DELCATH SYSTEMS, INC.
Form 10-Q
November 13, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to ____________

Commission File Number: 001-16133

DELCATH SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 06-1245881 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

1633 Broadway, Suite 22C

New York, NY 10019

(Address of principal executive offices)

(212) 489-2100

(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, every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer | Accelerated filer |
| Non-accelerated filer | 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 Securities 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 November 8, 2018, 9,007,952 shares of the Company’s common stock, $0.01 par value, were outstanding.

DELCATH SYSTEMS, INC.

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DELCATH SYSTEMS, INC.

Condensed Consolidated Balance Sheets

(in thousands, except share and per share data)

| | September 30, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | $ 8,913 | $ 3,999 |
| Restricted cash | 1,062 | 1,325 |
| Accounts receivables, net | 364 | 317 |
| Inventories | 954 | 1,248 |
| Prepaid expenses and other current assets | 527 | 700 |
| Total current assets | 11,820 | 7,589 |
| Property, plant and equipment, net | 1,012 | 1,298 |
| Total assets | $ 12,832 | $ 8,887 |
| | | |
| Liabilities and Stockholders' Deficit | | |
| Current liabilities | | |
| Accounts payable | $ 6,783 | $ 3,846 |
| Accrued expenses | 6,125 | 3,408 |
| Current portion of convertible notes payable, net of debt discount | 2,664 | — |
| Warrant liability | 1,475 | 560 |
| Total current liabilities | 17,047 | 7,814 |
| Convertible notes payable, net of current portion and debt discount | 116 | — |
| Other non-current liabilities | 534 | 395 |
| Total liabilities | 17,697 | 8,209 |
| | | |
| Commitments and Contingencies | — | — |
| | | |
| Stockholders' (deficit) equity | | |
| Preferred stock, $.01 par value; 10,000,000 shares authorized; no shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively | — | — |
| Common stock, $.01 par value; 1,000,000,000 shares authorized; 5,694,437 and 263,275 shares issued and 5,694,436 and 263,274 shares outstanding at September 30, 2018 and December 31, 2017, respectively* | 57 | 3 |
| Additional paid-in capital | 328,209 | 325,516 |
| Accumulated deficit | (333,185) | (324,832) |
| Treasury stock, at cost; 1 share at September 30, 2018 and December 31, 2017, respectively* | (51) | (51) |

| | | |
|---|---|---|
| Accumulated other comprehensive income | 105 | 42 |
| Total stockholders' (deficit) equity | (4,865) | 678 |
| Total liabilities and stockholders' equity | $ 12,832 | $ 8,887 |

*reflects a one-for-three hundred and fifty (1:350) reverse stock split effected on November 6, 2017 and a one-for-five hundred (1:500) reverse stock split effected on May 2, 2018.
See accompanying Notes to Condensed Consolidated Financial Statements.

DELCATH SYSTEMS, INC.

Condensed Consolidated Statements of Operations and Comprehensive Loss

(Unaudited)

(in thousands, except share and per share data)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue | $824 | $684 | $2,384 | $2,011 |
| Cost of goods sold | 233 | 172 | 600 | 527 |
| Gross profit | 591 | 512 | 1,784 | 1,484 |
| | | | | |
| Operating expenses: | | | | |
| Selling, general and administrative | 2,279 | 2,860 | 7,286 | 7,807 |
| Research and development | 4,106 | 2,279 | 13,886 | 7,119 |
| Total operating expenses | 6,385 | 5,139 | 21,172 | 14,926 |
| Operating loss | (5,794) | (4,627) | (19,388) | (13,442) |
| | | | | |
| Change in fair value of the warrant liability, net | 1,198 | 27 | 18,407 | 1,227 |
| Gain on warrant extinguishment | — | — | — | 9,613 |
| Loss on debt extinguishment | (1,123) | (2,952) | (1,123) | (2,952) |
| Loss on issuance of financial instrument | — | — | (2,826) | — |
| Interest expense | (3,151) | (5,042) | (3,402) | (20,324) |
| Other (expense) income | (10) | (2) | (21) | 5 |
| Net loss | $(8,880) | $(12,596) | $(8,353) | $(25,873) |
| Other comprehensive loss: | | | | |
| Foreign currency translation adjustments | 105 | (15) | 63 | 7 |
| Comprehensive loss | $(8,775) | $(12,611) | $(8,290) | $(25,866) |
| | | | | |
| Common share data: | | | | |
| Basic loss per common share* | $(0.25) | $(4,565) | $(0.60) | $(17,313) |
| Diluted loss per common share* | $(0.25) | $(4,565) | $(0.64) | $(17,313) |
| | | | | |
| Weighted average number of basic shares outstanding* | 35,859,866 | 2,763 | 13,888,577 | 1,494 |
| Weighted average number of diluted shares outstanding* | 35,859,866 | 2,763 | 13,888,587 | 1,494 |

