VistaGen Therapeutics, Inc.
Form 10-Q
February 16, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2015
or

o 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 (Sec.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

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

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-Accelerated filer	[ ]	Smaller reporting company	[X]
(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 12, 2016, 2,272,406 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, 2015

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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, 2015 (Unaudited)	March 31, 2015 (Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	$1,158,400	$70,000
Prepaid expenses and other current assets	728,300	35,700
Total current assets	1,886,700	105,700
Property and equipment, net	78,600	117,100
Security deposits and other assets	46,900	46,900
Total assets	$2,012,200	$269,700
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$1,097,600	$2,251,100
Accrued expenses	929,100	1,206,500
Current maturities of senior secured convertible promissory notes and accrued interest	-	4,146,100
Current portion of notes payable, net of discount of $0 at December 31, 2015 and $474,500 at March 31, 2015, and accrued interest	73,800	4,117,000
Current portion of notes payable to related parties, net of discount of $0 at December 31, 2015 and $54,500 at March 31, 2015, and accrued interest	-	1,508,800
Convertible promissory notes and accrued interest, net of discount of $0 at December 31, 2015 and $180,000 at March 31, 2015, respectively	-	4,157,600
Capital lease obligations	1,100	1,000
Total current liabilities	2,101,600	17,388,100
Non-current liabilities:		
Senior secured convertible promissory notes and accrued interest	-	296,200
Notes payable	29,300	35,600
Warrant liability	-	3,008,500
Accrued dividends on Series B Preferred Stock	1,415,800	-
Deferred rent liability	63,500	83,000
Capital lease obligations	300	1,100
Total non-current liabilities	1,508,900	3,424,400
Total liabilities	3,610,500	20,812,500
Commitments and contingencies		
Stockholders' deficit:		

Preferred stock, $0.001 par value; 10,000,000 shares authorized at December 31, 2015 and March 31, 2015:		
Series A Preferred, 500,000 shares authorized and outstanding at December 31, 2015 and March 31, 2015	500	500
Series B Preferred, 4,000,000 shares and no shares authorized at December 31, 2015 and March 31, 2015, respectively; 3,588,863 shares and no shares issued and outstanding at December 31, 2015 and March 31, 2015, respectively	3,600	-
Common stock, $0.001 par value; 30,000,000 shares and 10,000,000 shares authorized at December 31, 2015 and March 31, 2015, respectively; 1,965,170 shares and 1,677,110 shares issued at December 31, 2015 and March 31, 2015 respectively	2,000	1,700
Additional paid-in capital	125,605,200	67,945,800
Treasury stock, at cost, 135,665 shares of common stock held at December 31, 2015 and March 31, 2015, respectively	(3,968,100)	(3,968,100)
Accumulated deficit	(123,241,500)	(84,522,700)
Total stockholders' deficit	(1,598,300)	(20,542,800)
Total liabilities and stockholders' deficit	$2,012,200	$269,700

See accompanying notes to Condensed Consolidated Financial Statements.

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VISTAGEN THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)
(Amounts in dollars, except share amounts)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
Operating expenses:				
Research and development	806,300	445,400	$2,835,000	$1,476,600
General and administrative	1,335,500	671,300	6,514,500	2,024,600
Total operating expenses	2,141,800	1,116,700	9,349,500	3,501,200
Loss from operations	(2,141,800)	(1,116,700)	(9,349,500)	(3,501,200)
Other expenses, net:				
Interest expense, net	(2,500)	(792,400)	(769,800)	(2,182,900)
Change in warrant liability	-	953,700	(1,894,700)	528,300
Loss on extinguishment of debt	-	-	(26,700,200)	(2,371,400)
Other expense	(2,300)	(134,900)	(2,300)	(134,900)
Loss before income taxes	(2,146,600)	(1,090,300)	(38,716,500)	(7,662,100)
Income taxes	-	-	(2,300)	(2,400)
Net loss and comprehensive loss	$(2,146,600)	$(1,090,300)	$(38,718,800)	$(7,664,500)
Accrued dividends on Series B Preferred stock	(631,300)	-	(1,459,300)	-
Deemed dividend on Series B Preferred Units	(668,700)	-	(1,811,800)	-
Net loss attributable to common stockholders	$(3,446,600)	$(1,090,300)	$(41,989,900)	$(7,664,500)
Basic net loss attributable to common stockholders per common share	$(1.95)	$(0.84)	$(25.45)	$(6.03)
Diluted net loss attributable to common stockholders per common share	$(1.95)	$(1.08)	$(25.45)	$(6.14)
Weighted average shares used in computing:				
Basic net loss attributable to common stockholders per common share	1,765,641	1,302,300	1,650,160	1,270,495
Diluted net loss attributable to common stockholders per common share	1,765,641	1,302,300	1,650,160	1,288,674

See accompanying notes to Condensed Consolidated Financial Statements.

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VISTAGEN THERAPEUTICS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Amounts in Dollars)

	Nine Months Ended December 31, 2015	2014
Cash flows from operating activities:		
Net loss	$ (38,718,800)	$ (7,664,500)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	40,800	39,200
Amortization of discounts on convertible and promissory notes	564,800	1,294,700
Change in warrant liability	1,894,700	(528,300)
Stock-based compensation	3,868,300	564,000
Expense related to modification of warrants	614,900	-
Non-cash rent expense	(19,500)	(9,700)
Interest income on note receivable for common stock purchase	-	2,800
Loss on settlement of note receivable for common stock purchase	-	134,900
Fair value of common stock granted for services	606,300	134,000
Fair value of Series B Preferred stock granted for services	1,045,000	-
Fair value of warrants granted for services and interest	111,200	38,700
Foreign currency transaction gain	(6,400)	(22,000)
Loss on extinguishment of debt	26,700,200	2,371,400
Loss on disposition of fixed assets	2,300	-
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	61,800	74,300
Accounts payable and accrued expenses, including accrued interest	(264,500)	1,696,100
Net cash used in operating activities	(3,498,900)	(1,874,400)
Cash flows from investing activities:		
Purchases of equipment, net	(4,600)	-
Net cash used in investing activities	(4,600)	-
Cash flows from financing activities:		
Net proceeds from issuance of common stock and warrants, including Units	280,000	2,128,200
Net proceeds from issuance of Series B Preferred Units	4,397,800	-
Repayment of capital lease obligations	(700)	(3,700)
Repayment of notes	(85,200)	(236,900)
Net cash provided by financing activities	4,591,900	1,887,600
Net increase in cash and cash equivalents	1,088,400	13,200
Cash and cash equivalents at beginning of period	70,000	-
Cash and cash equivalents at end of period	$ 1,158,400	$ 13,200
Supplemental disclosure of noncash activities:		
Senior Secured Notes, 2014 Unit Notes, other promissory notes and related accrued interest, and accounts payable, including conversion premiums, converted into Series B Preferred stock	$ 18,891,400	$ -

See accompanying notes to Condensed Consolidated Financial Statements.

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

Note 1. Description of Business

Overview

VistaGen Therapeutics, Inc. (OTCQB: VSTA), a Nevada corporation, is a clinical-stage biopharmaceutical company committed to developing and commercializing innovative product candidates for patients with diseases and disorders involving the central nervous system (CNS). 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. 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.

Our lead drug candidate, AV-101, is a new generation, orally available prodrug candidate in Phase 2A development, initially for the adjunctive treatment of Major Depressive Disorder (MDD) in patients with an inadequate response to standard antidepressants. AV-101's novel mechanism of action, as an N-methyl D aspartate receptor (NMDAR) antagonist binding selectively at the glycine binding (GlyB) co-agonist site of the NMDAR, is fundamentally differentiated from all antidepressants currently approved by the U.S. Food and Drug Administration (FDA). Our Phase 2A clinical study of AV-101 in subjects with treatment-resistant MDD is being conducted and funded by the U.S. National Institutes of Mental Health (NIMH) under our February 2015 Cooperative Research and Development Agreement (CRADA) with the NIMH. The Principal Investigator of this NIMH-funded Phase 2A study, which was initiated in late-2015, is Dr. Carlos Zarate, Jr., Chief of the NIMH's Experimental Therapeutics & Pathophysiology Branch and its Section on Neurobiology and Treatment of Mood and Anxiety Disorders. Dr. Zarate is an internationally recognized expert in the field of depression and was among the first clinical researchers in the world to discover the therapeutic potential of the NMDAR antagonist ketamine in treatment-resistant MDD.

