Accelerated filer [x]

Non-accelerated filer [ ]

Smaller reporting company [ ]

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

As of July 31, 2012, there were 35,864,790 shares outstanding of registrant's common stock, par value \$0.005 per share.

---

CLEVELAND BIOLABS INC. AND SUBSIDIARIES

10-Q

8/9/2012

TABLE OF CONTENTS

PAGE

PART I - FINANCIAL INFORMATION

|                             |   |           |
|-----------------------------|---|-----------|
| <u>ITEM 1:</u>              | <u>Consolidated Financial Statements</u>  | <u>1</u>  |
|                             | <u>Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011</u>  | <u>1</u>  |
|                             | <u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2012 and 2011</u>                  | <u>2</u>  |
|                             | <u>Consolidated Statements of Comprehensive Income/(Loss) for the Three and Six Months Ended June 30, 2012 and 2011</u> | <u>3</u>  |
|                             | <u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2012 and 2011</u>                            | <u>4</u>  |
|                             | <u>Consolidated Statement of Stockholders' Equity for the Six Months Ended June 30, 2012</u>                            | <u>5</u>  |
|                             | <u>Notes to Consolidated Financial Statements</u>   | <u>6</u>  |
| <u>ITEM 2:</u>              | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                            | <u>14</u> |
| <u>ITEM 3:</u>              | <u>Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>19</u> |
| <u>ITEM 4:</u>              | <u>Controls and Procedures</u>  | <u>19</u> |
| PART II - OTHER INFORMATION |   |           |
| <u>ITEM 1:</u>              | <u>Legal Proceedings</u>  | <u>21</u> |
| <u>ITEM 1A:</u>             | <u>Risk Factors</u>   | <u>21</u> |
| <u>ITEM 2:</u>              | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>  | <u>21</u> |
| <u>ITEM 3:</u>              | <u>Defaults Upon Senior Securities</u>  | <u>21</u> |
| <u>ITEM 4:</u>              | <u>Mine Safety Disclosures</u>  | <u>21</u> |
| <u>ITEM 5:</u>              | <u>Other Information</u>  | <u>21</u> |
| <u>ITEM 6:</u>              | <u>Exhibits</u>   | <u>22</u> |

Signatures

23

In this report, except as otherwise stated or the context otherwise requires, the terms “Cleveland BioLabs” and “CBLI” refer to Cleveland BioLabs, Inc., but not its consolidated subsidiaries and the “Company,” “we,” “us” and “our” refer to Cleveland BioLabs, Inc. together with its consolidated subsidiaries. Our common stock, par value \$0.005 per share, is referred to as “common stock.”

---

CLEVELAND BIOLABS, INC. AND  
SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

|   | June 30,<br>2012<br>(unaudited) | December 31,<br>2011 |
|---|---------------------------------|----------------------|
| <b>ASSETS</b>   |                                 |                      |
| Current assets:   |                                 |                      |
| Cash and cash equivalents   | \$ 13,229,680                   | \$ 22,872,589        |
| Short-term investments  | 8,788,455                       | 5,520,000            |
| Accounts receivable   | 92,562                          | 1,740,629            |
| Other current assets  | 1,324,280                       | 876,889              |
| <b>Total current assets</b>   | <b>23,434,977</b>               | <b>31,010,107</b>    |
|   |                                 |                      |
| Equipment, net  | 1,163,553                       | 1,084,204            |
| Other long-term assets  | 34,739                          | 32,490               |
| <b>Total assets</b>   | <b>\$ 24,633,269</b>            | <b>\$ 32,126,801</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                                 |                      |
| Current liabilities:  |                                 |                      |
| Accounts payable  | \$ 671,395                      | \$ 909,144           |
| Accrued expenses  | 3,350,308                       | 1,686,202            |
| Accrued warrant liability   | 3,022,933                       | 7,285,959            |
| Current portion of capital lease obligation   | 66,753                          | -                    |
| <b>Total current liabilities</b>  | <b>7,111,389</b>                | <b>9,881,305</b>     |
|   |                                 |                      |
| Noncurrent portion of capital lease obligation  | 134,717                         | -                    |
|   |                                 |                      |
| Commitments and contingencies   | -                               | -                    |
| <b>Total liabilities</b>  | <b>7,246,106</b>                | <b>9,881,305</b>     |
|   |                                 |                      |
| Stockholders' equity:   |                                 |                      |
| Preferred stock, \$.005 par value; 10,000,000 shares authorized, 0 shares issued and outstanding as of June 30, 2012 and December 31, 2011, respectively                      | -                               | -                    |
| Common stock, \$.005 par value; 80,000,000 shares authorized, 35,836,240 and 35,612,192 shares issued and outstanding as of June 30, 2012 and December 31, 2011, respectively | 179,182                         | 178,061              |
| Additional paid-in capital  | 111,433,674                     | 108,865,645          |
| Accumulated other comprehensive income  | 125,736                         | 84,613               |
| Accumulated deficit   | (110,533,477)                   | (100,067,647)        |
| <b>Total Cleveland BioLabs, Inc. stockholders' equity</b>   | <b>1,205,115</b>                | <b>9,060,672</b>     |
| Noncontrolling interest in stockholders' equity   | 16,182,048                      | 13,184,824           |
| <b>Total stockholders' equity</b>   | <b>17,387,163</b>               | <b>22,245,496</b>    |

|  |              |              |
|--|--------------|--------------|
| Total liabilities and stockholders' equity | \$24,633,269 | \$32,126,801 |
|--|--------------|--------------|

See Notes to Consolidated Financial Statements

1

---

CLEVELAND BIOLABS, INC. AND  
SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF  
OPERATIONS  
(UNAUDITED)

