

XBiotech Inc.
Form 10-Q/A
September 05, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2018

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 001-37437

XBIOTECH INC.

(Exact name of registrant as specified in charter)

British Columbia, Canada

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

8201 E. Riverside Drive, Bldg. 4, Suite 100

Austin, TX 78744

(Address of principal executive offices)(Zip Code)

Telephone Number (512) 386-2900

(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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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.

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 May 8, 2018, there were 35,519,772 shares of the Registrant's common stock issued and outstanding.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A ("Amendment") to the Quarterly Report on Form 10-Q of XBiotech Inc. (the "Company") for the fiscal quarter ended March 31, 2018 (the "Form 10-K"), originally filed with the Securities and Exchange Commission (the "SEC") on May 8, 2018, is being filed for the sole purpose of including language from the introductory portion of paragraph 4 as well as paragraph 4(b) of the Section 302 certification regarding the Company's internal control over financial reporting.

Other than as expressly set forth above, no changes have been made in this Amendment to amend, modify or restate any other information or disclosures presented in the Form 10-Q. This Amendment does not reflect events occurring after the original filing of the Form 10-Q. As a result, the Company's Annual Report on Form 10-Q for the fiscal quarter ended March 31, 2018 continues to speak as of May 8, 2018. This Amendment should be read in conjunction with the Company's Form 10-Q and other Company filings made with the SEC.

XBIOTECH INC.

THREE MONTHS ENDED MARCH 31, 2018

INDEX

PART I—FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Consolidated Balance Sheets as of March 31, 2018 (unaudited) and December 31, 2017 5

Consolidated Statements of Operations for the Three Months Ended March 31, 2018 (unaudited) and 2017 (unaudited) 6

Consolidated Statements of Comprehensive Loss for the Three Months Ended March 31, 2018 (unaudited) and 2017 (unaudited) 7

Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2018 (unaudited) and 2017 (unaudited) 8

Notes to Consolidated Financial Statements (unaudited) 9

Item 4. Controls and Procedures 15

Item 6. Exhibits 16

SIGNATURES

XBiotech Inc.

Consolidated Balance Sheets

(in thousands, except share data)

	March 31, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$28,416	\$31,768
Prepaid expenses and other current assets	1,333	1,564
Total current assets	29,749	33,332
Property and equipment, net	29,111	29,640
Total assets	\$58,860	\$62,972
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$1,160	\$1,730
Accrued expenses	1,274	1,062
Total current liabilities	2,434	2,792
Long-term liabilities:		
Deferred rent	16	18
Total liabilities	2,450	2,810
Shareholders' equity:		
Preferred stock, no par value, unlimited shares authorized, no shares outstanding	-	-
Common stock, no par value, unlimited shares authorized, 35,519,772 and 35,439,272 shares outstanding at March 31, 2018 and December 31, 2017, respectively	277,803	277,492
Accumulated other comprehensive loss	(762)	(768)
Accumulated deficit	(220,631)	(216,562)
Total shareholders' equity	56,410	60,162
Total liabilities and shareholders' equity	\$58,860	\$62,972

See accompanying notes.

XBiotech Inc.

Consolidated Statements of Operations

(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2018	2017
	(unaudited)	(unaudited)
Operating expenses:		
Research and development	\$2,993	\$8,188
General and administrative	1,157	2,083
Total operating expenses	4,150	10,271
Loss from operations	(4,150)	(10,271)
Other income (loss):		
Interest income	64	49
Foreign exchange gain (loss)	17	(341)
Total other income (loss)	81	(292)
Net loss	\$(4,069)	\$(10,563)
Net loss per share—basic and diluted	\$(0.11)	\$(0.32)
Shares used to compute basic and diluted net loss per share	35,447,304	33,291,672

See accompanying notes.

XBiotech Inc.

