

VistaGen Therapeutics, Inc.  
Form 10-Q  
February 17, 2015

---

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 December 31, 2014  
or

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

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

Commission File Number: 000-54014

VistaGen Therapeutics, Inc.  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

20-5093315  
(I.R.S. Employer  
Identification No.)

343 Allerton Avenue  
South San Francisco, CA 94080  
(Address of principal executive offices including zip code)

(650) 577-3600  
(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 x No o

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 x No o

Edgar Filing: VistaGen Therapeutics, Inc. - Form 10-Q

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-Accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

(do not check if a 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  
o No x

As of February 13, 2015, 1,473,528 shares of the registrant’s common stock, \$0.001 par value, were issued and outstanding.

---

VistaGen Therapeutics, Inc.  
Quarterly Report on Form 10-Q  
for the Quarter Ended December 31, 2014

TABLE OF CONTENTS

	Page
<b>PART I. FINANCIAL INFORMATION</b>	
<b>Item 1. Condensed Consolidated Financial Statements (Unaudited)</b>	
Condensed Consolidated Balance Sheets at December 31, 2014 and March 31, 2014	1
Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income for the three and nine months ended December 31, 2014 and 2013	2
Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2014 and 2013	3
Notes to the Condensed Consolidated Financial Statements	4
<b>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</b>	<b>22</b>
<b>Item 4. Controls and Procedures</b>	<b>35</b>
<b>PART II. OTHER INFORMATION</b>	
<b>Item 1. Legal Proceedings</b>	<b>36</b>
<b>Item 1A. Risk Factors</b>	<b>36</b>
<b>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</b>	<b>63</b>
<b>Item 3. Defaults Upon Senior Secured Securities</b>	<b>63</b>
<b>Item 6. Exhibits</b>	<b>64</b>
<b>SIGNATURES</b>	<b>65</b>

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements (Unaudited)

## VISTAGEN THERAPEUTICS, INC.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in Dollars, except share amounts)

	December 31, 2014 (Unaudited)	March 31, 2014 (Note 2)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 13,200	\$-
Prepaid expenses and other current assets	62,300	40,500
Total current assets	75,500	40,500
Property and equipment, net	137,000	176,300
Security deposits and other assets	46,900	46,900
Total assets	\$ 259,400	\$ 263,700
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 2,415,300	\$ 2,443,900
Accrued expenses	1,192,800	625,600
Advance from officer	-	3,600
Current portion of senior secured convertible promissory notes and accrued interest	2,842,700	-
Current portion of notes payable and accrued interest	1,929,900	1,442,300
Current portion of notes payable to related parties and accrued interest	343,100	290,400
Convertible promissory notes and accrued interest, net of discount of \$1,182,100 and \$697,400 at December 31, 2014 and March 31, 2014	2,038,800	396,000
Capital lease obligations	1,000	3,900
Total current liabilities	10,763,600	5,205,700
Non-current liabilities:		
Senior secured convertible promissory notes, net of discount of \$0 at December 31, 2014 and \$2,085,900 at March 31, 2014 and accrued interest	1,490,400	1,929,800
Notes payable, net of discount of \$577,000 at December 31, 2014 and \$848,100 at March 31, 2014 and accrued interest	2,129,800	1,797,600
Notes payable to related parties, net of discount of \$67,500 at December 31, 2014 and \$103,200 at March 31, 2014 and accrued interest	1,124,100	1,057,100
Warrant liability	2,445,600	2,973,900
Deferred rent liability	87,700	97,400
Capital lease obligations	1,400	2,100
Total non-current liabilities	7,279,000	7,857,900
Total liabilities	18,042,600	13,063,600

## Commitments and contingencies

## Stockholders' deficit:

Preferred stock, \$0.001 par value; 10,000,000 shares, including 500,000 Series A shares, authorized at December 31, 2014 and March 31, 2014; 500,000 Series A shares issued and outstanding at December 31, 2014 and March 31, 2014	500	500
Common stock, \$0.001 par value; 10,000,000 shares authorized at December 31, 2014 and March 31, 2014; 1,460,843 and 1,310,093 shares issued at December 31, 2014 and March 31, 2014, respectively	1,400	1,300
Additional paid-in capital	64,484,400	62,001,400
Treasury stock, at cost, 135,665 shares of common stock held at December 31, 2014 and March 31, 2014	(3,968,100 )	(3,968,100 )
Note receivable from sale of common stock	-	(198,100 )
Accumulated deficit	(78,301,400)	(70,636,900)
Total stockholders' deficit	(17,783,200)	(12,799,900)
Total liabilities and stockholders' deficit	\$ 259,400	\$ 263,700

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

## VISTAGEN THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME  
(Unaudited)

(Amounts in dollars, except share amounts)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Revenues:	\$-	\$-	\$-	\$-
Operating expenses:				
Research and development	445,400	551,300	1,476,600	1,916,100
General and administrative	671,300	897,000	2,024,600	2,047,500
Total operating expenses	1,116,700	1,448,300	3,501,200	3,963,600
Loss from operations	(1,116,700)	(1,448,300)	(3,501,200)	(3,963,600)
Other expenses, net:				
Interest expense, net	(792,400 )	(360,900 )	(2,182,900)	(1,000,500)
Change in warrant liability	953,700	1,940,200	528,300	3,823,700
Loss on early extinguishment of debt	-	-	(2,371,400)	-
Other expense	(134,900 )	-	(134,900 )	-
(Loss) income before income taxes	(1,090,300)	131,000	(7,662,100)	(1,140,400)
Income taxes	-	-	(2,400 )	(2,700 )
Net (loss) income	\$(1,090,300)	\$131,000	\$(7,664,500)	\$(1,143,100)
Basic net (loss) income per common share	\$(0.84 )	\$0.12	\$(6.03 )	\$(1.06 )
Diluted net loss per common share	\$(1.08 )	\$(0.44 )	\$(6.14 )	\$(2.30 )
Weighted average shares used in computing:				
Basic net (loss) income per common share	1,302,300	1,110,529	1,270,495	1,077,746
Diluted net loss per common share	1,302,300	1,110,529	1,288,674	1,087,087
Comprehensive (loss) income	\$(1,090,300)	\$131,000	\$(7,664,500)	\$(1,143,100)

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

## VISTAGEN THERAPEUTICS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in Dollars)

	Nine Months Ended December 31,	
	2014	2013
Cash flows from operating activities:		
Net loss	\$(7,664,500)	\$(1,143,100)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	39,200	40,200
Amortization of discounts on convertible and promissory notes	1,294,700	356,100
Change in warrant liability	(528,300 )	(3,823,700)
Stock-based compensation	564,000	893,700
Expense related to modification of warrants	-	174,500
Non-cash rent and relocation expense	(9,700 )	56,700
Interest income on note receivable for stock purchase	2,800	(400 )
Loss on settlement of note receivable for stock purchase	134,900	-
Fair value of common stock granted for services	134,000	-
Fair value of warrants granted for services and interest	38,700	54,000
Gain on currency fluctuation	(22,000 )	(30,100 )
Loss on extinguishment of debt	2,371,400	-
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	74,300	56,100
Security deposits and other assets	-	(17,900 )
Accounts payable and accrued expenses, including accrued interest	1,696,100	1,725,000
Net cash used in operating activities	(1,874,400)	(1,658,900)
Cash flows from investing activities:		
Purchases of equipment, net	-	(9,600 )
Net cash used in investing activities	-	(9,600 )
Cash flows from financing activities:		
Net proceeds from issuance of common stock and warrants, including Units	2,128,200	597,900
Proceeds from exercise of modified warrants	-	264,200
Proceeds from sale of note and warrant to Platinum	-	250,000
Advance from officer	-	64,000
Repayment of capital lease obligations	(3,700 )	(5,700 )
Repayment of notes	(236,900 )	(119,300 )
Net cash provided by financing activities	1,887,600	1,051,100
Net increase (decrease) in cash and cash equivalents	13,200	(617,400 )
Cash and cash equivalents at beginning of period	-	638,100
Cash and cash equivalents at end of period	\$ 13,200	\$ 20,700

See accompanying notes to Condensed Consolidated Financial Statements.