|  | Three Months Ended June 30, |               | Six Months Ended June 30, |              |
|--|-----------------------------|---------------|---------------------------|--------------|
|  | 2012                        | 2011          | 2012                      | 2011         |
| Revenues:  |                             |               |                           |              |
| Grants and contracts   | \$ 258,237                  | \$ 569,049    | \$ 1,189,634              | \$ 3,043,031 |
| Operating expenses:  |                             |               |                           |              |
| Research and development   | 6,093,275                   | 5,209,194     | 12,079,076                | 10,918,127   |
| General and administrative   | 3,326,686                   | 1,987,451     | 5,754,157                 | 3,864,653    |
| Total operating expenses   | 9,419,961                   | 7,196,645     | 17,833,233                | 14,782,780   |
| Loss from operations   | (9,161,724 )                | (6,627,596 )  | (16,643,599)              | (11,739,749) |
| Other income (expense):  |                             |               |                           |              |
| Interest and other income  | 70,252                      | 116,358       | 125,893                   | 218,578      |
| Foreign exchange gain (loss)   | 641,332                     | (174,578 )    | (51,084 )                 | (195,060 )   |
| Change in value of warrant liability   | 2,543,270                   | 17,815,964    | 4,263,026                 | 17,101,013   |
| Total other income (expense)   | 3,254,854                   | 17,757,744    | 4,337,835                 | 17,124,531   |
| Net income (loss)  | (5,906,870 )                | 11,130,148    | (12,305,764)              | 5,384,782    |
| Net loss attributable to noncontrolling interests  | 828,186                     | 238,076       | 1,839,934                 | 484,383      |
| Net income (loss) attributable to Cleveland BioLabs, Inc.                                  | \$ (5,078,684 )             | \$ 11,368,224 | \$ (10,465,830)           | \$ 5,869,165 |
| Net income (loss) available to common stockholders per share of common stock, basic        | \$ (0.14 )                  | \$ 0.38       | \$ (0.29 )                | \$ 0.20      |
| Net income (loss) available to common stockholders per share of common stock, diluted      | \$ (0.14 )                  | \$ 0.30       | \$ (0.29 )                | \$ 0.16      |
| Weighted average number of shares used in calculating net income (loss) per share, basic   | 35,745,675                  | 30,033,049    | 35,701,619                | 29,574,561   |
| Weighted average number of shares used in calculating net income (loss) per share, diluted | 35,745,675                  | 37,588,006    | 35,701,619                | 36,685,508   |

See Notes to Consolidated Financial Statements

CLEVELAND BIOLABS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE  
INCOME (LOSS)  
(UNAUDITED)

|   | Three Months Ended |                  | Six Months Ended |                  |
|---|--------------------|------------------|------------------|------------------|
|   | June 30,<br>2012   | June 30,<br>2011 | June 30,<br>2012 | June 30,<br>2011 |
| Net income (loss) including noncontrolling interests                | \$ (5,906,870)     | \$ 11,130,148    | \$ (12,305,764)  | \$ 5,384,782     |
| Other comprehensive income (loss)                                   |                    |                  |                  |                  |
| Foreign currency translation adjustment                             | (668,874)          | 43,344           | 65,764           | 247,443          |
| Comprehensive income (loss) including noncontrolling interests      | (6,575,744)        | 11,173,492       | (12,240,000)     | 5,632,225        |
| Comprehensive loss attributable to noncontrolling interests         | 1,122,633          | 227,591          | 1,815,293        | 428,195          |
| Comprehensive income (loss) attributable to Cleveland BioLabs, Inc. | \$ (5,453,111)     | \$ 11,401,083    | \$ (10,424,707)  | \$ 6,060,420     |

See Notes to Consolidated Financial Statements

CLEVELAND BIOLABS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

|  | For the Six Months Ended June 30, |               |
|--|-----------------------------------|---------------|
|  | 2012                              | 2011          |
| Cash flows from operating activities:  |                                   |               |
| Net income (loss)  | \$ (12,305,764 )                  | \$ 5,384,782  |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: |                                   |               |
| Depreciation   | 257,641                           | 210,068       |
| Amortization   | -                                 | 13,147        |
| Unrealized loss on short-term investments  | 12,801                            | -             |
| Noncash compensation   | 1,222,552                         | 2,107,639     |
| Warrant issuance costs   | -                                 | 150,827       |
| Change in value of warrant liability   | (4,263,026 )                      | (17,101,013 ) |
| Changes in operating assets and liabilities:   |                                   |               |
| Accounts receivable  | 1,701,736                         | 5,241,712     |
| Other current assets   | (494,131 )                        | (211,702 )    |
| Other long-term assets   | (2,592 )                          | (16,211 )     |
| Accounts payable   | (234,314 )                        | (614,846 )    |
| Deferred revenue   | -                                 | (8,426 )      |
| Accrued expenses   | 1,935,580                         | (226,439 )    |
| Net cash used in operating activities  | (12,169,517 )                     | (5,070,462 )  |
| Cash flows from investing activities:  |                                   |               |
| Purchase of short-term investments   | (4,973,524 )                      | (213,707 )    |
| Sale of short-term investments   | 1,347,181                         | -             |
| Purchase of equipment  | (116,355 )                        | (269,017 )    |
| Investment in patents  | -                                 | (322,545 )    |
| Net cash used in investing activities  | (3,742,698 )                      | (805,269 )    |
| Cash flows from financing activities:  |                                   |               |
| Issuance of common stock, net of offering costs                                      | -                                 | 22,078,267    |
| Noncontrolling interest capital contribution to Incuron, LLC                         | 5,893,557                         | 2,340,374     |
| Exercise of options  | 1,425                             | 522,259       |
| Repayment of capital lease obligation  | (20,221 )                         | -             |
| Cash warrant issuance costs and exercise fees  | -                                 | (165,914 )    |
| Exercise of warrants   | -                                 | 984,241       |
| Net cash provided by financing activities  | 5,874,761                         | 25,759,227    |
| Effect of exchange rate change on cash and equivalents                               | 394,545                           | 194,238       |
| Increase (decrease) in cash and cash equivalents                                     | (9,642,909 )                      | 20,077,734    |
| Cash and cash equivalents at beginning of period                                     | 22,872,589                        | 10,918,537    |
| Cash and cash equivalents at end of period   | \$ 13,229,680                     | \$ 30,996,271 |
| Supplemental disclosure of cash flow information:                                    |                                   |               |

Edgar Filing: CLEVELAND BIOLABS INC - Form 10-Q

|   |            |            |
|---|------------|------------|
| Cash paid during the period for interest                        | \$ 10,226  | \$ -       |
| Supplemental schedule of noncash financing activities:          |            |            |
| Equipment acquired through lease financing                      | \$ 221,690 | \$ -       |
| Conversion of warrant liability to equity upon warrant exercise | \$ -       | \$ 995,428 |
| Noncash financing costs on common stock offering                | \$ -       | \$ 277,206 |
| Noncash warrant issuance costs                                  | \$ -       | \$ 19,361  |

See Notes to Consolidated Financial Statements

4

---

CLEVELAND BIOLABS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF  
STOCKHOLDERS' EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2012  
(UNAUDITED)

|  | Common Stock<br>Shares | Common Stock<br>Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income | Accumulated<br>Deficit |
|--|------------------------|------------------------|----------------------------------|---|------------------------|
| Balance at January 1, 2012                                   | 35,612,192             | \$178,061              | \$108,865,645                    | \$84,613  | \$(100,067,800)        |
| Stock based compensation                                     | 223,298                | 1,117                  | 1,485,568                        | -   | -                      |
| Exercise of options  | 750                    | 4                      | 1,421                            | -   | -                      |
| Noncontrolling interest capital contribution to Incuron, LLC | -                      | -                      | 1,081,040                        | -   | -                      |
| Net loss   | -                      | -                      | -                                | -   | (10,465,800)           |
| Foreign currency translation                                 | -                      | -                      | -                                | 41,123  | -                      |
| Balance at June 30, 2012                                     | 35,836,240             | \$179,182              | \$111,433,674                    | \$125,736                                       | \$(110,533,800)        |

See Notes to Consolidated Financial Statements

CLEVELAND BIOLABS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

1. Description of Business

Cleveland BioLabs, Inc. (“CBLI”) is a clinical-stage biotechnology company with a focus on oncology drug development. Since inception, CBLI has pursued the research, development and commercialization of products that have the potential to treat cancer, prevent and treat acute radiation syndrome and counteract the toxic effects of radio and chemotherapies for oncology patients.