Consolidated Statements of Comprehensive Loss

(in thousands)

	Three Months Ended	
	March 31,	
	2018	2017
	(unaudited)	
Net loss	\$(4,069)	\$(10,563)
Foreign currency translation adjustment	7	110
Comprehensive loss	\$(4,062)	\$(10,453)

See accompanying notes.

XBiotech Inc.

Consolidated Statements of Cash Flows

(in thousands)

	Three Months Ended March 31, 2018 2017 (unaudited)(unaudited)	
Operating activities		
Net loss	\$ (4,069)	\$ (10,563)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	588	296
Share-based compensation expense	110	724
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	232	375
Accounts payable	(596)	(1,835)
Accrued expenses	212	(905)
Deferred rent	(3)	-
Net cash used in operating activities	(3,526)	(11,908)
Investing activities		
Purchase of property and equipment	(34)	(607)
Net cash used in investing activities	(34)	(607)
Financing activities		
Issuance of common stock and warrants, net	-	32,620
Issuance of common stock under stock option plan	201	93
Net cash provided by financing activities	201	32,713
Effect of foreign exchange rate on cash and cash equivalents	7	110
Net change in cash and cash equivalents	(3,352)	20,308
Cash and cash equivalents, beginning of period	31,768	34,324
Cash and cash equivalents, end of period	\$ 28,416	\$ 54,632
Supplemental Information:		
Accrued purchases of property and equipment	25	101
Receivable on issuance of common stock under stock option plan	-	223

See accompanying notes.

XBiotech Inc.

Notes to Consolidated Financial Statements (Unaudited)

1. Organization

XBiotech Inc. (“XBiotech” or “the Company”) was incorporated in Canada on March 22, 2005. XBiotech USA, Inc., a wholly-owned subsidiary of the Company, was incorporated in Delaware, United States (“U.S.”) in November 2007. XBiotech Switzerland AG, a wholly-owned subsidiary of the Company, was incorporated in Zug, Switzerland in August 2010. XBiotech Japan K.K., a wholly-owned subsidiary of the Company, was incorporated in Tokyo, Japan in March 2013. XBiotech Germany GmbH, a wholly-owned subsidiary of the Company, was incorporated in Germany in January 2014. The Company’s headquarters are located in Austin, Texas.

XBiotech Inc. is a pre-market biopharmaceutical company engaged in discovering and developing True Human™ monoclonal antibodies for treating a variety of diseases. True Human™ monoclonal antibodies are those which occur naturally in human beings—as opposed to being derived from animal immunization or otherwise engineered. The Company believes that naturally occurring monoclonal antibodies have the potential to be safer and more effective than their non-naturally occurring counterparts. XBiotech is focused on developing its True Human™ pipeline and manufacturing system. The Company’s pipeline consists of product candidates at various stages of development across an array of indications including oncology, dermatology, other inflammatory conditions, such as peripheral vascular disease, type 2 diabetes, and infectious diseases.

2. Significant Accounting Policies

Basis of Presentation

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“US GAAP”). In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting only of normal recurring items) considered necessary to present fairly the Company’s financial position at March 31, 2018 and December 31, 2017, the results of its operations and comprehensive loss for the three month periods ended March 31, 2018 and 2017, and the cash flows for the three month periods ended March 31, 2018 and 2017.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated upon consolidation.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported values of amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Research and Development Costs

All research and development costs are charged to expense as incurred. Research and development costs include salaries and personnel-related costs, consulting fees, fees paid for contract clinical trial research services, the costs of laboratory consumables, equipment and facilities, license fees and other external costs. Costs incurred to acquire licenses for intellectual property to be used in research and development activities with no alternative future use are expensed as incurred as research and development costs.

Nonrefundable advance payments for goods or services to be received in the future for use in research and development activities are deferred and capitalized. The capitalized amounts are expensed as the related goods are delivered or the services are performed.