*reflects a one-for-three hundred and fifty (1:350) reverse stock split effected on November 6, 2017 and a one-for-five hundred (1:500) reverse stock split effected on May 2, 2018.

See accompanying Notes to Condensed Consolidated Financial Statements.

DELCATH SYSTEMS, INC.

Condensed Consolidated Statements of Stockholders' Deficit

(Unaudited)

(in thousands, except share data)

| | Common Stock Issued $0.01 Par Value | | Treasury Stock | | | | | |
|---|---|---|---|---|---|---|---|---|
| | No. of Shares | Amount | No. of Shares | Amount | Additional Paid in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income (Loss) | Total |
| Balance at January 1, 2018 | 263,275 | $ 3 | (1) | $ (51 ) | $ 325,516 | $ (324,832 ) | $ 42 | $ 678 |
| Compensation income for issuance of stock options | — | — | — | — | (40 ) | — | — | (40 ) |
| Compensation expense for issuance of restricted stock | 60,000 | 1 | — | — | 34 | — | — | 35 |
| Sale of common stock, net of expenses | 5,336,665 | 53 | — | — | 11,224 | — | — | 11,277 |
| Cashless exercise of warrants | 34,497 | — | — | — | — | — | — | - |
| Issuance of pre-funded warrants | — | — | — | — | 520 | — | — | 520 |
| Fair value of warrants issued in Feb 2018 public offering | — | — | — | — | (18,306 ) | — | — | (18,306) |
| Fair value of warrants issued with Convertible Notes | — | — | — | — | 5,007 | — | — | 5,007 |
| Fair value of warrants reclassified from liability to equity | — | — | — | — | 4,210 | — | — | 4,210 |
| Beneficial conversion feature of convertible note | — | — | — | — | 44 | — | — | 44 |
| Net loss | — | — | — | — | — | (8,353 ) | — | (8,353 ) |
| Total comprehensive loss | — | — | — | — | — | — | 63 | 63 |
| Balance at September 30, 2018 | 5,694,437 | $ 57 | (1) | $ (51 ) | $ 328,209 | $ (333,185 ) | $ 105 | $ (4,865 ) |

See accompanying Notes to Condensed Consolidated Financial Statements.

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DELCATH SYSTEMS, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)

| | Nine months ended September 30, 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $(8,353) | $(25,873) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Stock option compensation (income) expense | (40) | 48 |
| Restricted stock compensation expense | 35 | 84 |
| Depreciation expense | 342 | 198 |
| Loss on disposal of equipment | — | 20 |
| Warrant liability fair value adjustment | (18,407) | (1,227) |
| Gain on warrant extinguishment | — | (9,613) |
| Non-cash interest income | (2) | 16 |
| Deferred revenue | — | (30) |
| Debt discount amortization | 3,381 | 20,315 |
| Loss on issuance of financial instrument | 2,826 | — |
| Loss on debt extinguishment | 1,123 | 2,952 |
| Changes in assets and liabilities: | | |
| Prepaid expenses and other assets | 171 | 276 |
| Accounts receivable | (60) | (94) |
| Inventories | 289 | (338) |
| Accounts payable and accrued expenses | 5,662 | 1,767 |
| Other non-current liabilities | 139 | (160) |
| Net cash used in operating activities | (12,894) | (11,659) |
| | | |
| Cash flows from investing activities: | | |
| Purchase of property, plant and equipment | (59) | (372) |
| Net cash used in investing activities | (59) | (372) |
| | | |
| Cash flows from financing activities: | | |
| Expenses from the release of restricted cash | — | (788) |
| Cash paid to extinguish of Series C Warrants | — | (7,876) |
| Net proceeds from sale of Series B and Series C preferred shares | — | 2,278 |
| Redemption of Series A and Series B preferred shares | — | (2,360) |
| Net proceeds from convertible note debt financing | 5,727 | — |
| Net proceeds from sale of common stock and pre-funded warrants | 11,797 | 15 |
| Net cash provided by financing activities | 17,524 | (8,731) |
| Foreign currency effects on cash, cash equivalents and restricted cash | 80 | (77) |
| Net decrease in cash, cash equivalents and restricted cash | 4,651 | (20,839) |