We believe AV-101 has therapeutic potential in multiple additional CNS indications, including neuropathic pain and epilepsy, and in neurodegenerative diseases such as Parkinson's disease and Huntington's disease.

In addition to our focus on CNS and neurology, we are applying our proprietary, human pluripotent stem cell (hPSC) technology for drug rescue to develop proprietary new chemical entities (NCEs) for our internal drug candidate pipeline. Initial drug rescue programs are focused on NCEs for the treatment of cancer. We are also considering potential therapeutic and commercial applications of our stem cell technology platform for regenerative medicine (RM).

AV-101 and Major Depressive Disorder

Background

The World Health Organization estimates that 350 million people worldwide are affected by depression. According to the U.S. National Institutes of Health (NIH), major depression is one of the most common mental disorders in the U.S. The NIMH reports that in 2014, an estimated 15.7 million adults aged 18 or older in the U.S. had at least one major depressive episode in the past year. This represented 6.7 percent of all U.S. adults. According to the U.S. Centers for Disease Control and Prevention (CDC), one in 10 Americans takes an antidepressant medication.

Unfortunately, millions of depression sufferers (more than 30%) do not benefit from initial treatment with standard antidepressants, generally a selective serotonin reuptake inhibitor (SSRI) or a serotonin-norepinephrine reuptake

inhibitor (SNRI). Moreover, even when they do relieve depressive symptoms and induce remission of a major depressive episode, SSRIs and SNRIs take many weeks to achieve therapeutic benefits because of their mechanism of action. During the weeks to months before onset of antidepressant effects, side effects of SSRIs and SNRIs, including anxiety, metabolic syndrome, sleep disturbance, sexual dysfunction and suicidal thoughts and behaviors, may be considerable. Unfortunately, even after treatment with as many as four different standard antidepressants, millions of patients (more than 30% of drug-treated patients) do not achieve an adequate therapeutic response to their standard antidepressant therapies.

AV-101

AV-101, our orally available prodrug candidate, is in Phase 2 clinical development, initially for the adjunctive treatment of MDD patients with an inadequate response to standard antidepressant therapies. As published in the October 2015 issue of the peer-reviewed, Journal of Pharmacology and Experimental Therapeutics, in an article entitled, The prodrug 4-chlorokynurenine causes ketamine-like antidepressant effects, but not side effects, by NMDA/glycineB-site inhibition, in well-established preclinical models of depression, AV-101 was shown to induce fast-acting, dose-dependent, persistent and statistically significant antidepressant-like responses, following a single treatment, which responses were equivalent to responses seen with a control single sub-anesthetic dose of the NMDAR antagonist ketamine, an FDA-approved anesthetic administered intravenously by clinicians in a medical setting to treat MDD patients who have not responded adequately to standard antidepressant therapies). In the same preclinical studies, the SSRI fluoxetine did not induce rapid onset antidepressant-like responses.

Following two successful randomized, double-blind, placebo-controlled Phase 1A and Phase 1B safety studies funded by the NIH, we are now collaborating with the NIMH on a Phase 2A efficacy and safety study of AV-101 in subjects with treatment-resistant MDD. This NIMH-funded Phase 2A study began in late-2015, and is expected to enroll from 24 to 28 patients. As noted above, Dr. Carlos Zarate, Jr. of the NIMH is the Principal Investigator of the study.

Preclinical studies also support the hypothesis that AV-101 has the potential to treat several additional CNS disorders and neurodegenerative diseases, including chronic neuropathic pain, epilepsy, Parkinson’s disease and Huntington’s disease, where modulation of the NMDAR or active metabolites of AV-101 may have therapeutic benefit.

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NCE Drug Rescue and Regenerative Medicine

Our drug rescue programs involve using CardioSafe 3D(TM), our customized in vitro bioassay system, to predict potential human heart toxicity of NCEs, long before they are ever tested in animal and human studies. We are are focused on leveraging our stem cell technology platform to recapture value from substantial prior investments by pharmaceutical companies and others related to screening large-scale compound libraries, optimizing and testing for efficacy NCEs that were terminated before FDA approval due to heart toxicity risks and are now available in the public domain and amenable to drug rescue.

Our current interests in the regenerative medicine arena include collaborative nonclinical proof of concept studies with academic research partners to explore potential regenerative medicine applications involving hPSC-derived blood, bone, cartilage, heart, and liver cells.

Subsidiaries and Stock Consolidation

VistaGen Therapeutics, Inc., a California corporation (VistaGen California), is our wholly-owned subsidiary. 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.

Effective August 14, 2014, we consummated a 1-for-20 reverse split of our authorized, and issued and outstanding shares of common stock (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.

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, 2015 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 nine months ended December 31, 2015 are not necessarily indicative of the operating results to be expected for our fiscal year ending March 31, 2016 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, 2015 contained in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission (SEC) on June 29, 2015.

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 $123.2 million accumulated from inception in May 1998 through December 31, 2015. We expect losses and negative cash flows from operations to continue for the foreseeable future as we continue to develop AV-101 for Major Depressive Disorder and additional CNS indications, and engage in drug rescue, drug development and exploratory regenerative medicine programs.

Since our inception in May 1998 through December 31, 2015, we have financed our operations through (1) the issuance and sale of our common stock, preferred stock, warrants for common stock, and promissory notes for aggregate cash proceeds of approximately $33.8 million; (2) issuance of common stock and preferred stock with an approximate value at issuance of $28.9 million as consideration for, among other things, technology license fees and patent prosecution, sponsored research, contract research, drug development, drug manufacturing, U.S. and foreign regulatory services, as well as legal, corporate development and financial advisory services; and (3) receipt of aggregate non-dilutive cash proceeds of approximately $16.4 million from government research and development grant awards and strategic collaboration transactions.

As described more completely in Note 7, Convertible Promissory Notes and other Notes Payable, and Note 8, Capital Stock, in May 2015, we created our Series B 10% Convertible Preferred Stock (Series B Preferred). Between March 31, 2015 and December 31, 2015, we extinguished approximately $17.2 million of indebtedness through conversion of such indebtedness into our Series B Preferred and, with respect to a portion of the indebtedness converted, warrants to purchase our common stock. More specifically, we converted (i) all Senior Secured Convertible Promissory Notes originally issued to Platinum Long Term Growth VII, LLC (Platinum), (ii) all 2014 Unit Notes outstanding at March 31, 2015 and those issued subsequently, and (iii) certain other outstanding promissory notes, including promissory notes issued to Cato Research Ltd., Cato Holding Company, Morrison & Foerster LLP (Note A and Note B), McCarthy Tetrault, Burr Pilger & Mayer, University Health Network (Toronto), the Icahn School of Medicine at Mount Sinai, National Jewish Health and others, into an aggregate of 2,618,917 shares of our Series B Preferred. Additionally, through December 31, 2015, we issued in self-placed private placement transactions with Platinum and other accredited investors, Series B Preferred Units consisting of an aggregate of 628,264 unregistered shares of Series B Preferred and five-year warrants to purchase 628,264 shares of our common stock, and we received cash proceeds of $4,397,800 therefrom. See Note 10, Subsequent Events, regarding disclosure of additional self-placed private placement sales of Series B Preferred Units after December 31, 2015.