Share-Based Compensation

The Company accounts for its share-based compensation awards in accordance with ASC Topic 718, *Compensation-Stock Compensation* ("ASC 718"). ASC 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statements of operations based on their grant date fair values. For stock options granted to employees and to members of the board of directors for their services on the board of directors, the Company estimates the grant date fair value of each option award using the Black-Scholes option-pricing model. The use of the Black-Scholes option-pricing model requires management to make assumptions with respect to the expected term of the option, the expected volatility of the common stock consistent with the expected life of the option, risk-free interest rates and expected dividend yields of the common stock. To determine the fair value of its common stock, the Company uses the closing price of the Company's common stock as reported by NASDAQ. For awards subject to service-based vesting conditions, the Company recognizes share-based compensation expense, equal to the grant date fair value of stock options on a straight-line basis over the requisite service period. The Company accounts for forfeitures as they occur rather than on an estimated basis.

Share-based compensation expense recognized for the three months ended March 31, 2018 and 2017 was included in the following line items on the Consolidated Statements of Operations (in thousands).

	Three Months Ended March 31, 2018 2017	
Research and development	\$88	\$294
General and administrative	22	430
Total share-based compensation expense	\$110	\$724

The fair value of each option is estimated on the date of grant using the Black-Scholes method with the following assumptions:

	Three Months Ended March 31, 2018 2017					
Dividend yield	-	-	-	-	-	-
Expected volatility	67%	-	80%	65%	-	67%
Risk-free interest rate	2.38%	-	2.71%	2.11%	-	2.41%
Expected life (in years)	6.0	-	10	6.25	-	10
Weighted-average grant date fair value per share	\$3.02				\$8.24	

Cash and Cash Equivalents

The Company considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents consisted primarily of cash on deposit in U.S., German, Swiss, Japanese and Canadian banks. Cash and cash equivalents are stated at cost which approximates fair value.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents. The Company holds these investments in highly-rated financial institutions, and limits the amounts of credit exposure to any one financial institution. These amounts at times may exceed federally insured limits. The Company has not experienced any credit losses in such accounts and does not believe it is exposed to any significant credit risk on these funds. The Company has no off-balance sheet concentrations of credit risk, such as foreign

currency exchange contracts, option contracts or other hedging arrangements.

Fair Value Measurements

The Company follows ASC Topic 820, *Fair Value Measurements and Disclosures*, which establishes a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company's own assumptions (unobservable inputs). The hierarchy consists of three levels:

- Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2—Quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3—Unobservable inputs that reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability in which there is little, if any, market activity for the asset or liability at the measurement date.

At March 31, 2018 and December 31, 2017, the Company did not have any assets or liabilities that are measured at fair value on a recurring basis. The carrying amounts reflected in the balance sheets for cash and cash equivalents, prepaid expenses and other current assets, accounts payable, and accrued expenses approximate their fair values at March 31, 2018 and December 31, 2017, due to their short-term nature.

Property and Equipment

Property and equipment, which consists of land, construction in process, furniture and fixtures, computers and office equipment, scientific equipment, leasehold improvements, vehicles and building are stated at cost and depreciated over the estimated useful lives of the assets, with the exception of land and construction in process which are not depreciated, using the straight line method. The useful lives are as follows:

- Furniture and fixtures 7 years
- Office equipment 5 years
- Leasehold improvements Shorter of asset's useful life or remaining lease term
- Scientific equipment 5 years
- Vehicles 5 years
- Building 39 years

Costs of major additions and betterments are capitalized; maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred. Upon retirement or sale, the cost of the disposed asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized.

Impairment of Long-Lived Assets

The Company periodically evaluates its long-lived assets for potential impairment in accordance with ASC Topic 360, *Property, Plant and Equipment*. Potential impairment is assessed when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Recoverability of these assets is assessed based on undiscounted expected future cash flows from the assets, considering a number of factors, including past operating results, budgets and economic projections, market trends and product development cycles. If impairments are identified, assets are written down to their estimated fair value. The Company has not recognized any impairment through March 31, 2018.