Table of Contents

VISTAGEN THERAPEUTICS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Note 1. Description of Business

Overview

VistaGen Therapeutics, Inc., a Nevada corporation, is a clinical-stage biopharmaceutical company focused on developing novel medicine to treat depression and other conditions involving the central nervous system and cancer. Our principal executive offices are located at 343 Allerton Avenue, South San Francisco, California 94080, and our telephone number is (650) 577-3600. Our website address is [www.vistagen.com](http://www.vistagen.com). Unless the context otherwise requires, the words “VistaGen Therapeutics, Inc.” “VistaGen,” “we,” “the Company,” “us” and “our” refer to VistaGen Therapeutics, Inc., a Nevada corporation.

VistaGen Therapeutics, Inc., a California corporation incorporated on May 26, 1998 (VistaGen California), is our wholly-owned subsidiary. Pursuant to a strategic merger transaction on May 11, 2011, we acquired all outstanding shares of VistaGen California in exchange for 341,823 shares of our common stock (Merger), and assumed all of VistaGen California’s pre-Merger obligations. Our Condensed Consolidated Financial Statements in this report also include the accounts of VistaGen California’s two wholly-owned subsidiaries, Artemis Neuroscience, Inc., a Maryland corporation, and VistaStem Canada, Inc., a corporation organized under the laws of Ontario, Canada.

AV-101 and Major Depressive Disorder

AV-101 (4-CI-KYN) is our drug candidate in Phase 2 development as a potential new generation treatment for major depressive disorder (MDD), one of the most common mental disorders in the U.S., affecting 6.7% of U.S. adults each year. AV-101 also has potential as a new treatment for other conditions of the central nervous system (CNS), including epilepsy and chronic neuropathic pain, and neurodegenerative diseases such as Parkinson’s disease and Huntington’s disease.

Approximately two-thirds of depression sufferers do not benefit from the first round treatment of currently approved antidepressant agents, including selective serotonin reuptake inhibitors (SSRIs) and serotonin-norepinephrine reuptake inhibitors (SNRIs). Because of their mechanism of action, currently approved antidepressant drugs often take many weeks to relieve depressive symptoms and induce remission of a major depressive episode. During this multiple-week lag period before onset of therapeutic benefits, risks of side effects, including suicidal thoughts and behaviors, may be considerable. Ultimately, after as many as four treatment cycles, involving several different antidepressant medications, approximately two out of three patients may find an antidepressant drug combination that induces remission of depressive symptoms. Unfortunately, this serial trial and error period to find an effective antidepressant medication can take months to more than a year to achieve, with an increasing rate of potentially significant side effect risks with each successive treatment attempt.

In randomized, placebo-controlled, double-blind clinical trials conducted by Dr. Carlos Zarate, Chief, Section on the Neurobiology and Treatment of Mood Disorders and Chief of the Experimental Therapeutics and Pathophysiology Branch at the U.S. National Institute of Mental Health (NIMH), part of the U.S. National Institutes of Health (NIH), ketamine, an NMDA receptor antagonist which acts as an NMDA channel blocker, produced robust and rapid, within hours, antidepressant effects in MDD patients who had not responded to approved antidepressant drugs. Although the potential for widespread therapeutic use of ketamine may be severely limited by its potential for abuse, its dissociative and psychosis-like side effects, as well as practical challenges associated with its required intravenous administration in a medical center, the discovery of ketamine’s rapid onset antidepressant effects revolutionized thinking about the

MDD treatment paradigm and mechanism of action of antidepressant medicines. It also increased interest in the development of a new generation of drug candidates with a mechanism of action similar to ketamine's and a more rapid therapeutic benefit compared to currently approved antidepressants.

AV-101 is a unique prodrug candidate that produces, in the brain, 7-chlorokynurenic acid (7-Cl-KYNA), one of the most potent and selective antagonists of the required glycine-binding site of the N-methyl-D-aspartate (NMDA) receptor, resulting in the down-regulation of NMDA signaling. Growing evidence suggests that the glutamatergic system is central to the neurobiology and treatment of MDD and other mood disorders.

Table of Contents

The fundamentally novel mechanism of action of AV-101 places it among a new generation of glutamatergic antidepressants with breakthrough potential to treat millions of depression sufferers worldwide who are poorly served by SSRIs, SNRIs and other currently available depression therapies. Like ketamine, AV-101 modulates (down-regulates) NMDA receptor channel activity. However, unlike ketamine's antagonistic activity, which results from its blocking the NMDA receptor channel, AV-101's antagonistic activity results from its selective binding to, and blocking, the functionally-required glycine-binding co-agonist site of the NMDA receptor.

The NIH previously awarded VistaGen \$8.8 million to advance preclinical and Phase 1 clinical development of AV-101. In two randomized, double-blind, placebo-controlled Phase 1 safety studies, AV-101 was well tolerated and not associated with any severe adverse events. There were no signs of sedation, hallucinations or schizophrenia-like side effects often associated with ketamine and traditional NMDAR channel blockers. AV-101's preclinical efficacy data, novel mechanism of action, rapid and efficient oral-delivery and demonstrated clinical safety, support our belief that it has breakthrough potential to address the urgent need for antidepressant agents with rapid-acting therapeutic benefits, in a manner similar to results seen in MDD studies with ketamine, but without any delivery limitations or safety concerns of ketamine.

NIH Cooperative Research and Development Agreement for NIH-Sponsored AV-101 Phase 2 Study in MDD

On February 10, 2015, we entered into a Cooperative Research and Development Agreement (CRADA) with the NIMH to collaborate with Dr. Zarate and his colleagues at the NIMH on an NIH-sponsored Phase 2 clinical study of the efficacy and safety of AV-101 in subjects with MDD. Dr. Zarate will be the Principal Investigator for the NIH-funded AV-101 Phase 2 MDD study under the CRADA. The study is expected to commence during the first half of 2015 and be completed at the end of 2015.

Stem Cell Technology-based Drug Rescue

With mature, adult human heart cells and liver cells produced using our proprietary pluripotent stem cell technology, we have developed two customized human cellular bioassay systems, CardioSafe 3D™ and LiverSafe 3D™, for predicting heart toxicity and liver toxicity of new drug candidates, long before they are ever tested in animal or human studies. We are leveraging CardioSafe 3D and LiverSafe 3D for drug rescue focused on producing proprietary new chemical entities (NCE's) which are safer variants of drug rescue candidates previously optimized and tested for efficacy by pharmaceutical companies and others but terminated before FDA approval due to heart or liver toxicity concerns. Our initial drug rescue programs are focused on NCEs for cancer and CNS disorders.

Table of Contents

Note 2. Basis of Presentation and Going Concern

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not contain all of the information and footnotes required for complete consolidated financial statements. In the opinion of management, the accompanying unaudited Condensed Consolidated Financial Statements reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly our interim financial information. The accompanying Condensed Consolidated Balance Sheet at March 31, 2014 has been derived from our audited consolidated financial statements at that date but does not include all disclosures required by U.S. GAAP. The operating results for the three and nine months ended December 31, 2014 are not necessarily indicative of the operating results to be expected for our fiscal year ending March 31, 2015 or for any other interim period or any other future period.

The accompanying unaudited Condensed Consolidated Financial Statements and notes to Condensed Consolidated Financial Statements should be read in conjunction with our audited Consolidated Financial Statements for the fiscal year ended March 31, 2014 contained in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (SEC) on June 25, 2014. Effective August 14, 2014, we consummated a 1-for-20 reverse split of our authorized, and issued and outstanding shares of common stock (the Stock Consolidation). Each reference to shares of common stock or the price per share of common stock in these financial statements is post-Stock Consolidation, and reflects the 1-for-20 adjustment as a result of the Stock Consolidation. See Note 8, Capital Stock, for more information regarding the Stock Consolidation.

The accompanying Condensed Consolidated Financial Statements have been prepared assuming we will continue as a going concern. As an entity having not yet achieved sustainable revenues, we have experienced recurring losses and negative cash flows from operations resulting in a deficit of \$78.3 million accumulated from inception through December 31, 2014. We expect losses and negative cash flows from operations to continue for the foreseeable future as we engage in further potential development of AV-101 and launch and execute our drug rescue programs and pursue potential drug discovery, drug development and regenerative medicine opportunities.