CBLI was incorporated under the laws of the State of Delaware on June 5, 2003 and is headquartered in Buffalo, New York. CBLI has two majority-owned subsidiaries, Incuron, LLC (“Incuron”) and Panacela Labs Inc. (“Panacela”), which were formed in 2010 and 2011, respectively. Additionally, Panacela has a wholly-owned subsidiary, OOO “Panacela Labs.”

2. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying unaudited consolidated financial statements include the accounts of CBLI and its majority-owned subsidiaries, Incuron and Panacela, collectively referred to herein as the “Company.” All significant intercompany balances and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements included herein have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC.

In the opinion of the Company’s management, any adjustments contained in the accompanying unaudited consolidated financial statements are of a normal recurring nature, and are necessary to present fairly the financial position of the Company as of June 30, 2012, results of operations for the three and six month periods ended June 30, 2012 and 2011, and cash flows for the six month periods ended June 30, 2012 and 2011. Interim results are not necessarily indicative of results that may be expected for any other interim period or for an entire year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. GAAP 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash equivalents are highly liquid investments with a maturity of 90 days or less at the date of purchase and consist of time deposits and investments in money market funds with commercial banks and financial institutions. As of June 30, 2012, \$4,648,481 of the Company's cash was restricted to the use of its subsidiaries.

### Short-Term Investments

The Company's short-term investments are classified as held to maturity given the intent and ability to hold the investments to maturity. Accordingly, these investments are carried at amortized cost. Short-term investments classified as held-to-maturity consisted of certificates of deposit with maturity dates beyond three months and less than one year. As of June 30, 2012, the Company's short-term investments were restricted to the use of its subsidiaries.

### Significant Customers and Accounts Receivable

Grant and contract revenue from the United States government accounted for approximately 100% of total revenue for all periods presented. Although the Company anticipates ongoing federal government contract and grant revenue, there is no guarantee that this revenue stream will continue in the future.

Accounts receivable consist of amounts due under reimbursement contracts with certain government and foreign entities. The Company extends unsecured credit to customers under normal trade agreements, which generally require payment within 30 days.

Management estimates an allowance for doubtful accounts that is based upon management's review of delinquent accounts and an assessment of the Company's historical evidence of collections. There were no allowances for doubtful accounts as of June 30, 2012 and December 31, 2011, as the collection history from the Company's customers indicated that collection was probable.

### Intellectual Property

Costs related to filing and pursuing patent applications are recognized as general and administrative expenses as incurred, since the recoverability of such expenditures is uncertain. Upon marketability approval by the U.S. Food and Drug Administration ("FDA") or a respective foreign governing body, such costs will be capitalized and depreciated over the expected life of the related patent.

### Line of Credit

CBLI has a working capital line of credit that is fully secured by cash equivalents and short-term investments. The working capital line of credit carries an interest rate equal to the prime rate, has a borrowing limit of \$600,000, and expires on May 31, 2013. At June 30, 2012 and December 31, 2011, there were no outstanding borrowings under this credit facility.

### Accounting for Stock-Based Compensation

The 2006 Equity Incentive Plan, as amended (the "Plan"), authorizes CBLI to grant (i) options to purchase common stock, (ii) restricted or unrestricted stock units, and (iii) stock appreciation rights, so long as the exercise or grant price of each are at least equal to the fair market value of the stock on the date of grant. At the 2012 annual meeting of stockholders, an amendment to increase the maximum number of shares of common stock reserved for issuance under the Plan was approved, and as of June 30, 2012, an aggregate of 10.0 million shares of common stock were authorized for issuance under the Plan, of which a total of approximately 3.3 million shares of common stock remained available for future awards. A single participant cannot be awarded more than 400,000 shares annually. Awards granted under the Plan have a contractual life of no more than 10 years. The terms and conditions of equity awards (such as price, vesting schedule, term and number of shares) under the Plan are specified in an award document, and approved by the Company's compensation committee.

The Company estimates the fair value of all grants using the closing market price of CBLI's common stock on the day of the grant. The Company utilizes the Black-Scholes valuation model for estimating the fair value of all stock options granted. Set forth below are the assumptions used in valuing the stock options granted and a discussion of the Company's methodology for developing each of the assumptions used:

7

---



Edgar Filing: CLEVELAND BIOLABS INC - Form 10-Q

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Adjusted Weighted Average Number of Common Shares Outstanding | 35,745,675 | 37,588,006 | 35,701,619 | 36,685,508 |
| Basic Net Income (Loss) Per Share                             | \$ (0.14 ) | \$ 0.38    | \$ (0.29 ) | \$ 0.20    |
| Diluted Net Income (Loss) Per Share                           | \$ (0.14 ) | \$ 0.30    | \$ (0.29 ) | \$ 0.16    |

8

---

Net loss per share of common stock for the three and six month periods ended June 30, 2012 are based on the weighted-average number of shares of common stock outstanding during such periods. Basic and diluted loss per share are identical for these periods as potentially dilutive securities have been excluded from the calculation of diluted net loss per share of common stock because their inclusion would be antidilutive. The potentially dilutive securities include 10,781,507 shares of common stock reserved for the exercise of outstanding options and warrants.

Net income per share of common stock for the three and six month periods ended June 30, 2011 excluded potentially dilutive securities of 2,021,635 reserved for the exercise of outstanding options and warrants as their inclusion would be antidilutive. These securities are considered anti-dilutive as their exercise prices exceeded the average market price of the Company's common stock during the respective periods.

#### Reclassifications

Certain amounts presented in the prior year financial statements have been reclassified to conform to the current year presentation.

#### Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, Fair Value Measurement (Topic 820) ("ASU 2011-04"), which contains amendments to achieve common fair value measurement and disclosures in U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 explains how to measure fair value for financial reporting. The guidance does not require fair value measurements in addition to those already required or permitted by other Topics. This ASU was effective for the Company beginning January 1, 2012. The adoption of ASU 2011-04 did not have a material effect on the Company's consolidated results of operations, financial position or liquidity, but did require expanded disclosures as set forth in Note 3, Fair Value of Financial Instruments.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income ("ASU 2011-05"). This guidance is intended to increase the prominence of other comprehensive income in financial statements by presenting it in either a single statement or two-statement approach. This ASU was effective for the Company beginning January 1, 2012. The adoption of ASU 2011-05 did not have a material effect on the Company's consolidated results of operations, financial position or liquidity. The Company elected to present comprehensive income (loss) in two separate but consecutive statements as part of the consolidated financial statements included in this Quarterly Report on Form 10-Q.