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At December 31, 2015, we did not have sufficient cash and cash equivalents to enable us to fund our planned operations over the next twelve months, including expected cash expenditures of approximately $6.0 million. In August 2015, we entered into an agreement with Platinum (August 2015 Agreement) pursuant to which we agreed to sell to Platinum an additional $3.0 million of our Series B Preferred and Series B Warrants (collectively, Series B Units). Through December 31, 2015, Platinum purchased an additional $1.65 million of Series B Units under the August 2015 Agreement. Concurrently with its December 2015 purchase of $1.0 million of Series B Units and at our request, Platinum agreed to cancel its right to purchase the remaining $1.35 million of the Series B Units under the August 2015 Agreement. As more particularly disclosed in Note 10, Subsequent Events, from January 1, 2016 through February 12, 2016, we sold to certain accredited investors other than Platinum $128,000 of our Series B Units in self-placed private placement transactions. We intend to raise additional capital through conversions, exchanges, issuances, and/or sales of our securities, which may include both debt and equity securities. We may also seek research and development collaborations that could generate revenue, as well as government grant awards. Further, strategic collaborations, such as our February 2015 Cooperative Research and Development Agreement (CRADA) with the U.S. National Institute of Mental Health (NIMH) providing NIMH funding of our Phase 2A study of AV-101 in MDD, may provide resources to support a portion of our future cash needs and working capital requirements. Although we may seek additional collaborations that could generate revenue, as well as new government grant awards, no assurance can be provided that any such collaborations or awards will occur in the future. Our future working capital requirements will depend on many factors, including, without limitation, the scope and nature of opportunities related to our success and the success of certain other companies in clinical trials, including our development of AV-101 as a treatment for MDD and other CNS conditions, and our stem cell technology platform, the availability of, and our ability to obtain, government grant awards and our ability to enter into collaborations on terms acceptable to us. To further advance the clinical development of AV-101 and our stem cell technology platform, as well as support our operating activities, we plan to continue to carefully manage our routine operating costs, including the size of our staff and staff salaries and benefits, as well as costs relating to regulatory consulting, contract research and development, investor relations and corporate development, legal, accounting, public company compliance and other professional services and working capital costs.

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 additional financing on a timely basis 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, including those relating to AV-101, 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.

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 share-based compensation, and assumptions that have been used to value warrants, warrant modifications, warrant liabilities. We do not currently have, nor have we had during the periods covered by this report, any arrangements requiring the recognition of revenue.

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 nonclinical and clinical development of AV-101, now in Phase 2 clinical development, initially for Major Depressive Disorder, stem cell technology-related research and development costs, and costs related to the filing, maintenance and prosecution of patents and patent applications. All such costs are charged to expense as incurred.

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Stock-Based Compensation

We recognize compensation cost for all stock-based awards to employees or consultants 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 or consultant 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 for the three and nine months ended December 31, 2015 and 2014.

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
Research and development expense:				
Stock option grants	$ 71,300	$ 30,000	$ 118,700	$ 156,100
Warrants granted to officer in March 2014 and March 2013	2,800	36,300	8,500	108,900
Warrants granted to officer in September 2015	-	-	852,200	-
	74,100	66,300	979,400	265,000
General and administrative expense:				
Stock option grants	20,400	18,600	36,500	86,700
Warrants granted to officers and directors in March 2014 and March 2013	3,900	70,700	11,700	212,300
Warrants granted to officers, directors and consultants in September 2015	-	-	2,840,700	-
	24,300	89,300	2,888,900	299,000
Total stock-based compensation expense	$ 98,400	$ 155,600	$ 3,868,300	$ 564,000

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During September 2015, we granted options to purchase an aggregate of 90,000 shares of our common stock at an exercise price of $9.25 per share to our non-officer employees and certain strategic consultants. We did not grant stock options to any of our employees or strategic consultants during the nine months ended December 31, 2014. At December 31, 2015, there were stock options outstanding to purchase 296,738 shares of our common stock at a weighted average exercise price of $9.83 per share. During September 2015, we also granted immediately vested warrants to purchase an aggregate of 650,000 shares of our common stock to our executive officers, independent members of our Board of Directors and certain strategic consultants. We valued the warrants and options granted in September 2015 using the Black-Scholes Option Pricing Model and the following assumptions:

Assumption:	Warrants	Employee Options	Non-employee Options
Market price per share at grant date	$ 9.11	$ 9.11	$ 9.11
Exercise price per share	$ 9.25	$ 9.25	$ 9.25
Risk-free interest rate	1.52%	2.02%	2.20%
Contractual or estimated term in years	5.00	6.25	10.00
Volatility	77.19%	79.48%	103.42%
Dividend rate	0.0%	0.0%%	0.0%
Shares	650,000	60,000	30,000
Fair Value per share	$ 5.68	$ 6.35	$ 8.27

Warrant Liability

Between October 2012 and July 2013, we issued to Platinum warrants to purchase an aggregate of 176,129 unregistered shares of our common stock and, subject to Platinum's exercise of its rights to exchange shares of our Series A Preferred Stock that it holds, we are obligated to issue to Platinum an additional warrant to purchase 375,000 unregistered shares of common stock (the Series A Preferred Exchange Warrant) (collectively, the Platinum Warrants). As originally issued, the Platinum Warrants contained an exercise price adjustment feature that would reduce the exercise price of the Platinum Warrants and increase the number of shares of our common stock eligible for Platinum's purchase thereunder in the event we subsequently issued equity instruments at a price lower than the exercise price of the Platinum Warrants. Prior to their amendment in May 2015, as described below, we accounted for the Platinum Warrants as non-cash liabilities and estimated their fair value at the end of each financial reporting period and recorded 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 was 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 was therefore also subject to significant fluctuation. Assuming all other fair value inputs remained generally constant, we generally recorded an increase in the warrant liability and non-cash losses when our stock price increased and a decrease in the warrant liability and non-cash gains when our stock price decreased.

As described more completely in Note 8, Capital Stock, on May 12, 2015, we entered into an agreement with Platinum pursuant to which Platinum agreed, among other things, to amend the Platinum Warrants to (i) fix the exercise price thereof, (ii) eliminate the exercise price reset and cashless exercise features (iii) fix the number of shares of our common stock issuable thereunder and (iv) eliminate the cashless exercise provisions from the Platinum Warrants. This agreement and the related modifications to the Platinum Warrants resulted in the complete elimination of the warrant liability with respect to the Platinum Warrants during our fiscal quarter ended June 30, 2015.

As described more completely in Note 10, Subsequent Events, in January 2016, we entered into an Exchange Agreement with Platinum pursuant to which Platinum exchanged all outstanding Platinum Warrants, plus the shares issuable pursuant to the Series A Preferred Exchange Warrant for unregistered shares of our Series C Convertible Preferred Stock (Series C Preferred) in the ratio of 0.75 share of Series C Preferred for each warrant share cancelled.

Comprehensive Loss

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

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Income (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 have historically adjusted the numerator for the change in the fair value of the warrant liability attributable to outstanding warrants, only if dilutive, and increased the denominator to include the number of potentially dilutive common shares assumed to be outstanding during the period using the treasury stock method. The change in the fair value of the warrant liability had an impact on the diluted earnings per share calculation in both the three and nine month periods ended December 31, 2014, but in no other periods included in these Condensed Consolidated Financial Statements, as indicated in the table below:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2015	2014	2015	2014
Numerator:				
Net loss attributable to common stockholders for basic earnings per share	$ (3,446,600)	$ (1,090,300)	$ (41,989,900)	$ (7,664,500)
less: change in fair value of warrant liability attributable to outstanding warrants issued to Platinum	-	(314,900)	-	(251,500)
Net loss for diluted earnings per share attributable to common stockholders	$ (3,446,600)	$ (1,405,200)	$ (41,989,900)	$ (7,916,000)
Denominator:				
Weighted average basic common shares outstanding	1,765,641	1,302,300	1,650,160	1,270,495
Assumed conversion of dilutive securities:				
Warrants to purchase common stock	-	-	-	18,179
Potentially dilutive common shares assumed converted	-	-	-	18,179
Denominator for diluted earnings per share - adjusted weighted average shares	1,765,641	1,302,300	1,650,160	1,288,674
Basic net loss attributable to common stockholders per common share	$ (1.95)	$ (0.84)	$ (25.45)	$ (6.03)
Diluted net loss attributable to common stockholders per common share	$ (1.95)	$ (1.08)	$ (25.45)	$ (6.14)

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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. For the three month and nine month periods ended December 31, 2015, the accrual for dividends on our Series B Preferred and the deemed dividend attributable to the issuance of our Series B Preferred Units represent deductions from our net loss to arrive at net loss attributable to common stockholders for those periods.