Since our inception in May 1998 through December 31, 2014, we have financed our operations and technology acquisitions primarily through the issuance and sale of equity and debt securities, including convertible promissory notes and short-term promissory notes, for cash proceeds of approximately \$28.0 million, as well as from an aggregate of approximately \$16.4 million of government research grant awards, strategic collaboration payments and other revenues. Additionally, we have issued equity securities with an approximate value at issuance of \$13.0 million in non-cash settlements of certain liabilities, including liabilities for professional services rendered to us or as compensation for such services. At December 31, 2014, we did not have sufficient cash and cash equivalents to enable us to fund our planned operations, including expected cash expenditures of approximately \$7.5 million over the next twelve months.

To meet our cash needs and fund our working capital requirements after December 31, 2014, between January 1, 2015 and February 13, 2015, we entered into securities purchase agreements with certain accredited investors and institutions to sell units of our securities, for aggregate proceeds of \$768,500 consisting of: (i) 10% subordinate convertible promissory notes in the aggregate face amount of \$768,500 maturing on March 31, 2015; (ii) an aggregate of 128,350 restricted shares of our common stock; and (iii) warrants exercisable through December 31, 2016 to purchase an aggregate of 128,350 restricted shares of our common stock at an exercise price of \$10.00 per share. See Note 10, Subsequent Events, for additional information.

In April 2013, we entered into a Securities Purchase Agreement (as amended, Securities Purchase Agreement) with Autilion AG, a company organized and existing under the laws of Switzerland (Autilion), under which Autilion

remains contractually obligated to purchase an aggregate of 3.6 million restricted shares of our common stock at a purchase price of \$10.00 per share for aggregate cash proceeds to us of \$36.0 million (Atilion Financing). Atilion is currently in default on its obligations under the Securities Purchase Agreement. Substantial doubt exists that the Atilion Financing will close, and therefore no assurances can be provided that Atilion will complete any material portion of its obligations under the Securities Purchase Agreement. In the event that Atilion does not complete a material portion of the Atilion Financing under the Securities Purchase Agreement in the near term, we estimate that we will need to obtain approximately \$10 million to \$15 million from alternative financing sources during the course of the next 12 months to execute our business plan. We believe our participation in potential strategic collaborations, including potential transactions involving development and commercialization of AV-101, may provide us with cash in support of our future cash needs and working capital requirements. To the extent necessary, we may also seek to meet our current and future cash needs, and fund our current and future working capital requirements, through a combination of private placements and/or registered public offerings of our securities, which may include both debt and equity securities, research and development collaborations, license fees, and government grant awards and collaborations. Notwithstanding the foregoing, substantial additional financing may not be available to us on a timely basis, on acceptable terms, or at all. If we are unable to obtain substantial financing from in the near term, our business, financial condition, and results of operations may be harmed, the price of our stock may decline, we may be required to reduce, defer, or discontinue certain of our research and development activities and we may not be able to continue as a going concern. The accompanying Condensed Consolidated Financial Statements do not include any adjustments that might result from the outcome of this uncertainty.

Table of Contents

Note 3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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. Significant estimates include those relating to revenue recognition, share-based compensation, and assumptions that have been used to value warrants, warrant modifications, and previous put option and note term extension liabilities.

Revenue Recognition

Although we do not currently have any such arrangements, we have historically generated revenue principally from collaborative research and development arrangements, technology access fees and government grants. Revenue arrangements with multiple components are divided into separate units of accounting if certain criteria are met, including whether the delivered component has stand-alone value to the customer. Consideration received is allocated among the separate units of accounting based on their respective selling prices. The selling price for each unit is based on vendor-specific objective evidence, or VSOE, if available, third party evidence if VSOE is not available, or estimated selling price if neither VSOE nor third party evidence is available. The applicable revenue recognition criteria are then applied to each of the units.

We recognize revenue when the four basic criteria of revenue recognition are met: (1) a contractual agreement exists; (2) the transfer of technology has been completed or services have been rendered; (3) the fee is fixed or determinable; and (4) collectability is reasonably assured. For each source of revenue, we comply with the above revenue recognition criteria in the following manner:

Collaborative arrangements typically consist of non-refundable and/or exclusive technology access fees, cost reimbursements for specific research and development spending, and various milestone and future product royalty payments. If the delivered technology does not have stand-alone value, the amount of revenue allocable to the delivered technology is deferred. Non-refundable upfront fees with stand-alone value that are not dependent on future performance under these agreements are recognized as revenue when received, and are deferred if we have continuing performance obligations and have no objective and reliable evidence of the fair value of those obligations. We recognize non-refundable upfront technology access fees under agreements in which we have a continuing performance obligation ratably, on a straight-line basis, over the period in which we are obligated to provide services. Cost reimbursements for research and development spending are recognized when the related costs are incurred and when collectability is reasonably assured. Payments received related to substantive, performance-based “at-risk” milestones are recognized as revenue upon achievement of the milestone event specified in the underlying contracts, which represent the culmination of the earnings process. Amounts received in advance are recorded as deferred revenue until the technology is transferred, costs are incurred, or a milestone is reached.

Technology license agreements typically consist of non-refundable upfront license fees, annual minimum access fees and/or royalty payments. Non-refundable upfront license fees and annual minimum payments received with separable stand-alone values are recognized when the technology is transferred or accessed, provided that the technology transferred or accessed is not dependent on the outcome of the continuing research and development efforts. Otherwise, revenue is recognized over the period of our continuing involvement.

Government grants, which have supported our research efforts on specific projects, generally provide for reimbursement of approved costs as defined in the terms of grant awards. Grant revenue is recognized when

associated project costs are incurred.

-7-

---

Table of Contents

## Research and Development Expenses

Research and development expenses are composed of both internal and external costs. Internal costs include salaries and employment-related expenses of scientific personnel and direct project costs. External research and development expenses consist primarily of costs associated with clinical and non-clinical development of AV-101, our prodrug candidate entering late-stage clinical development for Major Depressive Disorder, sponsored stem cell research and development costs, and costs related to the application and prosecution of patents related to our stem cell technology platform and AV-101. All such costs are charged to expense as incurred.

## Stock-Based Compensation

We recognize compensation cost for all stock-based awards to employees based on the grant date fair value of the award. Non-cash, stock-based compensation expense is recognized over the period during which the employee is required to perform services in exchange for the award, which generally represents the scheduled vesting period. We have no awards with market or performance conditions. For equity awards to non-employees, we re-measure the fair value of the awards as they vest and the resulting value is recognized as an expense during the period over which the services are performed.

The table below summarizes stock-based compensation expense included in the accompanying Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income for the three and nine months ended December 31, 2014 and 2013:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Research and development expense:				
Stock option grants	\$30,000	\$126,900	\$156,100	\$240,300
Warrants granted to officer in March 2014 and 2013	36,200	33,400	108,800	100,300
	66,200	160,300	264,900	340,600
General and administrative expense:				
Stock option grants	18,600	242,200	86,700	352,500
Warrants granted to officers and directors in March 2014 and 2013	70,700	66,900	212,300	200,600
	89,300	309,100	299,000	553,100
Total stock-based compensation expense	\$155,500	\$469,400	\$563,900	\$893,700

We did not grant any stock options to employees or consultants during the nine months ended December 31, 2014. During the nine months ended December 31, 2013, we granted stock options to purchase an aggregate of 156,000 shares of our common stock at exercise prices from \$8.00 per share to \$16.40 per share (the quoted market price on the grant dates after giving effect to the Stock Consolidation) to certain employees and consultants. During the quarter ended December 31, 2013, we modified certain outstanding stock options granted from our 2008 Stock Incentive Plan to reduce the exercise price to \$8.00 per share or \$10.00 per share and modified certain stock options granted from our 1999 Stock Incentive Plan to reduce the exercise price to \$10.00 per share. The expense indicated in the table above



Edgar Filing: VistaGen Therapeutics, Inc. - Form 10-Q

for the three and nine months ended December 31, 2013 includes an aggregate of \$252,000 attributable to these modifications. At December 31, 2014, there were stock options outstanding to purchase 207,638 shares of our common stock at a weighted average exercise price of \$10.09 per share.