| | | |
|---|---|---|
| Cash, cash equivalents and restricted cash: | | |
| Beginning of period | 5,324 | 31,696 |
| End of period | $9,975 | $10,857 |
| | | |
| Supplemental non-cash financing activities: | | |
| Conversion of convertible notes to common stock | $— | $26,199 |
| Fair value of warrants issued | $28,539 | $— |
| Fair value of warrants exercised | $— | $19 |

See accompanying Notes to Condensed Consolidated Financial Statements.

DELCATH SYSTEMS, INC.

Notes to the Condensed Consolidated Financial Statements

(1) General

The unaudited interim condensed consolidated financial statements of Delcath Systems, Inc. ("Delcath" or the "Company") as of and for the three and nine months ended September 30, 2018 and 2017 should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 ("Annual Report"), which has been filed with the Securities Exchange Commission ("SEC") on March 16, 2018 and can also be found on the Company's website (www.delcath.com). In these notes the terms "us", "we" or "our" refer to Delcath and its consolidated subsidiaries.

Description of Business

Delcath Systems, Inc. is an interventional oncology company focused on the treatment of primary and metastatic liver cancers. Our investigational product—Melphalan Hydrochloride for Injection for use with the Delcath Hepatic Delivery System (Melphalan/HDS) —is designed to administer high-dose chemotherapy to the liver while controlling systemic exposure and associated side effects. In Europe, our system is commercially available under the trade name Delcath Hepatic CHEMOSAT® Delivery System for Melphalan (CHEMOSAT®), where it has been used at major medical centers to treat a wide range of cancers of the liver.

Our primary research focus is on ocular melanoma liver metastases (mOM) and intrahepatic cholangiocarcinoma (ICC), a type of primary liver cancer, and certain other cancers that are metastatic to the liver. We believe the disease states we are investigating represent a multi-billion dollar global market opportunity and a clear unmet medical need.

Our clinical development program (CDP) for CHEMOSAT and Melphalan/HDS is comprised of The FOCUS Clinical Trial for Patients with Hepatic Dominant Ocular Melanoma (The FOCUS Trial), a Global Phase 3 clinical trial that is investigating objective response rate in mOM, and The ALIGN Trial, a registration trial for intrahepatic cholangiocarcinoma (ICC). Our CDP also includes a commercial registry for CHEMOSAT non-clinical commercial cases performed in Europe and sponsorship of select investigator initiated trials (IITs).

Liquidity and Operating Matters

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred losses since inception and expects to continue incurring losses for the next several years. These losses, among other factors raises substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

The Company's existence is dependent upon management's ability to obtain additional funding sources or to enter into strategic alliances. There can be no assurance that the Company's efforts will result in the resolution of the Company's liquidity needs. The accompanying statements do not include any adjustments that might result should the Company be unable to continue as a going concern.

Basis of Presentation

These interim condensed consolidated financial statements are unaudited and were prepared by the Company in accordance with generally accepted accounting principles in the United States of America (GAAP) and with the SEC's instructions to Form 10-Q and Article 10 of Regulation S-X. They include the accounts of all entities controlled by Delcath and all significant inter-company accounts and transactions have been eliminated in consolidation.