Income Taxes

The Company makes estimates and judgments in determining the need for a provision for income taxes, including the estimation of its taxable income or loss for the full fiscal year. The Company has accumulated significant deferred tax assets that reflect the tax effects of net operating losses and tax credit carryovers and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of certain deferred tax assets is dependent upon future earnings. The Company is uncertain about the timing and amount of any future earnings. Accordingly, the Company offsets these deferred tax assets with a valuation allowance. The Company may in the future determine that certain deferred tax assets will likely be realized, in which case the Company will reduce its valuation allowance in the period in which such determination is made. If the valuation allowance is reduced, the Company may recognize a benefit from income taxes in its statement of operations in that period.

The GAAP guidance requires recognition of the impact of a tax position in our financial statements only if that position is more likely than not to be sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense. Determining the consolidated provision for income taxes involves judgments, estimates and the application of complex tax regulations. We are required to provide for income taxes in each of the jurisdictions where we operate, including estimated liabilities for uncertain tax positions. Although we believe that we have provided adequate liabilities for uncertain tax positions, the actual liability resulting from examinations by taxing authorities could differ from the recorded income tax liabilities and could result in additional income tax expense having a material impact on our consolidated results of operations. Changes of estimates in our income tax liabilities are reflected in our income tax provision in the period in which the factors resulting in the change to our estimate become known to us. We benefit from the tax credit incentives under the U.S. research and experimentation tax credit extended to taxpayers engaged in qualified research and experimental activities while carrying on a trade or business.

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act, or TCJA, tax reform legislation. The TCJA makes significant changes in U.S. tax law including a reduction in the corporate tax rates, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate alternative minimum tax. The TCJA reduced the U.S. corporate tax rate from the current rate of 34 percent down to 21 percent starting on January 1, 2018. As a result of the TCJA, the Company was required to revalue deferred tax assets and liabilities at 21 percent. As of and for the year ended December 31, 2017, this revaluation resulted in a provision of \$4.5 million to income tax expense in continuing operations and a corresponding reduction in the valuation allowance. As a result, there was no impact to the Company's consolidated statements of comprehensive loss as a result of the reduction in tax rates.

As the Company does not have all of the necessary information to analyze all income tax effects of the TCJA, the Company will continue to make and refine calculations and estimates as additional information is obtained, which could potentially affect the provisional amounts relating to the deferred income taxes, including but not limited to deferred tax assets related to share-based compensation expenses. Where the Company has not yet been able to make reasonable estimates of the impact of certain elements, the Company has not recorded any amounts related to those elements and has continued accounting for them in accordance with ASC 740 on the basis of the tax laws in effect immediately prior to the enactment of the TCJA. The Company expects to complete a detailed analysis no later than the fourth quarter of 2018.

Foreign Currency Transactions

Certain transactions are denominated in a currency other than the Company's functional currency of the U.S. dollar, and the Company generates assets and liabilities that are fixed in terms of the amount of foreign currency that will be received or paid. At each balance sheet date, the Company adjusts the assets and liabilities to reflect the current exchange rate, resulting in a translation gain or loss. Transaction gains and losses are also realized upon a settlement of a foreign currency transaction in determining net loss for the period in which the transaction is settled.

Comprehensive Income (Loss)

ASC Topic 220, *Comprehensive Income*, requires that all components of comprehensive income (loss), including net income (loss), be reported in the financial statements in the period in which they are recognized. Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources, including unrealized gains and losses on investments and foreign currency translation adjustments.

Segment and Geographic Information

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision making group, in making decisions on how to allocate resources and assess performance. The Company's chief operating decision maker is the Chief Executive Officer. The Company and the chief operating decision maker view the Company's operations and manage its business as one operating segment. Substantially all of the Company's operations are in the U.S. geographic segment.

Net Loss Per Share

Net loss per share ("EPS") is computed by dividing net loss by the weighted average number of common shares outstanding during each period. Diluted EPS is computed by dividing net loss by the weighted average number of common shares and common share equivalents outstanding (if dilutive) during each period. The number of common share equivalents, which include stock options, is computed using the treasury stock method.