-8-

---

Table of Contents

Warrant Liability

We have issued a substantial number of warrants to purchase unregistered shares of our common stock to Platinum Long Term Growth VII, LLC, our largest investor (Platinum), and, subject to Platinum's exercise of its rights to exchange shares of our Series A Preferred Stock that it holds, we are also obligated to issue additional warrants to purchase unregistered shares of common stock to Platinum (collectively, the Platinum Warrants). The Platinum Warrants contain an exercise price adjustment feature that will lower the exercise price of the warrants in the event we subsequently issue equity instruments at a price lower than the exercise price of the Platinum Warrants. We account for the Platinum Warrants as non-cash liabilities and estimate their fair value as described in Note 4, Fair Value Measurements, Note 7, Convertible Promissory Notes and Other Notes Payable, and Note 8, Capital Stock. We compute the fair value of the warrant liability at each reporting period and record the change in the fair value as non-cash expense or non-cash income. The key component in determining the fair value of the Platinum Warrants and the related liability is the market price of our common stock, which is subject to significant fluctuation and is not under our control. The resulting change in the fair value of the warrant liability on our net income or loss is therefore also subject to significant fluctuation and will continue to be so until all of the Platinum Warrants are issued and exercised, amended or expire. Assuming all other fair value inputs remain generally constant, we will record an increase in the warrant liability and non-cash losses when our stock price increases and a decrease in the warrant liability and non-cash gains when our stock price decreases.

Comprehensive Income (Loss)

We have no components of other comprehensive income (loss) other than net income (loss), and accordingly our comprehensive income (loss) is equivalent to our net income (loss) for the periods presented.

Loss per Common Share

Basic income (loss) per share of common stock excludes the effect of dilution and is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding for the period. Diluted income (loss) per share of common stock reflects the potential dilution that could occur if securities or other contracts to issue shares of common stock were exercised or converted into shares of common stock. In calculating diluted net income (loss) per share, we adjust the numerator for the change in the fair value of the warrant liability attributable to outstanding warrants, only if dilutive, and increase the denominator to include the number of potentially dilutive common shares assumed to be outstanding during the period using the treasury stock method. As a result of our net loss for the periods presented, potentially dilutive securities were excluded from the computation, as their effect would be antidilutive. Potentially dilutive securities were assumed to be converted into common shares and outstanding during the periods for purposes of calculating diluted earnings per share as indicated in the table below.

Table of Contents

Basic and diluted net loss attributable to common stockholders per share was computed as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2014	2013	2014	2013
Numerator:				
Net (loss) income attributable to common stockholders for basic earnings per share	\$(1,090,300)	\$131,000	\$(7,664,500)	\$(1,143,100)
less: change in fair value of warrant liability attributable to Exchange,				
Investment and Bridge Warrants issued to Platinum	(314,900 )	(620,800 )	(251,500 )	(1,354,400)
Net loss for diluted earnings per share attributable to common stockholders	\$(1,405,200)	\$(489,800 )	\$(7,916,000)	\$(2,497,500)
Denominator:				
Weighted average basic common shares outstanding	1,302,300	1,110,529	1,270,495	1,077,746
Assumed conversion of dilutive securities:				
Warrants to purchase common stock	-	-	18,179	9,340
Potentially dilutive common shares assumed converted	-	-	18,179	9,340
Denominator for diluted earnings per share - adjusted weighted average shares	1,302,300	1,110,529	1,288,674	1,087,087
Basic net (loss) income attributable to common stockholders per common share	\$(0.84 )	\$0.12	\$(6.03 )	\$(1.06 )
Diluted net loss attributable to common stockholders per common share	\$(1.08 )	\$(0.44 )	\$(6.14 )	\$(2.30 )

Potentially dilutive securities excluded in determining diluted net loss per common share are as follows:

	As of December 31,	
	2014	2013
Series A preferred stock issued and outstanding (1)	750,000	750,000
Warrant shares issuable to Platinum upon exercise of common stock warrants by Platinum upon exchange of Series A Preferred under the terms of the October 11, 2012 Note		
Exchange and Purchase Agreement	375,000	375,000
Outstanding options under the 2008 and 1999 Stock Incentive Plans	207,768	235,264

Edgar Filing: VistaGen Therapeutics, Inc. - Form 10-Q

Outstanding warrants to purchase common stock	999,840	785,545
10% convertible Exchange Note and Investment Notes issued to Platinum in October 2012, February 2013 and March 2013, including accrued interest through December 31, 2014 and 2013, respectively (2)	404,420	363,582
10% convertible note issued to Platinum on July 26, 2013, including accrued interest through March 31, 2014 through December 31, 2014 and 2013, respectively	28,891	26,117
10% convertible notes issued as a component of Unit Private Placements, including accrued interest through March 31, 2014 accrued interest through December 31, 2014 and 2013, respectively (3)	322,091	59,305
<b>Total</b>	<b>3,088,010</b>	<b>2,594,813</b>

(1) Assumes exchange under the terms of the October 11, 2012 Note Exchange and Purchase Agreement with Platinum

(2) Assumes conversion under the terms of the October 11, 2012 Note Exchange and Purchase Agreement with Platinum and the terms of the individual notes

(3) Excludes effect of conversion premium upon conversion into securities which may be issued in a Qualified Financing, as defined in the notes

Table of Contents

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of 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. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The effective date will be the first quarter of our fiscal year ending March 31, 2018, using one of two retrospective application methods. We have not determined the potential effects of adopting this ASU on our consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-10, Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation. The amendments in this ASU remove all incremental financial reporting requirements for development stage entities. Among other changes, this ASU no longer requires development stage entities to present inception-to-date information about income statement line items, cash flows, and equity transactions. The presentation and disclosure requirements in Topic 915 will no longer be required for the first annual period beginning after December 15, 2014, with early adoption permitted. We have adopted ASU 2014-10 effective with our fiscal year beginning April 1, 2014 and, accordingly, have eliminated inception-to-date information in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss and Condensed Consolidated Statements of Cash Flows.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The amendments in this ASU define when and how an entity is required to disclose going concern uncertainties, which must be evaluated each interim and annual period. Specifically, the ASU requires management to determine whether substantial doubt exists regarding the entity's going concern presumption. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable (as defined under ASC 450, Contingencies) that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued or are available to be issued. If substantial doubt exists, certain disclosures are required, the extent of which depends on an evaluation of management's plans (if any) to mitigate the going concern uncertainty. This evaluation should include consideration of conditions and events that are either known or are reasonably knowable at the date the financial statements are issued or are available to be issued, as well as whether it is probable that management's plans to address the substantial doubt will be implemented and, if so, whether it is probable that the plans will alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim and annual periods thereafter. Early application is permitted. In their opinion on our audited financial statements for our fiscal year ended March 31, 2014, our auditors indicated that there was substantial doubt about our ability to continue as a going concern. Although we have not yet adopted ASU 2014-15, we have indicated in Note 2, Basis of Presentation and Going Concern, management's plans for additional financing that is expected to permit us to continue our operations for at least one year. Upon our adoption of ASU 2014-15, assuming conditions at such time indicate there is substantial doubt about our ability to continue as a going concern, or that such doubt has been alleviated, we will conform our disclosure to comply with the guidance contained in ASU 2014-15.

Note 4. Fair Value Measurements

We follow the principles of fair value accounting as they relate to our financial assets and financial liabilities. Fair value is defined as the estimated exit price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, rather than an entry price that represents the purchase price of an asset or liability. Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on several factors, including the instrument's complexity. The required fair value hierarchy that prioritizes observable and unobservable inputs used to measure and classify fair value into three broad levels is described as follows:

Level 1 — Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs (i.e., inputs that reflect the reporting entity's own assumptions about the assumptions that market participants would use in estimating the fair value of an asset or liability) are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Table of Contents

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Where quoted prices are available in an active market, securities are classified as Level 1 of the valuation hierarchy. If quoted market prices are not available for the specific financial instrument, then we estimate fair value by using pricing models, quoted prices of financial instruments with similar characteristics or discounted cash flows. In certain cases where there is limited activity or less transparency around inputs to valuation, financial assets or liabilities are classified as Level 3 within the valuation hierarchy.