The preparation of interim financial statements requires management to make assumptions and estimates that impact the amounts reported. These interim condensed consolidated financial statements, in the opinion of management, reflect all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the Company's results of operations, financial position and cash flows for the interim periods ended September 30, 2018 and 2017; however, certain information and footnote disclosures normally included in our Annual Report have been condensed or omitted as permitted by GAAP. It is important to note that the Company's results of operations and cash flows for interim periods are not necessarily indicative of the results of operations and cash flows to be expected for a full fiscal year or any interim period.

Reverse Stock Split

On May 2, 2018, the Company effected a reverse stock split at which time Delcath's common stock began trading on the OTCQB on a one-for-five hundred (1:500) split-adjusted basis. All owners of record as of the open of the OTCQB market on May 2, 2018 received one issued and outstanding share of Delcath common stock in exchange for five hundred outstanding shares of Delcath common stock. No fractional shares were issued in connection with the reverse stock split. All fractional shares created by the one-for-five hundred exchange were rounded up to the next whole share. The reverse stock split had no impact on the par value per share of Delcath common stock, which remains at $0.01. All current and prior period amounts related to shares, share prices and earnings per share, presented in the Company's consolidated financial statements contained in this Annual Report on Form 10-K and the accompanying Notes have been restated to give retrospective presentation for the reverse stock split.

Significant Accounting Policies

A description of our significant accounting policies has been provided in Note 3 Summary of Significant Accounting Policies to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K filed for the period ended December 31, 2017.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers ("ASU 2014-09") that updates the principles for recognizing revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also amends the required disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

On January 1, 2018, the Company adopted ASU 2014-09 using the modified retrospective method and the impact was determined to be immaterial on its consolidated financial statements. The new revenue standard was applied prospectively in Delcath's condensed consolidated financial statements from January 1, 2018 forward and reported financial information for historical comparable periods will not be revised and will continue to be reported under the accounting standards in effect during those historical periods.

Delcath generates revenue from the sales of its product in Europe, where its system is commercially available under the trade name Delcath Hepatic CHEMOSAT Delivery System for Melphalan ("CHEMOSAT®"). Revenue from product sales is generally recognized at the time of shipment to a treating center or distributor, when control of the promised goods has been transferred to our customers. When obligations or contingencies remain after the products are shipped, such as training and certifying new treatment centers, revenue is deferred until the obligations or contingencies are satisfied.

Delcath has one distribution contract with a Turkish distributor. The contract has standard provisions for termination, renewal, limited warranty and right of return. CHEMOSAT kits are delivered to the Turkish distributor as orders are received and revenue is recognized at the time of shipment to the distributor. Delcath sells directly to centers in Europe with the exception of those centers located in Turkey. Sales are processed when purchase orders are received from the hospitals and revenue is recognized at the time of shipment to the treating center.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The new guidance requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, and early adoption is permitted. The Company adopted this standard on January 1, 2018.

In June 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The ASU is effective for public companies for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including interim periods within those fiscal years. An entity that elects early adoption must adopt all of the amendments in the same period. The guidance requires application using a retrospective transition method. The adoption of this standard did not have a material impact on the Company's financial statements.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases, which requires entities to report a right-to-use asset and liability for the obligation to make payments for all leases with the exception of those leases with a term of twelve months or less. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018. The Company intends to adopt this standard on January 1, 2019 and is currently evaluating the impact it may have on its consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260) Distinguishing Liabilities from Equity (Topic 480) Derivatives and Hedging (Topic 815). The new guidance intends to reduce the complexity associated with the issuer’s accounting for certain financial instruments with characteristics of liabilities and equity. Specifically, the Board determined that a down round feature would no longer cause a freestanding equity-linked financial instrument (or an embedded conversion option) to be accounted for as a derivative liability at fair value with changes in fair value recognized in current earnings. In addition, the Board re-characterized the indefinite deferral of certain provisions of Topic 480 to a scope exception. The re-characterization has no accounting effect. ASU 2017-11 is effective for public entities for fiscal years beginning after December 15, 2018. The Company intends to adopt this standard on January 1, 2019 and is evaluating the effects, if any, that the adoption of this guidance will have on the Company’s consolidated financial statements.

SEC Disclosure Update and Simplification

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, Disclosure Update and Simplification, amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule was effective on November 5, 2018. The Company is evaluating the impact of this guidance on its condensed consolidated financial statements.