#### Contingencies

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of business. The Company accrues for liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. For all periods presented, the Company is not a party to any pending material litigation or other material legal proceedings.

#### 3. Fair Value of Financial Instruments

The Company measures and records cash equivalents and warrant liabilities at fair value in the accompanying financial statements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability, or an exit price, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, include:

Level 1 - Observable inputs for identical assets or liabilities such as quoted prices in active markets;  
Level 2 - Inputs other than quoted prices in active markets that are either directly or indirectly observable; and  
Level 3 - Unobservable inputs in which little or no market data exists, which are therefore developed by the Company using estimates and assumptions that reflect those that a market participant would use.

Edgar Filing: CLEVELAND BIOLABS INC - Form 10-Q

The following tables represent the Company's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011:

|   | As of June 30, 2012 |            |                    | Total              |
|---|---------------------|------------|--------------------|--------------------|
|   | Level 1             | Level 2    | Level 3            |                    |
| <b>Assets:</b>                                |                     |            |                    |                    |
| Investment in money market funds (1)          | \$7,257,267         | \$-        | \$-                | \$7,257,267        |
| <b>Total assets</b>                           | <b>\$7,257,267</b>  | <b>\$-</b> | <b>\$-</b>         | <b>\$7,257,267</b> |
| <b>Liabilities:</b>                           |                     |            |                    |                    |
| Compensatory stock options not yet issued (2) | \$-                 | \$-        | \$114,617          | \$114,617          |
| Accrued warrant liability                     | -                   | -          | 3,022,933          | 3,022,933          |
| <b>Total liabilities</b>                      | <b>\$-</b>          | <b>\$-</b> | <b>\$3,137,550</b> | <b>\$3,137,550</b> |

|   | As of December 31, 2011 |            |                    | Total               |
|---|-------------------------|------------|--------------------|---------------------|
|   | Level 1                 | Level 2    | Level 3            |                     |
| <b>Assets:</b>                                |                         |            |                    |                     |
| Investment in money market funds (1)          | \$16,326,888            | \$-        | \$-                | \$16,326,888        |
| <b>Total assets</b>                           | <b>\$16,326,888</b>     | <b>\$-</b> | <b>\$-</b>         | <b>\$16,326,888</b> |
| <b>Liabilities:</b>                           |                         |            |                    |                     |
| Compensatory stock options not yet issued (2) | \$-                     | \$-        | \$378,750          | \$378,750           |
| Accrued warrant liability                     | -                       | -          | 7,285,959          | 7,285,959           |
| <b>Total liabilities</b>                      | <b>\$-</b>              | <b>\$-</b> | <b>\$7,664,709</b> | <b>\$7,664,709</b>  |

(1) Included in cash and cash equivalents in the accompanying consolidated balance sheets.

(2) Included in accrued expenses in the accompanying consolidated balance sheets.

The Company uses the Black-Scholes model to measure the accrued warrant liability and its accrual for compensatory stock options not yet issued. The following are the assumptions used to measure the accrued warrant liability at June 30, 2012 and December 31, 2011, which were determined in a manner consistent with that described for grants of options to purchase common stock as set forth in Note 2:

|                                      | June 30, 2012  | December 31, 2011 |
|--------------------------------------|----------------|-------------------|
| Stock Price                          | \$ 1.57        | \$ 2.86           |
| Exercise Price                       | \$ 1.60 - 5.00 | \$ 1.60 - 5.00    |
| Term in years                        | 1.34 - 1.98    | 1.58 - 2.23       |
| Volatility                           | 82.75 - 95.53% | 66.68 - 71.55%    |
| Annual rate of quarterly dividends   | 0%             | 0%                |
| Discount rate- bond equivalent yield | 0.25 - 0.33%   | 0.20 - 0.28%      |

The following are the assumptions used to measure the compensatory stock options not yet issued at June 30, 2012 and December 31, 2011:



|                         | June 30,<br>2012 | December 31,<br>2011 |
|-------------------------|------------------|----------------------|
| Stock Price             | \$ 1.57          | \$ 2.86              |
| Term in years           | 5.5              | 5                    |
| Volatility              | 92.75%           | 92.75%               |
| Expected dividend yield | 0%               | 0%                   |
| Risk-free interest rate | 0.87%            | 0.83%                |

The following table sets forth a summary of changes in the fair value of the Company's Level 3 fair value measurements for the three and six months ended June 30, 2012 and 2011:

|   | Three months ended June 30,<br>2012 |  | Six months ended June 30, 2012  |  |
|---|-------------------------------------|--|---------------------------------|--|
|   | Accrued<br>Warrant<br>Liability     | Compensatory<br>Stock Options<br>Not<br>Yet Issued | Accrued<br>Warrant<br>Liability | Compensatory<br>Stock Options<br>Not<br>Yet Issued |
| Beginning Balance   | \$ 5,566,203                        | \$ 85,000  | \$ 7,285,959                    | \$ 378,750   |
| Total (gains) or losses, realized and unrealized, included in earnings (1)(2) | (2,543,270 )                        | -  | (4,263,026 )                    | 51,823   |
| Issuances   | -                                   | 29,617   | -                               | 114,617  |
| Settlements   | -                                   | -  | -                               | (430,573 )   |
| Balance, June 30, 2012  | \$ 3,022,933                        | \$ 114,617   | \$ 3,022,933                    | \$ 114,617   |

|   | Three months ended June 30,<br>2011 |  | Six months ended June 30, 2011  |  |
|---|-------------------------------------|--|---------------------------------|--|
|   | Accrued Warrant<br>Liability        | Compensatory<br>Stock<br>Options Not<br>Yet Issued | Accrued<br>Warrant<br>Liability | Compensatory<br>Stock Options<br>Not<br>Yet Issued |
| Beginning Balance   | \$ 25,118,146                       | \$ -   | \$ 25,350,733                   | \$ 2,992,180                                       |
| Total (gains) or losses, realized and unrealized, included in earnings (1)(2) | (17,815,964 )                       | -  | (17,101,013 )                   | (17,953 )  |
| Issuances   | 2,752,441                           | -  | 2,752,441                       | -  |
| Settlements   | (47,890 )                           | -  | (995,428 )                      | (2,974,227 )                                       |
| Balance, June 30, 2011  | \$ 10,006,733                       | \$ -   | \$ 10,006,733                   | \$ -   |

Amount of total gains or losses for the period included in earnings as change in value of warrant liability attributable to the change in unrealized gains or losses relating to liabilities recorded at the reporting date:

|               |                  |      |                  |      |
|---------------|------------------|------|------------------|------|
| June 30, 2012 | \$ (2,543,270 )  | \$ - | \$ (4,263,026 )  | \$ - |
| June 30, 2011 | \$ (17,810,176 ) | \$ - | \$ (17,067,499 ) | \$ - |

- (1) Realized and unrealized gains or losses related to the accrued warrant liability were included as change in value of accrued warrant liability.
- (2) Realized gains or losses related to compensatory stock options were included in research and development expense and general and administrative expense.