We do not use derivative instruments for hedging of market risks or for trading or speculative purposes. In conjunction with the issuance of the Senior Secured Convertible Promissory Notes and related Exchange Warrant and Investment Warrants to Platinum in October 2012, February 2013, March 2013, and the potential issuance of the Series A Exchange Warrant (see Note 9, Capital Stock), all pursuant to the Note Exchange and Purchase Agreement of October 2012 between the Company and Platinum (see Note 7, Convertible Promissory Notes and Other Notes Payable), and the issuance of the warrant related to the Senior Secured Convertible Promissory Note issued to Platinum in July 2013, we determined that the Platinum Warrants included certain exercise price adjustment features requiring the warrants to be treated as non-cash liabilities, which were recorded at their estimated fair value. We determined the initial fair value of the warrant liability using a Monte Carlo simulation model with Level 3 inputs or the Black-Scholes Option Pricing model. Inputs used to determine fair value include the remaining contractual term of the Platinum Warrants, risk-free interest rates, expected volatility of the price of the underlying common stock, and the probability of a financing transaction or other equity issuance that would trigger a reset in the exercise price of the Platinum Warrants, and, in the case of the Series A Exchange Warrant, the probability of Platinum's exchange of the shares of Series A preferred stock it holds into shares of common stock. We have recognized the change in the fair value of these warrant liabilities since the end of the prior fiscal year and the prior fiscal quarter as a non-cash component of other expense, net in the Condensed Consolidated Statements of Operations and Comprehensive Loss for the three and nine months ended December 31, 2014 and 2013, respectively.

The fair value hierarchy for the warrant liability measured at fair value on a recurring basis is as follows:

	Total Carrying Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014:				
Warrant liability	\$ 2,445,600	\$ -	\$ -	\$ 2,445,600
March 31, 2014:				
Warrant liability	\$ 2,973,900	\$ -	\$ -	\$ 2,973,900

During the nine month period ended December 31, 2014, there was no significant change to the valuation models used for purposes of determining the fair value of the Level 3 warrant liability. The decrease in the market price of our common stock since March 31, 2014 is the primary factor resulting in the decrease in the warrant liability.

The changes in Level 3 liabilities measured at fair value on a recurring basis are as follows:

Fair Value  
Measurements  
Using  
Significant

	Unobservable Inputs (Level 3) Warrant Liability
Balance at March 31, 2014	\$ 2,973,900
Mark to market income included in net loss	(528,300 )
Balance at December 31, 2014	\$ 2,445,600

We carried no assets or other liabilities at fair value at December 31, 2014 or March 31, 2014.



Table of Contents

## Note 5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets are composed of the following at December 31, 2014 and March 31, 2014:

	December 31, 2014	March 31, 2014
Insurance	\$52,100	\$21,800
Legal fees	3,400	3,400
Interest receivable on note receivable from sale of common stock	-	2,800
Technology license fees and all other	6,800	12,500
	\$62,300	\$40,500

## Note 6. Accrued Expenses

Accrued expenses are composed of the following at December 31, 2014 and March 31, 2014:

	December 31, 2014	March 31, 2014
Accrued professional services	\$206,400	\$135,700
Accrued compensation	986,400	489,900
	\$1,192,800	\$625,600

Table of Contents

## Note 7. Convertible Promissory Notes and Other Notes Payable

The following table summarizes our secured and unsecured promissory notes and other notes payable at December 31, 2014 and March 31, 2014.

	December 31, 2014			March 31, 2014		
	Principal Balance	Accrued Interest	Total	Principal Balance	Accrued Interest	Total
Senior Secured 10% Convertible Promissory Notes issued to Platinum:						
Exchange Note issued on October 11, 2012	\$ 1,272,600	\$ 320,000	\$ 1,592,600	\$ 1,272,600	\$ 203,400	\$ 1,476,000
Investment Note issued on October 11, 2012	500,000	125,700	625,700	500,000	79,900	579,900
Investment Note issued on October 19, 2012	500,000	124,400	624,400	500,000	78,600	578,600
Investment Note issued on February 22, 2013	250,000	51,500	301,500	250,000	29,400	279,400
Investment Note issued on March 12, 2013	750,000	150,000	900,000	750,000	84,100	834,100
	3,272,600	771,600	4,044,200	3,272,600	475,400	3,748,000
Convertible promissory note issued on July 26, 2013	250,000	38,900	288,900	250,000	17,700	267,700
Total Senior notes	3,522,600	810,500	4,333,100	3,522,600	493,100	4,015,700
Aggregate note discount	-	-	-	(2,085,900)	-	(2,085,900)
Net Senior notes	3,522,600	810,500	4,333,100	1,436,700	493,100	1,929,800
less: current portion	(2,272,600)	(570,100)	(2,842,700)	-	-	-
Senior notes - non-current portion and discount	\$ 1,250,000	\$ 240,400	\$ 1,490,400	\$ 1,436,700	\$ 493,100	\$ 1,929,800
10% Convertible Promissory Notes (Unit Notes)						
2013/2014 Unit Notes, due 7/31/14	\$ -	\$ -	\$ -	\$ 1,007,500	\$ 35,700	\$ 1,043,200
	3,048,400	172,500	3,220,900	50,000	200	50,200

Edgar Filing: VistaGen Therapeutics, Inc. - Form 10-Q

2014 Unit Notes,  
including amended  
notes, due 3/31/15

	3,048,400	172,500	3,220,900	1,057,500	35,900	1,093,400
Note discounts	(1,182,100)	-	(1,182,100)	(697,400 )	-	(697,400 )
Net convertible notes (all current)	\$ 1,866,300	\$ 172,500	\$ 2,038,800	\$360,100	\$ 35,900	\$ 396,000

Notes Payable to  
unrelated parties:

7.5% Notes payable  
to service providers  
for accounts payable  
converted to notes  
payable:

Burr, Pilger, Mayer	\$ 90,400	\$ 11,900	\$ 102,300	\$90,400	\$ 6,800	\$ 97,200
Desjardins	169,900	23,000	192,900	178,600	14,100	192,700
McCarthy Tetrault	347,600	43,600	391,200	360,900	24,800	385,700
August 2012 Morrison & Foerster Note A	918,200	166,300	1,084,500	918,200	87,900	1,006,100
August 2012 Morrison & Foerster Note B (1)	1,379,400	299,100	1,678,500	1,379,400	195,200	1,574,600
University Health Network (1)	549,500	91,700	641,200	549,500	60,600	610,100
	3,455,000	635,600	4,090,600	3,477,000	389,400	3,866,400
Note discount	(577,000 )	-	(577,000 )	(848,100 )	-	(848,100 )
	2,878,000	635,600	3,513,600	2,628,900	389,400	3,018,300
less: current portion non-current portion and discount	(1,176,700)	(244,800 )	(1,421,500)	(1,130,100)	(133,600 )	(1,263,700)
	\$ 1,701,300	\$ 390,800	\$ 2,092,100	\$1,498,800	\$ 255,800	\$ 1,754,600

5.75% and 10.25%

Notes payable to  
insurance premium  
financing company  
(current)

	\$ 30,200	\$ -	\$ 30,200	\$4,900	\$ -	\$ 4,900
10% Notes payable to vendors for accounts payable converted to notes payable	\$ 404,100	\$ 46,100	\$ 450,200	\$119,400	\$ 34,700	\$ 154,100
less: current portion non-current portion	(404,100 )	(46,100 )	(450,200 )	(119,400 )	(34,700 )	(154,100 )
	\$ -	\$ -	\$ -	\$-	\$ -	\$ -

7.0% Note payable  
(August 2012)

	\$ 58,800	\$ 6,900	\$ 65,700	\$58,800	\$ 3,800	\$ 62,600
less: current portion 7.0% Notes payable - non-current portion	(21,100 )	(6,900 )	(28,000 )	(15,800 )	(3,800 )	(19,600 )
	\$ 37,700	\$ -	\$ 37,700	\$43,000	\$ -	\$ 43,000