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

	As of December 31,	
	2015	2014
Series A Preferred stock issued and outstanding (1)	750,000	750,000
Series B Preferred stock issued and outstanding (2)	3,588,863	-
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, as subsequently amended	535,715	375,000
Outstanding options under the 2008 and 1999 Stock Incentive Plans	296,738	207,768
Outstanding warrants to purchase common stock	4,971,497	999,840
10% Senior Secured Convertible Notes issued to Platinum between October 2012 and July 2013, including accrued interest through December 31, 2014	-	433,311
10% convertible notes issued as a component of Unit Private Placements, including accrued interest through December 31, 2014	-	322,091
Total	10,142,813	3,088,010

(1) Assumes exchange under the terms of the October 11, 2012 Note Exchange and Purchase Agreement with Platinum, as amended
(2) Assumes exchange under the terms of the Certificate of Designation of the Relative Rights and Preferences of the Series B 10% Convertible Preferred Stock, effective May 5, 2015

Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended December 31, 2015, as compared to the recent accounting pronouncements described in the Company's Form 10-K for the fiscal year ended March 31, 2015, that are of significance or potential significance to the Company.

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Note 4. Fair Value Measurements

We follow the principles of fair value accounting as they relate to our financial assets and financial liabilities. 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 for identical assets or liabilities.

- 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.

We do not use derivative instruments for hedging of market risks or for trading or speculative purposes. In conjunction with the issuance to Platinum of the Senior Secured Convertible Promissory Notes and Platinum Warrants between October 2012 and July 2013, and the potential issuance of the Series A Preferred Exchange Warrant pursuant to Platinum's exchange of the Series A Preferred stock that it holds into shares of our common stock, we determined that the Platinum Warrants included certain exercise price adjustment features that required the warrants to be treated as non-cash liabilities and recorded at their estimated fair value. Prior to their amendment in May 2015, as described below, we determined the initial fair value and subsequent fair value measurements 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 included 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 Preferred Exchange Warrant, the probability of Platinum's exchange of the shares of Series A preferred stock it holds into shares of common stock. As described more completely in Note 8, Capital Stock, on May 12, 2015, we entered into an agreement with Platinum pursuant to which we amended the Platinum Warrants to fix the exercise price thereof and eliminate the anti-dilution reset features that had previously required the Platinum Warrants to be treated as liabilities and carried at fair value. As a result of the agreement with Platinum, at May 12, 2015, we adjusted the Platinum Warrants to their fair value, estimated to be $4,903,200, reflecting an increase of $1,894,700 since March 31, 2015, which was recorded as a non-cash charge to other expense, net in the Condensed Consolidated Statements of Operations and Comprehensive Loss for the first quarter of our current fiscal year, and subsequently eliminated the warrant liability with respect to the Platinum Warrants, with a corresponding credit to Additional Paid-in Capital.

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

		Fair Value Measurements at Reporting Date Using		
	Total Carrying Value	Quoted Prices inActive Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

December 31, 2015:				
Warrant liability	$-	$-	$-	$ -
March 31, 2015:				
Warrant liability	$3,008,500	$-	$-	$ 3,008,500

During the nine month period ended December 31, 2015, there was no significant change to the valuation models used for purposes of determining the fair value of the Level 3 warrant liability.

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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, 2015	$ 3,008,500
Mark to market loss included in net loss	1,894,700
Elimination of liability upon modification of warrants	(4,903,200)
Balance at December 31, 2015	$ -

We carried no assets or other liabilities at fair value at December 31, 2015 or March 31, 2015.

Note 5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets are composed of the following at December 31, 2015 and March 31, 2015:

	December 31, 2015	March 31, 2015
Insurance	$51,600	$27,300
Prepaid compensation under financial advisory and other consulting agreements	675,000	-
Legal fees	-	3,400
Technology license fees and all other	1,700	5,000
	$728,300	$35,700

Note 6. Accrued Expenses

Accrued expenses are composed of the following at December 31, 2015 and March 31, 2015:

	December 31, 2015	March 31, 2015
Accrued professional services	$367,000	$213,800
Accrued compensation	561,100	990,700
All other	1,000	2,000
	$929,100	$1,206,500

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Note 7. Convertible Promissory Notes and Other Notes Payable

The following table summarizes our secured and unsecured convertible promissory notes and other notes payable at December 31, 2015 and March 31, 2015.

	December 31, 2015			March 31, 2015		
	Principal Balance	Accrued Interest	Total	Principal Balance	Accrued Interest	Total
Senior Secured 10% Convertible Promissory Notes issued to Platinum:						
Total Senior notes issued between October 11, 2012 and July 23, 2013	$-	$-	$-	$3,522,600	$919,700	$4,442,300
less: current portion	-	-	-	(3,272,600)	(873,500)	(4,146,100)
Senior notes - non-current portion	$-	$-	$-	$250,000	$46,200	$296,200
10% Convertible Promissory Notes (Unit Notes)						
2014 Unit Notes, including amended notes, due 3/31/15	$-	$-	$-	$4,066,900	$270,700	$4,337,600
Note discounts	-	-	-	(180,000)	-	(180,000)
Net convertible notes (all current at March 31, 2015)	$-	$-	$-	$3,886,900	$270,700	$4,157,600
Notes Payable to unrelated parties:						
7.5% Notes payable to service providers for accounts payable converted to notes payable:						
Burr, Pilger, Mayer	$-	$-	$-	$90,400	$13,100	$103,500
Desjardins	-	-	-	156,300	24,100	180,400
McCarthy Tetrault	-	-	-	319,700	46,000	365,700
August 2012 Morrison & Foerster Note A	-	-	-	918,200	193,200	1,111,400
August 2012 Morrison & Foerster Note B	-	-	-	1,379,400	333,100	1,712,500
University Health Network	-	-	-	549,500	101,800	651,300
	-	-	-	3,413,500	711,300	4,124,800
Note discount	-	-	-	(474,500)	-	(474,500)
	-	-	-	2,939,000	711,300	3,650,300
less: current portion (and discount at March 31, 2015)	-	-	-	(2,939,000)	(711,300)	(3,650,300)
non-current portion and discount	$-	$-	$-	$-	$-	$-
5.67% and 10.25% Notes payable to insurance premium	$-	$-	$-	$5,800	$-	$5,800

financing company (current)						
10% Notes payable to vendors for accounts payable converted to notes payable	$26,300	$7,000	$33,300	$378,300	$51,500	$429,800
less: current portion	(26,300)	(7,000)	(33,300)	(378,300)	(51,500)	(429,800)
non-current portion	$-	$-	$-	$-	$-	$-
7.0% Note payable (August 2012)	$58,800	$11,000	$69,800	$58,800	$7,900	$66,700
less: current portion	(29,500)	(11,000)	(40,500)	(23,200)	(7,900)	(31,100)
7.0% Notes payable - non-current portion	$29,300	$-	$29,300	$35,600	$-	$35,600
Total notes payable to unrelated parties	$85,100	$18,000	$103,100	$3,381,900	$770,700	$4,152,600
less: current portion (and discount at March 31, 2015)	(55,800)	(18,000)	(73,800)	(3,346,300)	(770,700)	(4,117,000)
Net non-current portion	$29,300	$-	$29,300	$35,600	$-	$35,600
Notes payable to related parties:						
October 2012 7.5% Note to Cato Holding Co.	$-	$-	$-	$293,600	$55,900	$349,500
October 2012 7.5% Note to Cato Research Ltd.	-	-	-	1,009,000	204,800	1,213,800
	-	-	-	1,302,600	260,700	1,563,300
Note discount	-	-	-	(54,500)	-	(54,500)
Total notes payable to related parties	-	-	-	1,248,100	260,700	1,508,800
less: current portion	-	-	-	(1,248,100)	(260,700)	(1,508,800)
non-current portion and discount	$-	$-	$-	$-	$-	$-

Between March 31, 2015 and December 31, 2015, we have extinguished the outstanding balances of approximately $17.2 million of indebtedness, including all senior secured promissory notes, all except $85,100 principal of unsecured promissory notes, and a substantial portion of other indebtedness, and certain adjustments thereto, that were either due and payable or would have become due and payable prior to March 31, 2016, by converting all such indebtedness into shares of our Series B Preferred (which is described more completely below under the caption Creation of Series B Preferred Stock in Note 8, Capital Stock). Significant changes in and conversions of our convertible promissory notes and other promissory notes since March 31, 2015 are described below.