Separate disclosure is required for assets and liabilities measured at fair value on a recurring basis, as documented above, from those measured at fair value on a nonrecurring basis. As of June 30, 2012 and December 31, 2011, the Company had no assets or liabilities that were measured at fair value on a nonrecurring basis.

The Company considers the accrued warrant liability and compensatory stock options not yet issued to be Level 3 because some of the inputs into the measurements are neither directly or indirectly observable. Both the accrued warrant liability and compensatory stock options not yet issued use management's estimate for the expected term, which is based on the safe harbor method as historical exercise information over the term of each security is not readily available. Additionally, the number of compensatory options awarded involves an estimate of management's performance in relation to the targets set forth in the Company's Executive Compensation Plan. The following table summarizes the unobservable inputs into the fair value measurements:

| Description  | Fair Value   | June 30, 2012               |                    |             |
|--|--------------|-----------------------------|--------------------|-------------|
|  |              | Valuation Technique         | Unobservable Input | Range       |
| Compensatory stock options not yet issued (Range in years) | \$ 114,617   | Black-Scholes pricing model | Expected term      | 5           |
| Quantity of options  |              |                             |                    | 200,000     |
| Accrued warrant liability (Range in years)                 | 3,022,933    | Black-Scholes pricing model | Expected term      | 1.34 - 1.98 |
|  | \$ 3,137,550 |                             |                    |             |

Management believes the value of both the accrued warrant liability and compensatory stock options is more sensitive to a change in the Company's stock price at the end of the respective reporting period as opposed to a change in one of the unobservable inputs described above.

The carrying amounts of the Company's short-term financial instruments, which include cash, accounts receivable and accounts payable, approximate their fair values due to their short maturities.

#### 4. Stockholders' Equity

The Company has granted options to purchase shares of common stock and has granted restricted stock units under the Plan.

The following is a summary of option award activity under the Plan during the six months ended June 30, 2012:

|                                | Stock Options | Weighted Average Exercise Price per Share | Weighted Average Remaining Contractual Term (in Years) | Intrinsic Value |
|--------------------------------|---------------|---|--|-----------------|
| Outstanding, December 31, 2011 | 4,117,979     | \$ 5.21                                   | 7.77   | \$303,825       |
| Exercisable, December 31, 2011 | 3,761,879     | 5.26                                      | 7.65   | \$231,517       |
| Granted                        | 639,500       | 2.33                                      |  |                 |
| Exercised                      | (750 )        | 1.90                                      |  |                 |
| Forfeited, Canceled            | (40,717 )     | 6.14                                      |  |                 |
| Outstanding, June 30, 2012     | 4,716,012     | 4.81                                      | 7.61   | \$51,868        |
| Exercisable, June 30, 2012     | 4,268,162     | 4.95                                      | 7.45   | \$20,918        |
| Outstanding, December 31, 2010 | 3,264,440     | \$ 5.10                                   | 7.85   | \$8,589,582     |
| Exercisable, December 31, 2010 | 2,907,290     | 4.94                                      | 7.80   | \$7,722,234     |
| Granted                        | 1,013,635     | 7.27                                      |  |                 |
| Exercised                      | (184,092 )    | 2.84                                      |  |                 |

Edgar Filing: CLEVELAND BIOLABS INC - Form 10-Q

|                            |           |      |      |           |
|----------------------------|-----------|------|------|-----------|
| Forfeited, Canceled        | (55,314 ) | 3.61 |      |           |
| Outstanding, June 30, 2011 | 4,038,669 | 5.76 | 7.92 | \$290,758 |
| Exercisable, June 30, 2011 | 3,635,352 | 5.56 | 7.89 | \$244,325 |

During the six months ended June 30, 2012 and 2011, the Company granted 639,500 and 1,013,635 stock options under the Plan, respectively. The Company recognized a total of \$767,293 and \$1,685,986 in net expense related to stock options for the six months ended June 30, 2012 and 2011, respectively. The Company also granted 223,298 and 75,917 shares of stock under the Plan and recognized a total of \$455,259 and \$461,302 in expense during the six months ended June 30, 2012 and 2011, respectively.

## 5. Warrants

The Company has issued warrants to strategic partners, consultants and investors with exercise prices ranging from \$1.60 to \$5.00. The warrants expire between one and seven years from the date of grant, subject to the terms applicable in the agreement. The following is a summary of warrant activity for the six months ended June 30, 2012:

|                                  | Number of Warrants | Weighted Average Exercise Price | Number of Common Shares Exercisable Into |
|----------------------------------|--------------------|---------------------------------|--|
| Outstanding at December 31, 2011 | 10,121,219         | \$ 3.76                         | 12,564,193                               |
| Forfeited, Canceled              | (4,055,724)        | 5.07                            | (6,498,698)                              |
| Outstanding at June 30, 2012     | 6,065,495          | \$ 2.89                         | 6,065,495                                |

## 6. Noncontrolling Interests

On January 20, 2011, March 14, 2011 and May 31, 2012, Bioprocess Capital Ventures, the noncontrolling interest holder in Incuron, contributed approximately 68.0 million Russian rubles (approximately \$2.3 million), approximately 1.73 million Russian rubles (approximately \$0.1 million) and approximately 194.0 million Russian rubles (approximately \$5.9 million) to Incuron, respectively, which increased its ownership percentage from 16.1% to 40.78% and decreased CBLI's ownership percentage from 83.9% to 59.22%.

The effect of the changes in CBLI's ownership interest in Incuron on CBLI's equity is shown on the consolidated statement of stockholders' equity.

## 7. Subsequent Events

In July 2012, CBLI, through a wholly-owned Russian subsidiary, signed a contract valued at 139.0 million Russian rubles, or approximately \$4.2 million (based on current exchange rates), with the Ministry of Industry and Trade of the Russian Federation for development of CBLB612. The contract, issued under Russia's "Pharma 2020" development initiative, provides funding over a period of approximately three years, which will be used to support completion of preclinical studies, filing of an IND and Phase I and II clinical studies.

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

This management's discussion and analysis of financial condition and results of operations and other portions of this filing contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by the forward-looking information. Factors that may cause such differences include, but are not limited to, availability and cost of financial resources, results of our research and development efforts and clinical trials, product demand, market acceptance and other factors discussed below and in our other SEC filings, including our Annual Report on Form 10-K for the year ended December 31, 2011. See also the Risk Factors discussed under Item 1A of such Annual Report. This management's discussion and analysis of financial condition and results of operations should be read in conjunction with our financial statements and the related notes included elsewhere in this filing and in our Annual Report on Form 10-K for the year ended December 31, 2011.