Total notes payable to unrelated parties	\$ 3,948,100	\$ 688,600	\$ 4,636,700	\$3,660,100	\$ 427,900	\$ 4,088,000
less: current portion	(1,632,100)	(297,800 )	(1,929,900)	(1,270,200)	(172,100 )	(1,442,300)
non-current portion	2,316,000	390,800	2,706,800	2,389,900	255,800	2,645,700
less: discount	(577,000 )	-	(577,000 )	(848,100 )	-	(848,100 )
	\$ 1,739,000	\$ 390,800	\$ 2,129,800	\$1,541,800	\$ 255,800	\$ 1,797,600

Notes payable to related parties:

October 2012 7.5% Note to Cato Holding Co.	\$ 293,600	\$ 49,500	\$ 343,100	\$293,600	\$ 30,800	\$ 324,400
October 2012 7.5% Note to Cato Research Ltd. (1)	1,009,000	182,600	1,191,600	1,009,000	117,300	1,126,300
	1,302,600	232,100	1,534,700	1,302,600	148,100	1,450,700
Note discount	(67,500 )	-	(67,500 )	(103,200 )	-	(103,200 )
Total notes payable to related parties	1,235,100	232,100	1,467,200	1,199,400	148,100	1,347,500
less: current portion	(293,600 )	(49,500 )	(343,100 )	(259,600 )	(30,800 )	(290,400 )
non-current portion and discount	\$ 941,500	\$ 182,600	\$ 1,124,100	\$939,800	\$ 117,300	\$ 1,057,100

(1) Note and interest payable solely in restricted shares of the Company's common stock.

Approximately \$2.3 million in principal amount of our outstanding unsecured promissory notes summarized above are currently past due, and are currently payable on demand. Although no assurances can be given, management currently is engaged in on-going and cooperative discussions with the holders of these notes regarding continuing extensions of the maturity date of such promissory notes, or to otherwise restructure them.

## Table of Contents

Significant changes in our convertible promissory notes and other promissory notes since March 31, 2014 are described below:

### 10% Convertible Notes Issued in Connection with 2014 Unit Private Placement

As described more completely in the section entitled 2014 Unit Private Placement in Note 8, Capital Stock, between late March 2014 and December 31, 2014, we issued to accredited investors 10% convertible notes (the 2014 Unit Notes) in the aggregate face amount of \$2,115,000, including an aggregate face amount of \$750,000 of such notes issued to Platinum and 2014 Unit Notes in the aggregate principal amount of \$50,000 issued prior to March 31, 2014, in connection with our private placement offering of Units. (See Note 10, Subsequent Events, for information regarding additional notes issued in connection with the 2014 Unit Private Placement after December 31, 2014, including additional Unit Notes issued to Platinum.) The 2014 Unit Notes mature on March 31, 2015 (Maturity) and the outstanding principal of the 2014 Unit Notes and their related accrued interest (the Outstanding Balance) is convertible into shares of our common stock at a conversion price of \$10.00 per share at or prior to Maturity, at the option of the investor. In addition, upon our consummation of either (i) an equity or equity-based public financing registered with the SEC, or (ii) an equity or equity-based private placement, or series of private placements, not registered with the SEC, in either case resulting in gross cash proceeds to us of at least \$10.0 million prior to Maturity (a Qualified Financing), the Outstanding Balance of the 2014 Unit Notes will automatically convert into securities substantially similar to those sold in the Qualified Financing, based on the following formula: (the Outstanding Balance as of the closing of the Qualified Financing) x 1.25 / (the per security price of the securities sold in the Qualified Financing). This automatic conversion feature results in a contingent beneficial conversion feature which will be recognized subject to our consummation of a Qualified Financing. Under certain circumstances, the holders of the 2014 Unit Notes may request payment in cash in lieu of automatic conversion into the securities of the Qualified Financing.

We allocated the proceeds from the sale of the units to the 2014 Unit Notes, the common stock and the warrants comprising the units based on the relative fair value of the individual securities in the unit on the date of the unit sale. Based on the short-duration of the 2014 Unit Notes and their other terms, we determined that the fair value of the 2014 Unit Notes at the date of issuance was equal to their face value. Accordingly, we recorded an initial discount attributable to each 2014 Unit Note for an amount representing the difference between the face value of the 2014 Unit Note and its allocated relative value. Additionally, the 2014 Unit Notes contain an embedded conversion feature, most of which had an intrinsic value at the issuance date, which value we treated as an additional discount attributable to those 2014 Unit Notes, subject to limitations on the absolute amount of discount attributable to each 2014 Unit Note. We recorded a corresponding credit to additional paid-in capital, an equity account, attributable to the beneficial conversion feature. We amortize the aggregate discount attributable to the 2014 Unit Notes using the effective interest method over the respective term of each 2014 Unit Note. Based on their respective discounts and the period between issuance and maturity, the effective interest rates attributable to the 2014 Unit Notes range from 38.7% to 2,594.7%, with a weighted average rate of 510.5%. During November 2014, we repaid the \$10,000 face amount of a 2014 Unit Note issued in October 2014.

### Amendment of 2013 Unit Notes and Warrants

Effective May 31, 2014, we entered into note and warrant amendment agreements with substantially all holders of our 2013 Unit Notes and 2013 Unit Warrants, each of whom agreed to (i) modify certain terms of their 2013 Unit Note to conform to the corresponding terms of the 2014 Unit Notes, including an extension of the maturity date of their 2013 Unit Note from July 30, 2014 to March 31, 2015, as well as adoption of the automatic conversion and 25% conversion premium features related to consummation of a Qualified Financing, as described above (Amended 2013 Unit Notes), and (ii) modify certain terms of their 2013 Unit Warrants, including the exercise price and expiration date, to conform to the corresponding terms of the 2014 Unit Warrants (Amended 2013 Unit Warrants). Holders of 2013 Unit Notes

having an aggregate initial face amount of \$895,000 agreed to such amendments. The maturity date of 2013 Unit Notes payable to holders who did not agree to amend their 2013 Unit Note and 2013 Unit Warrant remained July 30, 2014 and the \$20.00 per share exercise price and July 30, 2016 expiration date of the 2013 Unit Warrants held by such holders remains unchanged. Between April 1, 2014 and August 15, 2014, we repaid 2013 Unit Notes having an initial face value of \$ 112,500 and since the later date, no un-amended 2013 Unit Notes remain outstanding.

-15-

---

Table of Contents

We determined that the modification of the 2013 Unit Notes and the 2013 Unit Warrants should be accounted for as an extinguishment of debt. Considering the cash flows and the non-contingent and contingent beneficial conversion features of the Amended 2013 Notes and other factors, including market interest rates for unsecured debt of similar quality and the probability of their conversion to securities in a Qualified Financing, we determined that the fair values of the Amended 2013 Unit Notes, aggregating \$1,394,000, represented a substantial premium over their aggregate \$943,400 face values. In accordance with the provisions of ASC 470-20, Debt with Conversion and Other Options, we recognized the premium in excess of the face value, \$450,600, as a credit to additional paid-in capital, an equity account. Consequently, we recorded the liability for the Amended 2013 Unit Notes at their face values. We recognized the difference between the pre-modification carrying values of the notes and their fair values, an aggregate of \$867,500, as a non-cash charge to loss on extinguishment of debt in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss. As described in greater detail in Note 8, Capital Stock, we determined the incremental fair value of the Amended 2013 Unit Warrants, which are treated as equity instruments, to be \$272,900. We recognized this incremental fair value as an additional component of loss on extinguishment of debt in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss and as a credit to additional paid-in capital. Certain of the 2013 Unit Notes contained a beneficial conversion feature when they were originally issued. We have accounted for the repurchase of the beneficial conversion feature at the time of the modification, an aggregate of \$614,200, as a reduction to the loss on extinguishment of debt in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss, with a corresponding reduction to additional paid-in capital. The net amount of the loss on extinguishment of debt related to the Amended 2013 Unit Notes and Amended 2013 Unit Warrants recognized in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Loss is \$526,200. Since the Amended 2013 Unit Notes have the same features and maturity as the 2014 Unit Notes, the two sets of notes are aggregated in the summary table above.