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

As described more completely under the caption 2014 Unit Private Placement in Note 8, Capital Stock, between April 1, 2015 and May 14, 2015, we issued to accredited investors in self-placed private placement transactions 10% convertible notes (the 2014 Unit Notes) in the aggregate face amount of $280,000. The 2014 Unit Notes issued in April and May 2015 represented a continuation of the 2014 Unit Private Placement pursuant to which we had issued in self-placed private placement transactions to accredited investors an aggregate of $3,113,500 principal amount of substantially similar notes between late-March 2014 and March 31, 2015. The 2014 Unit Notes matured between

April 30, 2015 and May 15, 2015 (Maturity) and the outstanding principal of the 2014 Unit Notes and their related accrued interest (the Outstanding Balance) was 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 accredited 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 would 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).

We allocated the proceeds from the self-placed private placement 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 contained an embedded conversion feature having 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 amortized the discounts attributable to the 2014 Unit Notes issued in April and May 2015, an aggregate of $277,200, using the effective interest method over the respective term of each 2014 Unit Note. Because the discount on each of these 2014 Unit Notes represented 99% of its initial face value, and because we were required to amortize such discount over the period from issuance to maturity, which was no more than two months for these notes, the calculated effective interest rate is extremely high. Based on the amounts of their respective discounts and the term between issuance and maturity, the effective interest rates attributable to the 2014 Unit Notes issued in April and May 2015 are in excess of 10,000%.

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Conversion of Senior Secured 10% Convertible Promissory Notes issued to Platinum into Series B Preferred

As described more completely in Note 8, Capital Stock, effective on May 12, 2015, we entered in to a broad strategic agreement with Platinum (Platinum Agreement) pursuant to which Platinum, among other things, converted all of the $4,489,300 outstanding balance (principal and accrued interest) of the Senior Secured Notes having maturity dates between October 2015 and July 2016 into 641,335 shares of our Series B Preferred. We determined that the conversion of the Senior Secured Notes into Series B Preferred should be accounted for as an extinguishment of debt. Considering the exchangeability of the Series B Preferred into our common stock, the 10% in-kind dividend applicable to the Series B Preferred prior to such exchange and other factors, we also determined that the fair value of a share of Series B Preferred issued pursuant to the conversions of the Senior Secured Notes was equal to the market value of a share of our common stock on the conversion date. Based on the $10.00 per share fair value of the Series B Preferred at the date the Senior Secured Notes were converted, we issued Series B Preferred having an aggregate fair value of $6,413,300 to Platinum. Accordingly, we recognized a non-cash loss on the extinguishment of debt of $1,924,000 in the quarter ended June 30, 2015, as reflected in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

Conversion of 2014 Unit Notes into Series B Preferred

Pursuant to the Platinum Agreement, Platinum also converted the $1,345,700 outstanding balance of the 2014 Unit Notes originally issued by us to Platinum that had matured on March 31, 2015 (Platinum Unit Notes) into shares of our Series B Preferred. Platinum additionally agreed to acquire and convert into our Series B Preferred other 2014 Unit Notes that had matured on March 31, 2015 originally issued to other investors having an aggregate outstanding balance of $1,487,900 (Acquired Unit Notes). Further, effective May 20, 2015, the holders of other 2014 Unit Notes that had matured on March 31, 2015 or shortly thereafter having an aggregate outstanding balance of $1,831,200 (Investor Unit Notes) individually converted such notes into our Series B Preferred. Consequently, the aggregate outstanding balance totaling $4,664,800 of all 2014 Unit Notes, including those issued in April and May 2015, was converted into shares of our Series B Preferred. We determined that the Series B Preferred Unit Offering, as described in Note 8, Capital Stock, would be treated as a Qualified Financing applicable to the 2014 Unit Notes, entitling the 2014 Unit Note holders at the time of conversion to the 25% Qualified Financing conversion premium under the terms of the 2014 Unit Notes. Accordingly, we issued in a self-placed private placement transaction an aggregate of 833,020 shares of our Series B Preferred and warrants to purchase an aggregate of 833,020 shares of our common stock upon the conversion of the outstanding balance of all 2014 Unit Notes, including an aggregate conversion premium of $1,166,200.

We determined that the conversion of the 2014 Unit Notes into Series B Preferred should be accounted for as an extinguishment of debt. Considering the exchangeability of the Series B Preferred into our common stock, the dividend applicable to the Series B Preferred prior to such exchange and other factors, we also determined that the fair value of a share of Series B Preferred issued pursuant to the conversion of the 2014 Unit Notes was equal to the market value of a share of our common stock on the conversion dates. Based on the $10.00 per share fair value of the Series B Preferred at the date the Platinum Unit Notes and Acquired Unit Notes were converted and the $8.00 per share fair value of the Series B Preferred at the date the Investor Unit Notes were converted, we issued in a self-placed private placement transaction Series B Preferred having an aggregate fair value of $7,676,200 upon the conversions. We valued the warrants issued in connection with the 2014 Unit Note conversions at an aggregate of $5,168,400 using the Black Scholes option pricing model and the following assumptions:

Assumption:	Platinum Unit Notes and Acquired	Investor Unit Notes

	Unit Notes	
Market price per share at conversion date	$ 10.00	$ 8.00
Exercise price per share	$ 7.00	$ 7.00
Risk-free interest rate	1.58	1.57
Contractual term in years	5.00	5.00
Volatility	76.5%	75.7%
Dividend rate	0.0%	0.0%
Warrant shares	506,004	327,016
Fair Value per share	$ 6.89	$ 5.15

Nearly all of the 2014 Unit 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 extinguishment and conversion, an aggregate of $2,237,100, 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. In aggregate, we recognized a non-cash loss on extinguishment of debt attributable to the conversion of the 2014 Unit Notes in the amount of $5,942,700 in the quarter ended June 30, 2015, as reflected in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

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Conversion of Promissory Note issued to University Health Network into Series B Preferred

On May 29, 2015, University Health Network (UHN) converted the entire $656,400 outstanding balance (principal and accrued interest) of our promissory note maturing on March 31, 2016 into 93,775 shares of our Series B Preferred. We determined that the conversion of the UHN note into Series B Preferred should be accounted for as an extinguishment of debt. Considering the exchangeability of the Series B Preferred into our common stock, the dividend applicable to the Series B Preferred prior to such exchange and other factors, we also determined that the fair value of a share of Series B Preferred issued pursuant to the conversion of the UHN note was equal to the market value of a share of our common stock on the conversion date. Based on the $10.00 per share fair value of the Series B Preferred at the date the UHN note was converted, we issued Series B Preferred having an aggregate fair value of $937,800 to UHN. After eliminating the remaining $27,500 of unamortized discount on the UHN note, we recognized a non-cash loss on the extinguishment of debt attributable to the conversion of the UHN Note of $308,900 in the quarter ended June 30, 2015, as reflected in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

Conversion of Promissory Notes and Accounts Payable issued to Cato Holding Company (CHC) and Cato Research Ltd. (CRL) into Series B Preferred