### OVERVIEW

We are a clinical-stage biotechnology company with a focus on oncology drug development. Our lead drug candidate, CBLB502, is being developed for dual indications for biodefense application as a radiation countermeasure under a U.S. Food and Drug Administration ("FDA") regulation commonly referred to as the "Animal Rule", and as a cancer treatment and an oncologic supportive care therapy under the FDA's traditional drug approval pathway. We anticipate that CBLB502, upon licensure as a radiation countermeasure, will be sold to the U.S. government for the national stockpile and other defense-related purposes, allied foreign governments and the nuclear energy industry, and upon licensure as a cancer treatment, will be sold to the public through traditional channels.

Since our inception, we have pursued the research, development and commercialization of products that have the potential to treat cancer, prevent and treat acute radiation syndrome and counteract the toxic effects of radio and chemotherapies for oncology patients. Presently, we have nine product candidates in our pipeline that are being developed directly by us and our majority-owned subsidiaries, Incuron, LLC ("Incuron") and Panacela Labs, Inc. ("Panacela").

In addition to CBLB502, our product pipeline includes: CBLB612, an inducer and mobilizer of hematopoietic stem cells; the Curaxin line of cancer treatment candidates being developed by Incuron, which specifically includes CBLC102, a nonproprietary molecule originally used to combat the effects of malaria, which we have identified as having cancer treatment properties, and CBLC137, a new, proprietary molecule that leverages similar mechanisms of action in combating cancer; and five preclinical product candidates being developed by Panacela (Revercom, Mobilan, Arkil, and Antimycon for cancer treatment or oncology applications and Xenomycins for anti-infective applications).

See "Item 1. Business" in our Annual Report on Form 10-K for the year ended December 31, 2011 for more information on our product candidates.

### Critical Accounting Policies and Significant Estimates

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect our reported amounts of assets, liabilities, revenues and expenses.

On an ongoing basis, we evaluate our estimates and judgments, including those related to accrued expenses, income taxes, stock-based compensation, investments and in-process research and development. We based 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 and the reported amounts of revenues and expenses that are not readily apparent from other sources. Actual results may differ

from these estimates.

14

---

Our critical accounting policies and significant estimates are detailed in our Annual Report on Form 10-K for the year ended December 31, 2011. Other than as set forth below, our critical accounting policies and significant estimates have not changed substantially from those previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

#### Fair Value of Financial Instruments

We use the Black-Scholes model to determine the fair value of certain common stock warrants on a recurring basis and classify such warrants as Level 3 in the fair value hierarchy. The Black-Scholes model utilizes inputs consisting of: (i) the closing price of our common stock; (ii) the expected remaining life of the warrants; (iii) the expected volatility using a weighted average of historical volatilities of CBLI and a group of comparable companies; and (iv) the risk-free market rate.

As of June 30, 2012, we held approximately \$7.3 million in money market funds, which we classified as Level 1, and held approximately \$3.1 million in accrued expenses primarily related to warrants to purchase common stock, which we classified as Level 3.

#### Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2011-04, Fair Value Measurement (Topic 820) (“ASU 2011-04”), which contains amendments to achieve common fair value measurement and disclosures in U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 explains how to measure fair value for financial reporting. The guidance does not require fair value measurements in addition to those already required or permitted by other Topics. This ASU was effective for the Company beginning January 1, 2012. The adoption of ASU 2011-04 did not have a material effect on the Company’s consolidated results of operations, financial position or liquidity, but did require expanded disclosures as set forth in Note 3, Fair Value of Financial Instruments in the consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income (“ASU 2011-05”). This guidance is intended to increase the prominence of other comprehensive income in financial statements by presenting it in either a single statement or two-statement approach. This ASU was effective for the Company beginning January 1, 2012. The adoption of ASU 2011-05 did not have a material effect on the Company’s consolidated results of operations, financial position or liquidity. The Company elected to present comprehensive income in two separate but consecutive statements as part of the consolidated financial statements included in this Quarterly Report on Form 10-Q.

#### Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011

##### Revenue

Revenue decreased from approximately \$0.6 million for the three months ended June 30, 2011 to approximately \$0.3 million for the three months ended June 30, 2012, representing a decrease of approximately \$0.3 million, or 55%. This net decrease is primarily related to changes in research sponsored by the U.S. Department of Defense (“DoD”) and the Defense Threat Reduction Agency (“DTRA”), as set forth in the following table:

| Funding Source | Program            | Three months ended June 30, |           | Variance   |
|----------------|--------------------|-----------------------------|-----------|------------|
|                |                    | 2012                        | 2011      |            |
| DoD            | CBMS-MITS Contract | \$ 183,111                  | \$ 46,718 | \$ 136,393 |

Edgar Filing: CLEVELAND BIOLABS INC - Form 10-Q

|               |                              |            |            |              |
|---------------|------------------------------|------------|------------|--------------|
| DTRA          | DTRA Contract                | 75,126     | 518,118    | (442,992)    |
| NY State/RPCI | Sponsored Research Agreement | -          | 4,213      | (4,213 )     |
|               |                              | \$ 258,237 | \$ 569,049 | \$ (310,812) |

15

---

## Research and Development Expenses

Research and development expenses increased from approximately \$5.2 million for the three months ended June 30, 2011 to approximately \$6.1 million for the three months ended June 30, 2012, representing an increase of approximately \$0.9 million, or 17%. This increase reflected a net increase in research and development expenditures related to our Panacela compounds, CBLB612, and CBLB502 for oncology applications, which totaled approximately \$2.0 million. This increase was partially offset by a reduction of approximately \$0.7 million in research and development expenses for CBLB502 for biodefense applications, as we completed a major Good Laboratory Practice compliant animal study, and a reduction of approximately \$0.4 million for Curaxins.

|                                       | Three months ended June 30, |              |              |
|---------------------------------------|-----------------------------|--------------|--------------|
|                                       | 2012                        | 2011         | Variance     |
| CBLB502 for Biodefense Applications   | \$ 3,610,619                | \$ 4,329,981 | \$(719,362 ) |
| Curaxins                              | 408,996                     | 858,231      | (449,235 )   |
| General                               | -                           | 10,466       | (10,466 )    |
| Panacela Compounds                    | 1,599,975                   | -            | 1,599,975    |
| CBLB612                               | 272,904                     | 10,516       | 262,388      |
| CBLB502 for Oncology Applications     | 200,781                     | -            | 200,781      |
| Total research & development expenses | \$ 6,093,275                | \$ 5,209,194 | \$ 884,081   |

## General and Administrative Expenses

General and administrative costs increased from approximately \$2.0 million for the three months ended June 30, 2011 to approximately \$3.3 million for the three months ended June 30, 2012. This represents an increase of approximately \$1.3 million or 65%. Approximately \$0.6 million, or 46%, of this increase related to general and administrative expenses of our new subsidiary Panacela, which commenced operations in the fourth quarter of 2011. Approximately \$0.5 million, or 38%, of this increase related to business development expenditures. The remaining increase of approximately \$0.2 million, or 16%, related to a variety of cost increases between the periods, none of which were individually significant, including: increases in personnel costs, travel and professional fees related to investor relation activities, and an increase in outside finance and legal fees in part related to improved financial systems, controls and general corporate governance.