#### Note Conversion and Warrant Amendment Agreement with Platinum

On July 18, 2014, we entered into an Amended and Restated Note Conversion Agreement and Warrant Amendment with Platinum (Amendment), pursuant to which Platinum agreed to convert into our unregistered equity securities all Senior Secured Convertible Promissory Notes (Senior Notes) held by Platinum, including accrued but unpaid interest thereon (Outstanding Balance), in the aggregate amount of approximately \$4.3 million at December 31, 2014, upon our consummation on or before August 31, 2014 (Closing Date), of either (i) a private equity financing resulting in aggregate gross proceeds of at least \$36.0 million (Private Financing), or (ii) a public offering of our equity securities registered with the SEC resulting in gross proceeds of at least \$10.0 million (Public Offering) (the Private Financing and Public Offering are referred to in this discussion as a Platinum Qualified Financing). In August and September 2014, we amended the Amendment to extend the Closing Date until October 31, 2014. Upon consummation of a Private Financing, the Senior Notes would have converted into that number of unregistered shares of our common stock equal to the Outstanding Balance on the Closing Date, divided by \$10.00 per share. Upon consummation of a Public Offering, the Senior Notes would have converted into shares of newly created Series B Convertible Preferred Stock (Series B Preferred) at the lower of \$10.00 per share or the lowest per-share price in the Public Offering and having an aggregate liquidation preference equal to the Outstanding Balance on the Closing Date (see Note 8, Capital Stock, regarding Creation of Series B Preferred Stock).

Additionally, pursuant to the terms and conditions of the Amendment, in the event we had consummated a Platinum Qualified Financing on or before the Closing Date, the exercise price of the Platinum Warrants we have issued to Platinum in connection with the Senior Notes, and warrants that we may still issue pursuant to the Note Exchange and Purchase Agreement between us and Platinum, dated October 11, 2012 (NEPA), if any, would have been fixed at the lower of \$10.00 per share or the purchase price of common stock sold in the Platinum Qualified Financing. Finally, the anti-dilutive provisions contained in the Platinum Warrants, other than typical adjustments for stock splits, combinations and dividends, would have been terminated as of the Closing Date.

At December 31, 2014, and as of the date of this report, we have not requested Platinum to extend the Closing Date of the Amendment or entered into any other agreement with Platinum regarding the conversion of the Senior Notes, fixing the exercise price of the Platinum Warrants or terminating the anti-dilution provisions of the Platinum Warrants.

-16-

---



Table of Contents

At the execution of the Amendment, we determined that the Amendment resulted in a modification of the Senior Notes that should be accounted for as an extinguishment of debt. Considering, among other factors, the cash flows and conversion features of the Senior Notes as modified by the Amendment, market interest rates for debt of similar quality and the relative probabilities of conversion of the Senior Notes into either shares of our common stock or Series B Preferred upon consummation of a Qualified Financing, we determined that the fair values of the Senior Notes at July 18, 2014, aggregating \$6,475,000, represented a substantial premium over their aggregate \$4,138,700 face values plus accrued interest. In accordance with the provisions of ASC 470-20, Debt with Conversion and Other Options, we recognized the premium in excess of the face value and accrued interest, \$2,336,300, as a non-cash component of loss on extinguishment of debt in the accompanying Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income with a credit to additional paid-in capital, an equity account. Consequently, we recorded the liability for the Senior Notes at their face values plus accrued interest. We recognized the difference between the pre-modification carrying values of the notes and their face values, an aggregate of \$1,983,700, as an additional non-cash charge to loss on extinguishment of debt in the accompanying Condensed Consolidated Statement of Operations and Comprehensive (Loss) Income. Certain of the Senior Notes contained a beneficial conversion feature at the time they were originally issued. We have accounted for the repurchase of the beneficial conversion feature at the time of the modification, an aggregate of \$2,716,600, as a reduction to the loss on extinguishment of debt in the accompanying Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income, with a corresponding reduction to additional paid-in capital. The net amount of the loss on extinguishment of debt related to the amendment of the Senior Notes recognized in the accompanying Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income for the nine months ended December 31, 2014 is \$1,603,400.

Extension of McCarthy Tetrault Note Maturity Date

On June 11, 2014, we agreed with McCarthy Tetrault, our legal counsel in Ontario, Canada (McCarthy), to extend the maturity date of our promissory note payable to McCarthy from June 14, 2014 to the earlier of (i) September 30, 2014, (ii) consummation of a financing in which we receive gross cash proceeds of at least \$15.0 million, or (iii) consummation of a change of control of the Company, as defined in the McCarthy note. McCarthy also agreed to forbear with respect to the requirement that we make monthly payments on the McCarthy note from the date of the agreement until maturity and granted us a waiver with respect to previously missed monthly payments. At December 31, 2014, the McCarthy note remained outstanding.

Interest on Notes Payable to be Repaid upon Exercise of Common Stock Warrants

Between August 2012 and October 2012, we issued to Morrison & Foerster, LLP, our intellectual property counsel (M&F), Cato Research Ltd., our contract research organization for development of AV-101 (CRL), and University Health Network, our long-term stem cell research collaborator (UHN), certain unsecured promissory notes and related warrants. The respective notes are payable solely in restricted shares of our common stock pursuant to M&F's, CRL's, and UHN's surrender from time to time of all or a portion of the principal and interest balance due on their respective notes in connection with their concurrent exercise of their respective warrant exercisable at \$20.00 per share. Between April 1, 2014 and December 31, 2014 we adjusted the M&F warrant, the CRL warrant and the UHN warrant to increase the number of restricted shares available for purchase by 5,198 shares, 3,265 shares and 1,554 shares, respectively, based on interest accrued on the underlying notes through December 31, 2014. We have recorded the fair value of the additional warrant shares, an aggregate of \$38,700, as a charge to interest expense and a corresponding credit to additional paid-in capital.

Table of Contents

Note 8. Capital Stock

Reverse Split (Stock Consolidation)

As indicated in Note 2, Basis of Presentation and Going Concern, we consummated the Stock Consolidation, a 1-for-20 reverse split of our authorized, and issued and outstanding shares of common stock, effective on August 14, 2014. The par value of our common stock remained unchanged at \$0.001 per share following the Stock Consolidation. The Stock Consolidation was approved by the Financial Industry Regulatory Authority (FINRA) on August 13, 2014, and became effective on the OTCQB at the opening of trading on August 14, 2014. Each reference to shares of common stock or the price per share of common stock in these financial statements is post-Stock Consolidation, and reflects the 1-for-20 adjustment as a result of the Stock Consolidation.

Creation of Series B Preferred Stock

On July 17, 2014, our Board of Directors authorized the creation of a class of Series B Preferred Stock (Series B Preferred) to provide for the potential conversion of the Senior Secured Convertible Promissory Notes held by Platinum totaling approximately \$4.3 million in principal and accrued interest at December 31, 2014 (Outstanding Balance) into Series B Preferred. However, we have not yet filed a certificate of designation with the Nevada Secretary of State to amend our Articles of Incorporation to formally establish the Series B Preferred.

2014 Unit Private Placement

Between late-March and December 31, 2014, we entered into securities purchase agreements with accredited investors, including Platinum, pursuant to which we sold units to such accredited investors in private placement transactions (2014 Units), for aggregate cash proceeds of \$2,115,000, consisting of (i) 2014 Unit Notes in the aggregate face amount of \$2,115,000 due on March 31, 2015 or automatically convertible into securities we may issue upon the consummation of a Qualified Financing, defined as (a) an equity-based public financing registered with the SEC, or (b) a private equity-based financing or series of private equity-based financings, in either case in which we receive at least \$10 million in gross cash proceeds prior to March 31, 2015; (ii) an aggregate of 128,250 restricted shares of our common stock (2014 Unit Stock); and (iii) warrants exercisable through December 31, 2016 to purchase an aggregate of 128,250 restricted shares of our common stock at an exercise price of \$10.00 per share (2014 Unit Warrants). The Outstanding Balance of each 2014 Unit Notes is convertible into shares of our common stock at a conversion price of \$10.00 per share at or prior to maturity, at the option of each investor. In addition, however, the Outstanding Balance is automatically convertible into securities substantially similar to those we may issue in a Qualified Financing at an amount determined by multiplying the Outstanding Balance by 1.25, and dividing the resulting number by the price per share of securities offered in the Qualified Financing. Under certain circumstances, the holders of the 2014 Unit Notes may request payment in cash in lieu of automatic conversion into the securities of the Qualified Financing. We sold \$50,000 of Units prior to March 31, 2014, which Units are reflected in the figures above.