On June 10, 2015, CHC, the parent company of CRL and a related party, converted the entire aggregate outstanding balance (principal and accrued interest) of $1,583,000 of our outstanding promissory notes issued to CHC and CRL and maturing on March 31, 2016 (together, the Cato Notes), plus an additional $171,300 of past due accounts payable to CRL and a strategic adjustment thereto (CRL Payables) into a total of 328,571 shares of our Series B Preferred. We determined that the conversion of the Cato Notes and the CRL Payables into Series B Preferred should be accounted for as an extinguishment of debt. Considering the exchangeability of the Series B Preferred into our common stock, the dividend applicable to the Series B Preferred prior to such exchange and other factors, we also determined that the fair value of a share of Series B Preferred issued pursuant to the conversion of the Cato Notes and CRL Payables was equal to the market value of a share of our common stock on the conversion date. Based on the $10.00 per share fair value of the Series B Preferred at the date the Cato Notes and CRL Payables were converted, we issued Series B Preferred having an aggregate fair value of $3,285,700 to CHC. As additional consideration for the conversion of the Cato Notes and the CRL Payables, we amended certain outstanding warrants held by CHC and CRL to purchase 12,500 and 60,691 restricted shares of our common stock, respectively, to reduce the exercise price thereof from $30.00 and $20.00 per share, respectively, to $7.00 per share. We calculated the fair value of the warrants immediately before and after the modifications and determined that the fair value of the warrants increased by $222,700. 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 at modification date	$	10.00	$	10.00
Exercise price per share	$	20.00 and $30.00	$	7.00
Risk-free interest rate		0.87%		0.87%
Contractual term in years		2.31		2.31
Volatility		73.9%		73.9%
Dividend rate		0.0 %		0.0 %
Weighted Average Fair Value per share	$	2.44 and $1.57	$	5.33

After eliminating the remaining unamortized discount of $46,000 attributable to the Cato Notes, we recognized a non-cash loss on the extinguishment of debt attributable to the conversion of the Cato Notes and CRL Payables of

$1,800,100 in the quarter ended June 30, 2015, as reflected in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

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Conversion of Promissory Note B issued to Morrison & Foerster into Series B Preferred

On June 12, 2015, Morrison & Foerster (M&F) converted the entire aggregate outstanding balance (principal and accrued interest) of $1,735,500 of our August 2012 promissory Note B maturing on March 31, 2016 (M&F Note B), plus an agreed strategic adjustment thereto into a total of 257,143 shares of our Series B Preferred. We determined that the conversion of M&F Note B into Series B Preferred should be accounted for as an extinguishment of debt. Considering the exchangeability of the Series B Preferred into our common stock, the dividend applicable to the Series B Preferred prior to such exchange and other factors, we also determined that the fair value of a share of Series B Preferred issued pursuant to the conversion of M&F Note B was equal to the market value of a share of our common stock on the conversion date. Based on the $10.00 per share fair value of the Series B Preferred at the date M&F Note B was converted, we issued Series B Preferred having an aggregate fair value of $2,571,400 to M&F. As additional consideration for the conversion of M&F Note B, we amended two outstanding warrants held by M&F to purchase an aggregate of 110,448 restricted shares of our common stock to reduce the exercise price of one of the warrants from $40.00 per share to $20.00 per share and to extend the term of both warrants from September 15, 2017 to September 15, 2019. We calculated the fair value of the warrants immediately before and after the modifications and determined that the fair value of the warrants increased by $244,200. The warrants subject to the exercise price and term modifications were valued using the Black-Scholes Option Pricing Model and the following assumptions:

Assumption:		Pre-modification		Post-modification
Market price per share at modification date	$	10.00	$	10.00
Exercise price per share	$	20.00 and $40.00	$	20.00
Risk-free interest rate		0.86%		1.57%
Contractual term in years		2.27		4.27
Volatility		73.8%		76.7%
Dividend rate		0.0%		0.0%
Weighted Average Fair Value per share	$	2.39 and $1.04	$	4.35

After eliminating the remaining unamortized discount of $225,500 attributable to M&F Note B, we recognized a non-cash loss on the extinguishment of debt attributable to the conversion of M&F Note B of $1,305,600 in the quarter ended June 30, 2015, as reflected in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

In addition to its agreement to convert M&F Note B into Series B Preferred, M&F also agreed to withhold, through the later of (i) December 31, 2016 or (ii) our consummation of a registered public offering or a strategic transaction involving AV-101 in which, in either case, we received gross proceeds of at least $20.0 million, any and all action to collect amounts due under our August 2012 promissory Note A maturing on March 31, 2016 (M&F Note A) and all past due amounts owed by us to M&F in connection with professional services previously rendered by M&F (M&F Payables).

Conversion of Morrison & Foerster Note A and Morrison & Foerster Payables into Series B Preferred

In a transaction to which we were not a party, M&F sold M&F Note A, which, at the time of the sale, had an outstanding balance (principal and accrued interest) of $1,149,000, as well as the M&F Payables in the amount of $165,100, to two third-party accredited investors (the M&F Note A Investors). On August 10, 2015, the M&F Note A Investors converted M&F Note A and the M&F Payables into 192,628 shares of our Series B Preferred. We determined that the conversion of M&F Note A and the M&F Payables into Series B Preferred should be accounted

for as an extinguishment of debt. Considering the exchangeability of the Series B Preferred into our common stock, the dividend applicable to the Series B Preferred prior to such exchange and other factors, we also determined that the fair value of a share of Series B Preferred issued pursuant to the conversion of the M&F Note A and M&F Payables was equal to the market value of a share of our common stock on the conversion date. Based on the $12.25 per share fair value of the Series B Preferred at the date M&F Note A and the M&F Payables were converted, we issued Series B Preferred having an aggregate fair value of $2,359,700 to the M&F Note A Investors. After eliminating the remaining unamortized discount of $122,400 attributable to M&F Note A, we recognized a non-cash loss on extinguishment of debt attributable to the conversion of M&F Note A and the M&F Payables of $1,168,000 in the quarter ended September 30, 2015, as reflected in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

Conversion of Promissory Note issued to McCarthy Tetrault into Series B Preferred

On June 18, 2015, McCarthy Tetrault (McCarthy) converted the entire $379,600 outstanding balance (principal and accrued interest) of our past due promissory note issued in May 2011, plus an additional $2,100 of past due accounts payable (together, the McCarthy Note), into 59,230 shares of our Series B Preferred. We determined that the conversion of the McCarthy Note into Series B Preferred should be accounted for as an extinguishment of debt. Considering the exchangeability of the Series B Preferred into our common stock, the dividend applicable to the Series B Preferred prior to such exchange and other factors, we also determined that the fair value of a share of Series B Preferred issued pursuant to the conversion of the McCarthy Note was equal to the market value of a share of our common stock on the McCarthy Note conversion date. Based on the $14.00 per share fair value of the Series B Preferred at the date the McCarthy Note was converted, we issued Series B Preferred having an aggregate fair value of $829,200 to McCarthy. Accordingly, we recognized a non-cash loss on extinguishment of debt attributable to the conversion of the McCarthy Note of $447,500 in the quarter ended June 30, 2015 in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

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Conversion of Promissory Note issued to Burr Pilger & Mayer into Series B Preferred

On June 24, 2015, Burr Pilger & Mayer (Burr) converted the entire $105,200 outstanding balance (principal and accrued interest) of our past due promissory note issued in May 2011, plus an additional $17,900 of past due accounts payable (together, the Burr Note), into 21,429 shares of our Series B Preferred. We determined that the conversion of the Burr Note into Series B Preferred should be accounted for as an extinguishment of debt. Considering the exchangeability of the Series B Preferred into our common stock, the dividend applicable to the Series B Preferred prior to such exchange and other factors, we also determined that the fair value of a share of Series B Preferred issued pursuant to the conversion of the Burr Note was equal to the market value of a share of our common stock on the note conversion date. Based on the $16.50 per share fair value of the Series B Preferred at the date the Burr Note was converted, we issued Series B Preferred having an aggregate fair value of $353,600 to Burr. Accordiungly, we recognized a non-cash loss on the extinguishment of debt attributable to the conversion of the Burr Note of $230,500 in the quarter ended June 30, 2015, as reflected in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

Conversion of Promissory Note and Accounts Payable Issued to Icahn School of Medicine at Mount Sinai into Series B Preferred