Subsequent Events

The Company considered events or transactions occurring after the balance sheet date but prior to the date the consolidated financial statements are available to be issued for potential recognition or disclosure in its consolidated financial statements. We have evaluated subsequent events through the date of filing this Form 10-Q.

Recent Accounting Pronouncements

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued final guidance that will change the accounting for leases, Accounting Standards Update (ASU) No. 2016-02, "Leases." The FASB issued final guidance that requires lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today's accounting. The guidance also eliminates today's real estate-specific provisions for all entities. The pronouncement will also require additional disclosures about the amount, timing and uncertainty of cash flows arising from leases. For calendar-year public business entities and certain calendar-year not-for-profit entities and employee benefit plans, the guidance is effective in 2019, and interim periods within that year, and early adoption is permitted. The adoption of this standard will require the Company to record its operating leases on the balance sheet. The Company is currently evaluating the impact of this pronouncement on the Company's consolidated financial statements.

3. Common Stock

Pursuant to its Articles, the Company has an unlimited number of shares available for issuance with no par value.

From January through December 2016, 204 thousand shares of common stock were issued upon the exercise of stock options at a price of \$0.74 to \$19.09 per share for total proceeds of \$1.1 million.

From November through December 2016, under the Common Stock Sales Agreement with H.C. Wainwright & Co. LLC, the Company sold 145 thousand shares of common stock at a price between \$13.60 to \$14.17 per share for total proceeds of \$1.8 million.

In February 2017, under the Common Stock Sales Agreement with H.C. Wainwright & Co. LLC, the Company sold 87 thousand shares of common stock at a price between \$12.09 to \$12.37 per share for total proceeds of \$1.0 million.

In March 2017, the Company sold 2.4 million shares of common stock at a net price of \$13.00 for total proceeds of approximately \$31.6 million from investors.

From January through December 2017, 290 thousand shares of common stock were issued upon the exercise of stock options at a price of \$2.50 to \$14.71 per share for a total of \$703 thousand.

From January through March 2018, 81 thousand shares of common stock were issued upon the exercise of stock options at a price of \$2.50 per share for total proceeds of \$201 thousand.

4. Common Stock Options

On November 11, 2005 and April 1, 2015, the board of directors of the Company adopted stock option plans (“the Plans”) pursuant to which the Company may grant incentive stock options to directors, officers, employees or consultants of the Company or an affiliate or other persons as the Compensation Committee may approve.

All options will be non-transferable and may be exercised only by the participant, or in the event of the death of the participant, a legal representative until the earlier of the options’ expiry date or the first anniversary of the participant’s death, or such other date as may be specified by the Compensation Committee.

The term of the options is at the discretion of the Compensation Committee, but may not exceed 10 years from the grant date. The options expire on the earlier of the expiration date or the date three months following the day on which the participant ceases to be an officer or employee of or consultant to the Company, or in the event of the termination of the participant with cause, the date of such termination. Options held by non-employee Directors have an exercise period coterminous with the term of the options.

The number of common shares reserved for issuance to any one person pursuant to the Plans shall not, in aggregate, exceed 5% of the total number of outstanding common shares. The exercise price per common share under each option will be the fair market value of such shares at the time of the grant. Upon stock option exercise, the Company issues new shares of common stock.

A summary of changes in common stock options issued under the Plans is as follows:

	Options	Exercise Price		Weighted-Average Exercise Price
Options outstanding at December 31, 2017	5,303,624	\$2.5-	\$21.99	7.69
Granted	208,500	4.01-	4.92	4.19
Exercised	(80,500)	2.5		2.50
Forfeitures	(532,475)	2.50-	19.09	5.56
Options outstanding at March 31, 2018	4,899,149	\$2.5-	\$21.99	7.80

As of March 31, 2018, there was approximately \$2.0 millions of unrecognized compensation cost, related to stock options granted under the Plans which will be amortized to stock compensation expense over the next 2.16 years.