(2) Restricted Cash

Cash and cash equivalents that are restricted as to withdrawal or use under the terms of certain contractual agreements are recorded in Restricted Cash on the balance sheet. Restricted cash does not include required minimum balances.

Restricted cash balances were as follows:

| | September 30, | December 31, |
|---|---|---|

| (in thousands) | 2018 | 2017 |
|---|---|---|
| Cash and cash equivalents | $ 8,913 | $ 3,999 |
| Convertible Notes | — | 238 |
| Letters of credit | 1,012 | 1,012 |
| Security for credit cards | 50 | 75 |
| Total cash, cash equivalents and restricted cash shown in the statement of cash flows | $ 9,975 | $ 5,324 |

(3) Inventories
Inventories consist of the following:

| (in thousands) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Raw materials | $ 389 | $ 298 |
| Work-in-process | 454 | 721 |
| Finished goods | 111 | 229 |
| Total inventories | $ 954 | $ 1,248 |

(4) Prepaid Expenses and Other Current Assets
Prepaid expenses and other current assets consist of the following:

| (in thousands) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Outside consultants | $ 249 | $ — |
| Taxes receivable | 145 | 29 |
| Insurance premiums | 52 | 421 |
| Security deposit | 51 | 50 |
| Software | 19 | 15 |
| Financing costs | — | 70 |
| Other[1] | 11 | 115 |
| Total prepaid expenses and other current assets | $ 527 | $ 700 |

[1] Other consists of various prepaid expenses and other current assets, with no individual item accounting for more than 5% of prepaid expenses and other current assets at September 30, 2018 and December 31, 2017.

(5) Property, Plant, and Equipment
Property, plant, and equipment consist of the following:

| (in thousands) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Buildings and land | $ 589 | $ 579 |
| Enterprise hardware and software | 1,742 | 1,744 |
| Leaseholds | 1,704 | 1,705 |
| Equipment | 985 | 971 |
| Furniture | 199 | 175 |
| Property, plant and equipment, gross | 5,219 | 5,174 |
| Accumulated depreciation | (4,207) | (3,876) |
| Property, plant and equipment, net | $ 1,012 | $ 1,298 |

Depreciation expense for the three and nine months ended September 30, 2018 was approximately $0.1 million and $0.3 million, respectively, as compared to approximately $0.1 million and, $0.2 million respectively, for the same period in 2017.

(6) Accrued Expenses

Accrued expenses consist of the following:

| (in thousands) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Compensation, excluding taxes | $ 2,362 | $ 869 |
| Clinical trial expenses | 2,793 | 1,124 |
| Professional fees | 521 | 221 |
| Short-term portion of lease restructuring | 189 | 209 |
| Other[1] | 260 | 985 |
| Total accrued expenses | $ 6,125 | $ 3,408 |

[1] Other consists of various accrued expenses, with no individual item accounting for more than 5% of current liabilities at September 30, 2018 and December 31, 2017.

(7) Restructuring Expenses

In order to help reduce operating costs and more appropriately align its office space with the size of its workforce, the Company entered into two sub-leases for office space at its 810 Seventh Avenue office. On May 22, 2014, the Company entered into a sub-lease agreement (“Sub-lease #1”) for approximately one-half of the office space at this location (“Suite 3500”), resulting in a lease restructuring reserve of approximately $0.9 million. On August 18, 2014, the Company entered into a sub-lease agreement (“Sub-lease #2”) for the remaining one-half of office space at its 810 Seventh Avenue office (“Suite 3505”), resulting in a lease restructuring reserve of approximately $0.7 million.

The following table provides the year-to-date activity of the Company’s restructuring reserves as of September 30, 2018:

| (in thousands) | Lease Liability |
|---|---|
| Reserve balance at December 31, 2017 | $ 604 |
| Charges | — |
| Payments/Utilizations | (159 ) |
| Reserve balance at September 30, 2018 | $ 445 |