On June 26, 2015, Icahn School of Medicine at Mount Sinai (ISMMS) converted the entire $270,400 outstanding balance (principal and accrued interest) of our past due April 2014 promissory note into a total of 40,000 shares of our Series B Preferred. We determined that the conversion of the ISMMS note into Series B Preferred should be accounted for as an extinguishment of debt. Considering the exchangeability of the Series B Preferred into our common stock, the dividend applicable to the Series B Preferred prior to such exchange and other factors, we also determined that the fair value of a share of Series B Preferred issued pursuant to the conversion of the ISMMS note was equal to the market value of a share of our common stock on the conversion date. Based on the $16.00 per share fair value of the Series B Preferred at the date the note was converted, we issued Series B Preferred having an aggregate fair value of $640,000 to ISMMS. As additional consideration for the conversion of the ISMMS note, we amended an outstanding warrant held by ISMMS to purchase 15,000 restricted shares of our common stock to reduce the exercise price from $10.00 per share to $7.00 per share. We calculated the fair value of the warrant immediately before and after the modification and determined that the fair value of the warrant increased by $16,600. The warrant subject to the exercise price modification was valued using the Black-Scholes Option Pricing Model and the following assumptions:

Assumption:	Pre-modification	Post-modification
Market price per share at modification date	$ 16.00	$ 16.00
Exercise price per share	$ 10.00	$ 7.00
Risk-free interest rate	1.34%	1.34%%
Contractual term in years	3.76	3.76
Volatility	76.3%	76.3%
Dividend rate	0.0%	0.0%
Weighted Average Fair Value per share	$ 10.48	$ 11.60

We recognized a non-cash loss on extinguishment of debt attributable to the conversion of ISMMS note of $386,200 in the quarter ended June 30, 2015 in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

On July 13, 2015, ISMMS also converted accounts payable in the amount of $19,100 (ISMMS Payables) into an additional 3,000 shares of our Series B Preferred. We determined that the conversion of the ISMMS Payables into Series B Preferred should also be accounted for as an extinguishment of debt. Based on the $12.00 per share fair value of the Series B Preferred at the date the ISMMS Payables were converted, we issued Series B Preferred having an aggregate fair value of $36,000 to ISMMS. Accordingly, we recognized a non-cash loss on the extinguishment of debt attributable to the conversion of the ISMMS Payables of $16,900 in the quarter ended September 30, 2015 in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

Conversion of Promissory Note issued to National Jewish Health into Series B Preferred

On June 29, 2015, National Jewish Health (NJH) converted the entire $115,000 outstanding balance (principal and accrued interest) of our past due promissory note into 17,857 shares of our Series B Preferred. We determined that the conversion of the NJH note into Series B Preferred should be accounted for as an extinguishment of debt. Considering the exchangeability of the Series B Preferred into our common stock, the dividend applicable to the Series B Preferred prior to such exchange and other factors, we also determined that the fair value of a share of Series B Preferred issued pursuant to the conversion of the NJH note was equal to the market value of a share of our common stock on the conversion date. Based on the $15.00 per share fair value of the Series B Preferred at the date the NJH note was converted, we issued Series B Preferred having an aggregate fair value of $267,900 to NJH. Accordingly, we recognized a non-cash loss on the extinguishment of debt attributable to the conversion of the NJH note of $152,900 in the quarter ended June 30, 2015, as reflected in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

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Conversion of Promissory Note issued to Desjardins Securities into Series B Preferred

On July 2, 2015, Desjardins Securities (Desjardins) converted the entire $187,400 outstanding balance (principal and accrued interest) of our past due promissory note into 32,143 shares of our Series B Preferred. We determined that the conversion of the Desjardins note into Series B Preferred should be accounted for as an extinguishment of debt. Considering the exchangeability of the Series B Preferred into our common stock, the dividend applicable to the Series B Preferred prior to such exchange and other factors, we also determined that the fair value of a share of Series B Preferred issued pursuant to the conversion of the Desjardins note was equal to the market value of a share of our common stock on the conversion date. Based on the $14.00 per share fair value of the Series B Preferred at the date the Desjardins note was converted, we issued Series B Preferred having an aggregate fair value of $450,000 to Desjardins. Accordingly, we recognized a non-cash loss on extinguishment of the debt attributable to the conversion of the Desjardins note of $262,600 in the quarter ended September 30, 2015 as reflected in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

Conversion of Promissory Note and Accounts Payable issued to MicroConstants into Series B Preferred

On July 6, 2015, MicroConstants, Inc. (MicroConstants) converted the $22,000 outstanding balance (principal and accrued interest) of our past due promissory note and outstanding accounts payable in the amount of $70,400 into an aggregate of 17,857 shares of our Series B Preferred. We determined that the conversion of the MicroConstants note and accounts payables into Series B Preferred should be accounted for as an extinguishment of debt. Considering the exchangeability of the Series B Preferred into our common stock, the dividend applicable to the Series B Preferred prior to such exchange and other factors, we also determined that the fair value of a share of Series B Preferred issued pursuant to the conversion of the MicroConstants note and accounts payable was equal to the market value of a share of our common stock on the conversion date. Based on the $14.00 per share fair value of the Series B Preferred at the date the MicroConstants note and accounts payable were converted, we issued Series B Preferred having an aggregate fair value of $250,000. Accordingly, we recognized a non-cash loss on extinguishment of debt attributable to the conversion of the MicroConstants note and payables of $157,600 in the quarter ended September 30, 2015 as reflected in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

Conversion of Accounts Payable to Professional Services Providers and Other Debt into Series B Preferred

During June and July 2015, two of our professional service providers and a former employee to whom we were contractually obligated for certain accrued compensation amounts converted an aggregate of $497,900 past due amounts for prior services (Service Provider Payables) into an aggregate of 80,929 shares of our Series B Preferred. We determined that the conversion of the Service Provider Payables balances into Series B Preferred should be accounted for as an extinguishment of debt. Considering the exchangeability of the Series B Preferred into our common stock, the dividend applicable to the Series B Preferred prior to such exchange and other factors, we also determined that the fair value of a share of Series B Preferred issued pursuant to the conversion of the Service Provider Payables was equal to the market value of a share of our common stock on the respective Service Provider Payable conversion dates. Based on the per share fair value of the Series B Preferred on the respective dates that each Service Provider Payable was converted, which ranged from $10.00 per share to $12.00 per share, we issued Series B Preferred having an aggregate fair value of $823,800 to the Service Providers. Accordingly, we recognized an aggregate non-cash loss on the extinguishment of debt attributable to the conversion of the Service Provider Payables in the amounts of $281,800 and $44,100 in the quarters ended June 30, 2015 and September 30, 2015, respectively, as reflected in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

Note 8. Capital Stock

2014 Unit Private Placement

Between April 1, 2015 and May 14, 2015, in self-placed private placement transactions, we entered into securities purchase agreements with accredited investors pursuant to which we sold Units (2014 Units) to such accredited investors for aggregate cash proceeds of $280,000, such 2014 Units consisting of (i) 10% convertible notes in the aggregate face amount of $280,000 due between April 30, 2015 and May 15, 2015 or automatically convertible into securities issuable upon our consummation of a Qualified Financing, as defined in the note (2014 Unit Notes); (ii) an aggregate of 33,000 restricted shares of our common stock (2014 Unit Stock); and (iii) warrants (2014 Unit Warrants) exercisable through December 31, 2016 to purchase an aggregate of 24,250 restricted shares of our common stock at an exercise price of $10.00 per share.

We allocated the proceeds from the private placement sales of the 2014 Units to the various securities based on their relative fair values on the dates of the sales. As described in Note 8, 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 respective dates of the 2014 Unit sales. 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 as of their respective 2014 Unit sales dates.