## Other Income and Expenses

Other income decreased from approximately \$17.8 million for the three months ended June 30, 2011 to approximately \$3.3 million for the three months ended June 30, 2012, representing a decrease of approximately \$14.5 million, or 81%. This decrease was primarily attributable to the periodic fair valuation of the Company's warrant liability which generated non-cash income of approximately \$2.5 million for the three months ended June 30, 2012 as compared to non-cash income of approximately \$17.8 million for the three months ended June 30, 2011, for a total decrease of approximately \$15.3 million between the periods. This decrease was partially offset by an increase in foreign currency exchange gains between the periods of approximately \$0.8 million.

## Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011

## Revenue

Revenue decreased from approximately \$3.0 million for the six months ended June 30, 2011 to approximately \$1.2 million for the six months ended June 30, 2012, representing a decrease of approximately \$1.8 million, or 60%. This decrease is primarily related to decreases in research sponsored by the DoD, DTRA and the U.S. Department of Health and Human Services (“HHS”), Biomedical Advanced Research and Development Authority (“BARDA”) as set forth in the following table:

| Funding Source | Program                      | Six months ended June 30, |              | Variance       |
|----------------|------------------------------|---------------------------|--------------|----------------|
|                |                              | 2012                      | 2011         |                |
| DoD            | CBMS-MITS Contract           | \$ 1,062,945              | \$ 1,921,852 | \$ (858,907 )  |
| DTRA           | DTRA Contract                | 126,689                   | 875,005      | (748,316 )     |
| HHS            | BARDA Contract               | -                         | 237,748      | (237,748 )     |
| NY State/RPCI  | Sponsored Research Agreement | -                         | 8,426        | (8,426 )       |
|                |                              | \$ 1,189,634              | \$ 3,043,031 | \$ (1,853,397) |

## Research and Development Expenses

Research and development expenses increased from approximately \$10.9 million for the six months ended June 30, 2011 to approximately \$12.1 million for the six months ended June 30, 2012, representing an increase of approximately \$1.2 million, or 11%. This increase was primarily due to activities associated with our Panacela Compounds and CBLB612 that began subsequent to June 30, 2011. These programs, in the aggregate, accounted for approximately \$2.8 million of the growth in research and development expenses. We also experienced an increase in research and development expenses for CBLB502 for oncology applications, as we began our Advanced Cancer Trial at Roswell Park Cancer Institute (“RPCI”). These increases were partially offset by a decline in spending related to CBLB502 for biodefense applications, as we completed development work and commenced pivotal studies, and a reduction in spending related to our Curaxins.

|                                       | Six months ended June 30, |              | Variance      |
|---------------------------------------|---------------------------|--------------|---------------|
|                                       | 2012                      | 2011         |               |
| CBLB502 for Biodefense Applications   | \$7,417,587               | \$8,834,913  | \$(1,417,326) |
| Curaxins                              | 1,439,299                 | 1,979,859    | (540,560 )    |
| General                               | -                         | 70,069       | (70,069 )     |
| Panacela Compounds                    | 2,265,554                 | -            | 2,265,554     |
| CBLB612                               | 559,653                   | 10,516       | 549,137       |
| CBLB502 for Oncology Applications     | 396,983                   | 22,770       | 374,213       |
| Total research & development expenses | \$12,079,076              | \$10,918,127 | \$1,160,949   |

## General and Administrative Expenses

General and administrative costs increased from approximately \$3.9 million for the six months ended June 30, 2011 to approximately \$5.8 million for the six months ended June 30, 2012. This represents an increase of approximately \$1.9 million, or 49%. Approximately \$0.9 million, or 47%, of this increase related to the general and administrative expenses of our new subsidiary Panacela, which commenced operations in the fourth quarter of 2011. Approximately \$0.6 million, or 32%, of this increase related to business development activities. The remaining increase of approximately \$0.4 million, or 21%, related to a variety of cost increases between the periods, none of which were

individually significant, including: increases in personnel costs, travel, professional fees related to investor relation activities, and an increase in outside finance and legal fees in part related to improved financial systems, controls and general corporate governance.

### Other Income and Expenses

Other income decreased from approximately \$17.1 million for the six months ended June 30, 2011 to approximately \$4.3 million for the six months ended June 30, 2012, representing a decrease of approximately \$12.8 million, or 75%. This decrease was primarily attributable to the periodic fair valuation of the Company's warrant liability which generated non-cash income of approximately \$4.3 million for the six months ended June 30, 2012 as compared to non-cash income of approximately \$17.1 million for the six months ended June 30, 2011, for a total decrease of approximately \$12.8 million between the periods.

### Liquidity and Capital Resources

At June 30, 2012, we had approximately \$13.2 million in cash and cash equivalents and \$8.8 million in short-term investments, along with accounts receivable of approximately \$0.1 million, and approximately \$1.6 million in funded backlog from the federal government. Additionally, Incuron has approximately \$3.5 million (based on current exchange rates) of funded backlog available to it under its development grant from Skolkovo.

We are also in active discussions with BARDA and DoD for continued funding of our research and development of CBLB502 for biodefense applications. In addition, we are actively responding to all other contract and grant award possibilities we believe appropriate, such as the recently announced grant we received for the development of CBLB612 from the Ministry of Industry and Trade in the Russian Federation for approximately \$4.0 million (see Note 7 to our consolidated financial statements). However, there can be no assurance that any of these contracts or grant award applications will result in funding.

### Operating Activities

Net cash used in operations increased from approximately \$5.1 million for the six months ended June 30, 2011 to approximately \$12.2 million for the six months ended June 30, 2012, representing an increase of approximately \$7.1 million, or 139%. After adjusting for non-cash items, the net loss increased by approximately \$5.8 million between the periods and the changes in working capital items netted an additional cash usage of approximately \$1.3 million.