(8) Secured Convertible Notes and related Common Stock Purchase Warrants
Convertible Notes, Net consisted of the following at September 30, 2018:

| (in millions) | Interest rate | Conversion price | Principal | Unamortized Discount | Net Amount | Accrued Interest |
|---|---|---|---|---|---|---|
| June 2018 Convertible Note, as amended[1] | 8.0% | $ 1.75 | $ 3.4 | $ (1.5 ) | $ 1.9 | $ 0.1 |
| July 2018 Convertible Note, as amended[2] | 8.0% | 1.75 | 2.2 | (1.7 ) | 0.5 | 0.01 |
| August 2018 Convertible Note[3] | 8.0% | 1.75 | 3.3 | (2.9 ) | 0.4 | 0.01 |
| September 2018 Convertible Note[4] | 8.0% | 1.75 | 0.5 | (0.5 ) | — | — |
| Total Convertible Notes Payable, Net | | | $ 9.4 | $ (6.6 ) | $ 2.8 | $ 0.1 |

[1] The June 2018 Convertible Note matures as follows: 75% on December 4, 2018; 25% on December 4, 2019

[2] The July 2018 Convertible Note matures as follows: 75% on January 20, 2019; 25% on January 20, 2020

[3] The August 2018 Convertible Note matures as follows: 75% on March 1, 2019; 25% on March 1, 2020

[4] The September 2018 Convertible Note matures as follows: 75% on March 21, 2019; 25% on March 21, 2020

June 2018 Convertible Note

In June 2018, the Company entered into a Securities Purchase Agreement (the “June 2018 SPA”) with an institutional investor pursuant to which the Company issued $3.3 million in principal face amount of senior secured convertible notes of the Company (the “June 2018 Notes”) and related June 2018 Series D Warrant and June 2018 Pre-Funded Series D Warrants (the “June 2018 Series D Warrants”) to purchase additional shares of the Company’s common stock. June 2018 Notes in the amount of $3.3 million and June 2018 Pre-Funded Warrants in the amount of $0.2 million were issued for cash proceeds of $2.4 million with an original issue discount in the amount of $1.1 million. The June 2018 Notes bear 8% interest payable upon maturity. Of the $3.3 million in issued June 2018 Notes, $2.5 million matures in six months; the balance of $0.8 million is payable in twelve installments beginning seven months after the original issuance date. Each payment shall be paid in cash or, provided that the Market Price (as defined in the June 2018 SPA) is at least the conversion price of $3.00, at the option of the Company, upon ten Trading Days' written notice to the Holder, in free trading common stock at the conversion price.

In connection with the issuance of the June 2018 Notes, the Company also issued June 2018 Series D Warrants. At issuance, the June 2018 Series D Warrant was exercisable to acquire 1.1 million shares of Common Stock at an initial exercise price of $4.00 and the June 2018 Pre-Funded Series D Warrants were exercisable to acquire 13.0 million shares of Common Stock at a pre-funded exercise price of $0.01. The Company was initially able to buy back each June 2018 Pre-Funded Series D Warrant on its date of initial exercisability so long as the Company was not in default and the applicable installment payment for each month had been paid when due. In the event that Delcath's Market Price (as defined in the Note Agreement) was less than $3.00, the Company could only purchase back these warrants if the June 2018 Notes payable were settled for cash. The provisions in the June 2018 Series D Warrants required the Company to initially account for the warrants as derivative liabilities. The Company valued the June 2018 Series D Warrants using the following inputs:

| | June 2018 Series D Warrant | June 2018 Pre-Funded Series D Warrants |
|---|---|---|
| Expected life (in years) | 5.0 | 5.5 - 6.5 |
| Expected volatility | 194.10% | 215.0% - 389.0% |
| Risk-free interest rates | 2.78% | 2.13% - 2.30% |

The Company recognized a discount to debt of $2.3 million and additional expense of $2.8 million was recognized as a Loss on issuance of a financial instrument related to the initial fair value of the June 2018 Series D Warrants. The June 2018 Series D Warrant has a five-year term; the June 2018 Pre-Funded Series D Warrants have a five-year term from initial exercisability which was to begin on the fifth day of each month commencing December 5, 2018, through December 5, 2019, for each of Warrant D-1-201 through 213 respectively.