5. Commitments and Contingencies

On January 12, 2008, the Company entered a lease agreement to lease its facility in Austin, Texas, U.S. On September 15, 2010, the Company entered into a second lease agreement to lease additional space in Austin, Texas, U.S. On March 20, 2013, the company extended the lease for another 21 months with the same terms and rental rates as the current leases. On February 28, 2015, the Company extended the leases for another four years with two years early termination right. The future minimum lease payments are as follows as of March 31, 2018 (in thousands):

2018 \$354
2019 \$79

Rent expense was approximately \$200 thousand and \$186 thousand for the three months ended March 31, 2018 and 2017, respectively.

On December 1, 2015, a purported securities class action complaint captioned Yogina Rezeko v. XBiotech Inc., John Simard, Queena Han and WR Hambrecht & Co., LLC was filed against the Company, certain of its officers and directors and the underwriter for its initial public offering in the Superior Court for the State of California, Los Angeles County. On December 2, 2015, a purported securities class action complaint captioned Linh Tran v. XBiotech Inc., John Simard and Queena Han was filed against the Company and certain of its officers and directors in U.S. District Court for the Western District of Texas. The lawsuits are based on substantially similar factual allegations and purport to be class actions brought on behalf of purchasers of the Company's securities during the period from April 15, 2015 through November 23, 2015. The complaint filed in California state court alleges that the defendants violated the Securities Act of 1933, as amended (the "Securities Act"), and the complaint filed in federal court alleges that the defendants violated the Securities Exchange Act of 1934, as amended (the "Exchange Act"), in

each case by making materially false and misleading statements concerning the Company's Phase III clinical trial conducted in Europe to assess Xilonix™ as a treatment for colorectal cancer. The California complaint purports to assert claims for violations of Sections 11, 12(a)(2) and 15 of the Securities Act, and the federal complaint purports to assert claims for violation of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. Both complaints seek, on behalf of the purported class, an unspecified amount of monetary damages, interest, fees and expenses of attorneys and experts, and other relief.

In September 2016, a stay was granted at the Superior Court for the State of California, Los Angeles County, in *Yogina Rezko v. XBiotech Inc., John Simard, Queena Han and WR Hambrecht & Co., LLC*, in light of the ongoing case, *Linh Tran v. XBiotech Inc., John Simard and Queena Han*, in the U.S. District Court for the Western District of Texas, leaving plaintiffs with an opportunity re-file a complaint in Texas. In October 2016, the Texas securities class action lawsuit was dismissed with prejudice. At the June 7, 2017, hearing at the Superior Court for the State of California, Los Angeles County, the Company was granted a motion on the grounds of *forum non conveniens*. The judge ruled that the case belonged in Texas, not in California. The case is nevertheless stayed, due to California procedural rules, and not dismissed.

The plaintiffs re-filed their suit in Travis County district court, located in Austin, Texas, on July 6, 2017. The Company subsequently removed the case to the U.S. District Court for the Western District of Texas. Following a recent Supreme Court decision holding that the types of claims asserted in this action are non-removable, the suit was remanded back to Travis County district court, where it remains pending. The Company believes the claims asserted in the case are without merit and intends to mount a vigorous defense.

Item 4. Controls and Procedures

Management's Evaluation of our Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out by the Company's management, with the participation of the Chief Executive Officer and Principal Financial Officer, of the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on such evaluation, the Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports the Company files or furnishes under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations, and are operating in an effective manner.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the first quarter of the year ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Item 6. Exhibits.

31.1 Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.

31.2 Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.

SIGNATURES

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: September 4, 2018 **XBIOTECH INC.**

By: /S/ John Simard
John Simard
President, Chief Executive Officer and Director
(*Principal Executive Officer*)

Date: September 4, 2018 By: /S/ Queena Han
Queena Han
Vice President, Finance and Human Resources, and Secretary
(*Principal Financial Officer and Principal Accounting Officer*)