### Investing Activities

Net cash used in investing activities increased from approximately \$0.8 million during the six months ended June 30, 2011 to approximately \$3.7 million during the six months ended June 30, 2012, representing an increase of approximately \$2.9 million, or 363%. For the six months ended June 30, 2012, the net cash provided by investing activities primarily related to the purchase of short-term investments of approximately \$5.0 million, partially offset by the maturity of approximately \$1.3 million in short-term investments. For the six months ended June 30, 2011, the net cash used in investing activities included the purchase of short-term investments of approximately \$0.2 million, equipment of approximately \$0.3 million and patents of approximately \$0.3 million. As discussed in Note 2 to the audited financial statements included in our Annual Report on Form 10-K, we adopted a more restrictive standard of capitalization of intellectual property costs during the quarter ended September 30, 2011.

### Financing Activities

Net cash provided by financing activities decreased from approximately \$25.7 million during the six months ended June 30, 2011 to approximately \$5.9 million for the six months ended June 30, 2012, representing a decrease of approximately \$19.8 million, or 77%. For the six months ended June 30, 2012, substantially all of the cash flows from financing activities were attributable to a capital contribution to our Incuron subsidiary by the noncontrolling interest holder. For the six months ended June 30, 2011, cash provided by financing activities included a net cash receipt of approximately \$22.1 million related to the issuance of our common stock, an investment in Incuron of

approximately \$2.3 million by the noncontrolling interest holder, and the exercise of options and warrants for approximately \$1.3 million.

## Other

We have incurred cumulative net losses and expect to incur additional losses to perform further research and development activities. We do not have commercial products and have limited capital resources. We will need additional funds to complete the development of our products. Our plans with regard to these matters may include seeking additional capital through a combination of government contracts, collaborative agreements, strategic alliances, research grants, and future equity and debt financing. Although we continue to pursue these plans, there is no assurance that we will be successful in obtaining future financing on commercially reasonable terms or that we will be able to secure funding from anticipated government contracts and grants.

We believe that our existing funds combined with cash flows from existing government grants and contracts will be sufficient to support our operations into the second quarter of 2013. The success of our company is dependent upon commercializing our research and development programs and our ability to obtain adequate future financing. If we are unable to raise adequate capital and/or achieve profitable operations, future operations might need to be scaled back or discontinued. The financial statements do not include any adjustments relating to the recoverability of the carrying amount of recorded assets and liabilities that might result from the outcome of these uncertainties.

## Impact of Inflation

We believe that our results of operations are not dependent upon moderate changes in inflation rates.

## Impact of Exchange Rate Fluctuations

From time-to-time, our operations are somewhat dependent upon changes in foreign currency exchange rates; however at June 30, 2012, we were not obligated to make payments in foreign currencies.

## Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no significant change in our exposure to market risk during the first six months ended June 30, 2012. For a discussion of our exposure to market risk, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," contained in our Annual Report on Form 10-K for the year ended December 31, 2011.

## Item 4. Controls and Procedures

### Effectiveness of Disclosure

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act as of June 30, 2012. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2012, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective to assure that information required to be declared by us in reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized, and reported within the periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer

and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act) during the fiscal quarter ended June 30, 2012, 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

As of June 30, 2012, we were not a party to any litigation or other legal proceeding.

Item 1A. Risk Factors

There have been no material changes to our risk factors contained in our Annual Report on Form 10-K for the period ended December 31, 2011. For a further discussion of our Risk Factors, refer to the "Risk Factors" discussion contained in our Annual Report on Form 10-K for the period ended December 31, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On May 31, 2012, as consideration for consulting services to be provided, we issued 25,000 shares of our common stock to each of Netgain Financial, Inc. and MJD Media LLC. These shares were issued without registration in reliance on the exemptions afforded by Section 4(2) of the Securities Act of 1933, as amended.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

On August 8, 2012, the Board of Directors of the Company ratified a consulting agreement dated as of January 1, 2012 between Michael Fonstein, the Company's President, and Panacela. Pursuant to this consulting agreement, Panacela will pay Dr. Fonstein an aggregate of \$35,000 for his services performed in 2012. The term of the agreement ends on December 31, 2014; however, for periods beyond 2012, service and compensation details have not yet been agreed to by the parties. The consulting agreement may be earlier terminated by Panacela immediately upon written notice if Dr. Fonstein breaches or threatens to breach the confidentiality provisions under the agreement, enters into any arrangement that would create a conflict of interest with providing consulting services to Panacela, engages in malfeasance, misconduct or conduct likely to cause reputational harm to Panacela and if Panacela reasonably determines that Dr. Fonstein cannot perform his services under the agreement. The consulting agreement may also be terminated by either party upon 14 days prior written notice.

On August 8, 2012, the Board of Directors of the Company approved certain compensation arrangements between Yakov Kogan, the Chief Executive Officer of the Company, and Panacela for service as a member of the board of Panacela. Dr. Kogan will receive \$35,000 per year under an agreement with Panacela in return for his services. This compensation arrangement is subject to final documentation between the parties.

Item 6. Exhibits

(a) The following exhibits are included as part of this report:

| Exhibit Number | Description of Document   |
|----------------|---|
| 10.1           | 2012 Executive Compensation Plan (Incorporated by reference to Form 8-K/A filed on April 30, 2012).   |
| 10.2           | 2012 Long-term Executive Compensation Plan (Incorporated by reference to Form 8-K filed on June 15, 2012).  |
| 31.1           | Certification of Yakov Kogan, Chief Executive Officer, pursuant to Section 302 of the Sarbanes Oxley Act of 2002.   |
| 31.2           | Certification of C. Neil Lyons, Chief Financial Officer, pursuant to Section 302 of the Sarbanes Oxley Act of 2002.   |
| 32.1           | Certification Pursuant To 18 U.S.C. Section 1350.   |
| 99.1           | Second Amendment to Cleveland BioLabs, Inc. Equity Incentive Plan (Incorporated by reference to Form 8-K filed on June 15, 2012).   |
| 99.2           | Form of Stock Award (Incorporated by reference to Form 8-K filed on June 15, 2012).   |
| 99.3           | Form of Non-Qualified Stock Option Agreement (Incorporated by reference to Form 8-K filed on June 15, 2012).  |
| 101.1          | The following information from CBLI's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011; (ii) Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2012 and 2011; (iii) Consolidated Statements of Comprehensive Income/(Loss) for the Three and Six Months Ended June 30, 2012 and 2011; (iv) Consolidated Statements of Cash Flows for the Six Months ended June 30, 2012 and 2011; (v) Consolidated Statements of Stockholders' Equity for the Six Months Ended June 30, 2012; and (vi) Notes to Consolidated Financial Statements.* |

\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Signatures

In accordance with 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.

CLEVELAND BIOLABS, INC.

Dated: August 9, 2012

By: /s/ YAKOV KOGAN  
Yakov Kogan  
Chief Executive Officer  
(Principal Executive Officer)

Dated: August 9, 2012

By: /s/ C. NEIL LYONS  
C. Neil Lyons  
Chief Financial Officer  
(Principal Financial Officer)

---