July 2018 Convertible Note

In July 2018, the Company entered into a second Securities Purchase Agreement (the "July 2018 SPA") with another institutional investor for the remaining Notes and Warrants in proportionate amounts to those issued in the June 2018 transaction. July 2018 Notes in the amount of $2.2 million and July 2018 Pre-Funded Series D Warrants in the amount of $0.1 million were issued for cash proceeds of $1.6 million with an original issue discount in the amount of $0.7 million. Of the $2.2 million in issued July 2018 Notes, $1.6 million matures in six months; the balance of $0.6 million is payable in twelve installments beginning seven months after the original issuance date.

In connection with the issuance of the July 2018 Notes, the Company also issued July 2018 Series D Warrants. At issuance, the July 2018 Series D Warrant was exercisable to acquire 0.8 million shares of Common Stock at an initial exercise price of $4.00 and the July 2018 Pre-Funded Series D Warrants were exercisable to acquire 9.2 million shares of common stock at a pre-funded exercise price of $0.01. The Company recognized discounts to debt of $1.4 million related to the initial fair value of the July 2018 Series D Warrants and $0.2 million related to debt financing costs.

First Amendment to June 2018 Series D Warrants

In July 2018, the Company and the investor from the June 2018 transaction amended the June 2018 Pre-Funded Series D Warrants so that they are exercisable as of July 20, 2018 and the Company may redeem them at any time the Notes are no longer outstanding and the Company is not in default. The Company and the investor from the June 2018 transaction also amended the definition of a Fundamental Transaction in the June 2018 Series D Warrants. This amendment resulted in $4.2 million related to the fair value of the June 2018 Series D Warrants being reclassified from a liability to equity.

August 2018 Convertible Note

In August 2018, the Company entered into an agreement to sell up to $6.0 million purchase price of its 8% Senior Secured Convertible Notes and Series D Warrants and Series D Pre-Funded Warrants pursuant to a Securities Purchase Agreement with one or more institutional investors. The Agreement has substantially the same terms as the June 2018 SPA and July 2018 SPA, except that the conversion price under the Notes and exercise price of the Warrants is $1.75, and interest on the Notes shall accrue and be payable at maturity.

In August 2018, Notes in the amount of $3.3 million (the "August 2018 Notes") and August 2018 Pre-Funded Series D Warrants in the amount of $0.2 million were issued for cash proceeds of $2.5 million with an original issue discount in the amount of $1.1 million. Of the $3.3 million in issued August 2018 Notes, $2.5 million matures in six months; the balance of $0.8 million is payable in twelve installments beginning seven months after the original issuance date.

In connection with the issuance of the August 2018 Notes, the Company also issued August 2018 Series D Warrants. At issuance, the August 2018 Series D Warrant was exercisable to acquire 2.0 million shares of common stock at an initial exercise price of $1.75 and the August 2018 Pre-Funded Series D Warrants were exercisable to acquire 23.8 million shares of common stock at a pre-funded exercise price of $0.01. The Company recognized discounts to debt of $2.1 million related to the initial fair value of the August 2018 Series D Warrants and $0.1 million related to debt financing costs.

Amendment to June 2018 and July 2018 Notes and Pre-Funded Warrants

In August 2018, the Company amended its June 2018 Notes and July 2018 Notes such that the conversion price was reduced to $1.75, interest shall accrue until maturity, and the first $2.5 million and 50% of any subsequent financings shall be used to satisfy the Company's obligations under the Notes. Effective the same date, the Company also amended its Pre-Funded Warrants such that the total number of June 2018 Pre-Funded Warrants was increased from 13.0 million to 22.2 million and the total number of July 2018 Pre-Funded Warrants was increased from 9.2 million to 15.8 million. This amendment was accounted for as an extinguishment of debt as the change in cash flows exceeded 10%. The original June 2018 and July 2018 notes were written off and the amended June 2018 and July 2018 Notes were recorded at fair value as of the date of this amendment. The Company recorded $1.1 million loss on debt extinguishment related to this amendment.

September 2018 Convertible Note

In September 2018, the Company entered into a SPA with another institutional investor for a remaining portion of the August 2018 Notes and Warrants. September 2018 Notes in the amount of $0.5 million and September 2018 Pre-Funded Warrants in the amount of $0.03 million were issued for cash proceeds of $0.4 million with an original issue discount in the amount of $0.2 million. Of the $0.5 million in issued September 2018 Notes, $0.4 million matures in six months; the balance of $0.1 million is payable in twelve installments beginning seven months after the original issuance date.