We allocated the proceeds from the sale of the 2014 Units to the various securities based on their relative fair values on the dates of the sales. As described in Note 7, Convertible Promissory Notes and Other Notes Payable, based on the short-term nature of the Unit Notes, we determined that fair value of the 2014 Unit Notes was equal to their face value. We determined the fair value of the 2014 Unit Stock based on the quoted market price of our common stock on the date of the 2014 Unit sale. We calculated the fair value of the 2014 Unit Warrants using the Black Scholes Option Pricing Model and the weighted average assumptions indicated in the table below. The table below also presents the aggregate allocation of the 2014 Unit sales proceeds based on the relative fair values of the 2014 Unit Stock, 2014 Unit Warrants and 2014 Unit Notes at the 2014 Unit sales date.

Edgar Filing: VistaGen Therapeutics, Inc. - Form 10-Q

Unit Warrants

Warrant	Weighted Average Issuance Date Valuation Assumptions						Per Share Fair Value of Warrant	Aggregate Fair Value of Unit Warrants	Aggregate Proceeds of Unit Sales	Aggregate Allocation of Proceeds Based on Relative Fair Value of:		
	Shares Issued	Market Price	Exercise Price	Term (Years)	Risk free Interest Rate	Dividend Volatility Rate				Unit Stock	Unit Warrant	Unit Note
	\$	\$	2.44	0.67%	74.34%	0.0%	\$	\$	\$	\$	\$	\$
128,250	10.59	10.00					4.90	628,700	2,115,000	658,600	308,300	1,148,100

-18-

Table of Contents

## Amendment of Notes and Warrants issued in 2013/2014 Unit Private Placement

As indicated in Note 7, Convertible Promissory Notes and Other Notes Payable, effective May 31, 2014, we entered into note and warrant amendment agreements with substantially all holders of 2013/2014 Unit Notes and 2013/2014 Unit Warrants to (i) modify certain terms of their 2013/2014 Unit Notes, including the maturity date and certain conversion features, to conform to the corresponding terms of the 2014 Unit Notes and (ii) to modify certain terms of the 2013/2014 Unit Warrants, including the exercise price and expiration date, to conform to the corresponding terms of the 2014 Unit Warrants. Holders of 2013/2014 Unit Notes having an aggregate initial face amount of \$895,000 and warrants to purchase an aggregate of 93,250 restricted shares of our common stock agreed to the amendments.

We calculated the fair value of the modified 2013/2014 Unit Warrants immediately before and after the modifications and determined that the fair value of the warrants increased by an aggregate of \$272,900, which we treated as a component of loss on extinguishment of debt in the accompanying Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income, with a corresponding credit to additional paid-in capital, an equity account. The warrants subject to the exercise price modifications were valued using the Black-Scholes Option Pricing Model and the following assumptions:

Assumption:	Pre-modification		Post-modification	
Market price per share	\$	12.60	\$	12.60
Exercise price per share	\$	20.00	\$	10.00
Risk-free interest rate		0.44%		0.62%
Remaining contractual term in years		2.17		2.59
Volatility		75.6%		76.6%
Dividend rate		0.0%		0.0%
Fair Value per share	\$	3.73	\$	6.65

## Issuance of Securities in Satisfaction of Technology License and Maintenance Fees and Patent Expenses

In April 2014, we entered into an agreement with Icahn School of Medicine at Mount Sinai (Icahn School), one of our long-term stem cell technology licensors, pursuant to which we issued (i) a 10% promissory note in the face amount of \$300,000 due on the earlier of December 31, 2014, or the completion of a qualified financing, as defined, (ii) 15,000 restricted shares of our common stock and (iii) a warrant exercisable through March 31, 2019 to purchase 15,000 restricted shares of our common stock at an exercise price of \$10.00 per share to Icahn School in satisfaction of \$288,400 of stem cell technology license maintenance fees and reimbursable patent prosecution costs (the Agreement). Based on the short-duration of the note, its interest rate and other terms, we determined that the fair value of the note at the date of issuance was equal to its face value. We determined the fair value of stock to be \$141,000, based on the \$9.40 per share quoted market price of our common stock on the date of the agreement. We calculated the fair value of the warrant to be \$5.95 per share, or \$89,200, using the Black Scholes Option Pricing Model and the following assumptions: market price per share: \$9.40; exercise price per share: \$10.00; risk-free interest rate: 1.59%; contractual term: 5.0 years; volatility: 80.3%; expected dividend rate: 0%. We recognized a loss on extinguishment of debt in the amount of \$241,800 related to this settlement in the accompanying Statement of Operations and Comprehensive Loss. Under the terms of the Agreement, an additional \$35,800 of license maintenance fees and reimbursable patent prosecution costs has been added to the principal amount of the promissory note through December 31, 2014. The note remains outstanding at December 31, 2014 and we are in discussions with Icahn School regarding its ultimate settlement.

## Issuance of Common Stock to Consultant

In May 2014, we entered into a consulting agreement for strategic advisory and business development services pursuant to which we issued 10,000 restricted shares of our common stock as partial compensation for such professional services. We determined the fair value of stock to be \$134,000, based on the \$13.40 per share quoted market price of our common stock on the date of the agreement. Additionally, under the terms of the agreement, we paid an aggregate of \$80,000 between May 2014 and December 31, 2014 as additional compensation for professional services rendered by the strategic consultant. See Note 10, Subsequent Events, for information regarding a new contract entered into with this consultant.

Table of Contents

## Note Receivable from sale of Common Stock

On October 2, 2014 we received a cash payment of \$60,000 from the maker of the May 2011 note receivable issued to us as consideration for the purchase of shares of our common stock. We have considered that payment to be in full satisfaction of the outstanding principal balance of the note and related accrued interest, aggregating \$194,900, at the date of the payment and recognized a loss of \$132,900 on the settlement of the note, which is reflected as a component of Other expenses, net in the accompanying Statement of Operations and Comprehensive (Loss) Income.

## Autilion AG Securities Purchase Agreement

On April 8, 2013, we entered into the Securities Purchase Agreement with Autilion, a company organized and existing under the laws of Switzerland. Under the terms of the Securities Purchase Agreement, Autilion remains contractually obligated to consummate the Autilion Financing and purchase an aggregate of 3.6 million restricted shares of our common stock at a purchase price of \$10.00 per share for aggregate cash consideration of \$36.0 million. Through our fiscal year ended March 31, 2014, Autilion had completed only a nominal initial closing under the Securities Purchase Agreement, in the amount of \$25,000, and we had issued 2,500 restricted shares of our common stock. At December 31, 2014 and through the date of this report, Autilion has not completed a material closing of the Autilion Financing and remains in default on its obligations under the Securities Purchase Agreement. Substantial doubt exists that the Autilion Financing will close, and therefore no assurances can be provided that Autilion will complete any material closing under the Securities Purchase Agreement.

## Warrants Outstanding

Following the issuances and modifications described above, at December 31, 2014, we had outstanding warrants to purchase shares of our unregistered common stock at a weighted average exercise price of \$15.52 per share as follows:

Exercise Price per Share	Expiration Date	Weighted Average Years to Expiration	Shares Subject to Purchase at December 31, 2014
\$ 10.00	1/31/2015 to 3/31/2019	2.40	523,368
\$ 12.80	3/3/2023	8.17	147,000
\$ 17.60	5/31/2015	0.41	772
	7/30/2016 to		
\$ 20.00	9/30/2017	2.68	183,069
\$ 25.00	5/31/2015	0.41	300
	1/31/2015 to		
\$ 30.00	3/4/2018	1.69	117,627
\$ 40.00	9/15/2017	2.71	21,250
\$ 50.00			