In connection with the issuance of the September 2018 Notes, the Company also issued September 2018 Series D Warrants. At issuance, the September 2018 Series D Warrant was exercisable to acquire 0.3 million shares of common stock at an initial exercise price of $1.75 and the September 2018 Pre-Funded Warrants were exercisable to acquire 3.1 million shares of common stock at a pre-funded exercise price of $0.01. The Company recognized a discount to debt of $0.4 million related to the initial fair value of the September 2018 Series D Warrants.

All of the Notes between June 2018 and September 2018 are secured pursuant to a Security Agreement which creates a first priority security interest in all of the personal property (other than Excluded Collateral (as defined in the Security Agreement) of the Company of every kind and description, tangible or intangible, whether currently owned and existing or created or acquired in the future.

Pursuant to the Amendment to the June 2018 and July 2018 Notes discussed above, the Company repaid $4.9 million of outstanding Notes during the first week of October 2018.

(9) Stockholders’ Equity
Stock Issuances

Reverse Stock Split

On May 2, 2018, the Company effected a reverse stock split at which time Delcath’s common stock began trading on the OTCQB on a one-for-five hundred (1:500) split-adjusted basis. All owners of record as of the open of the OTCQB market on May 2, 2018 received one issued and outstanding share of Delcath common stock in exchange for five hundred outstanding shares of Delcath common stock. No fractional shares were issued in connected with the reverse stock split. All fractional shares created by the one-for-five hundred exchange were rounded up to the next whole share. The reverse stock split had no impact on the par value per share of Delcath common stock, which remains at $0.01. All current and prior period amounts related to shares, share prices and earnings per share, presented in the Company’s consolidated financial statements contained in this Quarterly Report on Form 10-Q and the accompanying Notes have been restated to give retrospective presentation for the reverse stock split.

February 2018 Financing

In February 2018, the Company completed the sale of 424,000 shares of its common stock, 76,000 pre-funded warrants and the issuance of warrants to purchase 1.0 million common shares (the “February 2018 Warrants”) pursuant to a placement agent agreement, with net proceeds after expenses of $4.3 million. The February 2018 Warrants are exercisable one year after the anniversary date of their issuance. At September 30, 2018, the February 2018 Warrants were exercisable at $10.00 per share with 1.0 million warrants outstanding. The Company allocated an estimated fair value of $18.3 million to the February 2018 Warrants. The Company valued the February 2018 Warrants using the following inputs: exercise price of $10.00; contractual term of six years; volatility of 122.68% and risk-free rate of approximately one percent. Due to certain price protection features in the agreement, the February 2018 Warrants were accounted for as a derivative liability at issuance and will be subsequently marked to market through the statement of operations.

September 2018 Rights Offering

In September 2018, the Company completed the sale of 4,667,811 shares of its common stock, with net proceeds after expenses of approximately $7.0 million.

Stock Incentive Plans

As a result of the May 2, 2018 reverse stock split, the Company's Stock Incentive Plans has no active grants and no further shares available to be granted.

For the three and nine months ended September 30, 2018, the Company recognized compensation income of $0 and $40,000 relating to stock options granted to employees. For the same period in 2017, the Company recognized compensation expense of approximately $3,000 and $48,000 respectively.

For the three and nine months ended September 30, 2018, the Company recognized compensation expense of approximately $1.0 million and $35,000 relating to restricted stock granted to employees and consultants.  For the same period in 2017, the Company recognized compensation expense of approximately $20,000 and $0.1 million, respectively.

Warrants

The following is a summary of warrant activity for the nine months ended September 30, 2018:

| | Warrants | Exercise Price per Share | Weighted Average Exercise Price | Weighted Average Remaining Life (Years) |
|---|---|---|---|---|
| Outstanding at December 31, 2017 | 14,049 | $1,225 - $19,712,000 | $ 13,942.79 | 4.88 |
| Warrants issued in Feb 2018 registered direct offering | 1,076,002 | | 9.33 | |
| Warrants issued with convertible notes | 69,169,756 | | | |