	Unit Warrants Weighted Average Issuance Date Valuation Assumptions									Aggregate Allocation of Proceeds Based on Relative Fair Value of:		
Warrant Shares Issued	Market Price	Exercise Price	Term (Years)	Risk free Interest Rate	Volatility	Dividend Rate	Per Share Fair Value of Warrant	Aggregate Fair Value of Unit Warrants	Aggregate Proceeds of Unit Sales	Unit Stock	Unit Warrant	Unit Note
24,250	$ 10.00	$ 10.00	1.70	0.45%	73.19%	0.00%	$ 3.69	$ 89,600	$ 280,000	$ 128,900	$ 32,900	$ 118,200

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Between late-March 2014 and May 14, 2015, in self-placed private placement transactions, we entered into securities purchase agreements with accredited investors for the 2014 Unit Private Placement pursuant to which we sold 2014 Units to such accredited investors for aggregate cash proceeds of $3,393,500, consisting of (i) 2014 Unit Notes in the aggregate face amount of $3,393,500 due between March 31, 2015 and May 15, 2015 or automatically convertible into securities issuable upon our consummation of a Qualified Financing, as defined in the note; (ii) an aggregate of 315,850 restricted shares of 2014 Unit Stock; and (iii) 2014 Unit Warrants exercisable through December 31, 2016 to purchase an aggregate of 307,100 restricted shares of our common stock at an exercise price of $10.00 per share.

Creation of Series B Preferred Stock

On May 7, 2015, we filed a Certificate of Designation of the Relative Rights and Preferences of the Series B 10% Preferred Stock of VistaGen Therapeutics, Inc. (Certificate of Designation) with the Nevada Secretary of State to designate 4.0 million shares of our authorized preferred stock as Series B 10% Convertible Preferred Stock (Series B Preferred).

Each share of Series B Preferred is convertible, at the option of the holder (Voluntary Conversion), into one (1) share of our Common Stock, subject to adjustment, only for customary stock dividends, reclassifications, splits and similar transactions set forth in the Certificate of Designation. All outstanding shares of Series B Preferred are also convertible automatically on a one-to-one basis into shares of our Common Stock (Automatic Conversion) upon the closing or effective date of any of the following transactions or events: (i) a strategic transaction involving AV-101 with an initial up-front cash payment to us of at least $10.0 million; (ii) a registered public offering of our common stock with aggregate gross proceeds to us of at least $10.0 million; or (iii) for 20 consecutive trading days, our common stock trades at least 20,000 shares per day with a daily closing price of at least $12.00 per share; provided, however, that Automatic Conversion and Voluntary Conversion (collectively, Conversion) are subject to certain beneficial ownership blockers as set forth in the Certificate of Designation and/or securities purchase agreements.

Prior to Conversion, shares of Series B Preferred will accrue in-kind dividends (payable only in unregistered shares of our common stock) at a rate of 10% per annum (Accrued Dividends). The Accrued Dividends will be payable on the date of either a Voluntary Conversion or Automatic Conversion solely in that number of shares of common stock equal to the Accrued Dividends. At December 31, 2015, we have recognized a liability in the amount of $1,415,800 for Accrued Dividends in the accompanying Condensed Consolidated Balance Sheet at December 31, 2015, based on the Series B Preferred issued and outstanding, net of exchanges to common stock, through the quarter ended December 31, 2015. We have recognized a deduction from net loss of $1,459,300 related to dividends on Series B Preferred in arriving at net loss attributable to common stockholders in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss for the nine months ended December 31, 2015. The liquidation value of the Series B Preferred at December 31, 2015 is approximately $26,541,400.

May 2015 Agreement with Platinum

On May 5, 2015, we entered into an Agreement with Platinum, which, as modified, became effective on May 12, 2015 (Platinum Agreement) and pursuant to which Platinum:

- Converted into 641,335 shares of Series B Preferred all of the approximately $4.5 million outstanding balance (principal and accrued but unpaid interest) of the Senior Secured Notes we had previously issued to Platinum, as described previously in Note 7, Convertible Promissory Notes and Other Notes Payable;

- Released all of its security interests in our assets and those of our subsidiaries by terminating the Amended and Restated Security Agreement, IP Security Agreement and Negative Covenant, each dated October 11, 2012 between us and Platinum;

- Converted into 240,305 shares of Series B Preferred and five-year warrants to purchase 240,305 shares of our common stock at a fixed exercise price of $7.00 per share (Series B Warrants) all of the approximately $1.3 million outstanding balance (principal and accrued but unpaid interest) of the 2014 Unit Notes that we issued to Platinum, as described previously in Note 7, Convertible Promissory Notes and Other Notes Payable;

- Purchased approximately $1.5 million (including accrued but unpaid interest thereon) of outstanding 2014 Unit Notes we had previously issued to various accredited investors from the respective holders thereof (Acquired Unit Notes) and converted the entire approximately $1.5 million outstanding balance of the Acquired Unit Notes into 265,699 shares of Series B Preferred and Series B Warrants to purchase 265,699 shares of our common stock, as described previously in Note 7, Convertible Promissory Notes and Other Notes Payable;

- Entered into a Securities Purchase Agreement (SPA) to purchase from us, in our self-placed private placement, for $1.0 million, a total of 142,857 shares of Series B Preferred and a Series B Warrant to purchase 142,857 shares of our common stock, which shares of Series B Preferred and Series B Warrants have been purchased and issued;

- Amended the Platinum Warrants previously issued by us to Platinum in connection with the Senior Secured Notes and the Series A Exchange Warrant to (i) fix the exercise price thereof, (ii) eliminate the exercise price reset features and (iii) fix the number of shares of our common stock issuable thereunder, and (iv) eliminate the cashless exercise provisions from the Platinum Warrants; and

- Agreed to refrain from the sale of any shares of our common stock held by Platinum or its affiliates until the earlier to occur of an effective registration statement relating to resale of certain specified shares of common stock under the Securities Act of 1933, as amended, or the closing price of our common stock is at least $15.00 per share.

As additional consideration for the several agreements of Platinum under the Platinum Agreement, we issued to Platinum 400,000 shares of Series B Preferred (Additional Consideration Shares) and Series B Warrants (Additional Consideration Warrants) to purchase 1.2 million shares of our common stock, and exchanged 30,000 shares of our common stock then beneficially owned or controlled by Platinum for 30,000 shares of Series B Preferred. Considering the exchangeability of the Series B Preferred into our common stock, the dividend applicable to the Series B Preferred prior to such exchange and other factors, we determined that the fair value of a share of Series B Preferred issued to Platinum pursuant to the Platinum Agreement was equal to the market value of a share of our common stock on the effective date of the Platinum Agreement. Based on the $10.00 per share fair value of the Series B Preferred at the May 12, 2015 effective date of the Platinum Agreement, we issued Additional Consideration Shares having an aggregate fair value of $4.0 million to Platinum. We valued the Additional Consideration Warrants at an aggregate of $8,270,900 using the Black Scholes option pricing model and the same assumptions used in valuing the Series B Warrants issued to Platinum in connection with the conversion of the Platinum Unit Notes and the Acquired Unit Notes, as described previously in Note 7, Convertible Promissory Notes and Other Notes Payable. We recognized the aggregate fair value of the Additional Consideration Shares and Additional Consideration Warrants as a non-cash component of loss on debt extinguishment in the quarter ended June 30, 2015, as reflected in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

August 2015 Agreement with Platinum

On August 3, 2015, we entered into the August 2015 Agreement with Platinum pursuant to which we agreed to sell to Platinum an additional $3.0 million of our Series B Preferred and Series B Warrants between August 15, 2015 and October 15, 2015 and issue an aggregate of 458,571 shares of Series B Preferred and Series B Warrants to purchase 458,571 shares of our common stock. Through December 31, 2015, Platinum had purchased an aggregate of $1,650,000 of Series B Preferred and Series B Warrants contemplated under the August 2015 Agreement and we had issued 235,714 shares of Series B Preferred and Series B Warrants to purchase 235,714 shares of our common stock related to such purchases.

2015 Series B Preferred Unit Offering

Between May 26, 2015 and December 31, 2015, in self-placed private placement transactions, we sold to accredited investors an aggregate of $4,397,800 of units in our Series B Preferred Unit offering, which units consist of Series B Preferred and Series B Warrants (together Series B Preferred Units), including $2,650,000 to Platinum, which amount includes $1,650,000 pursuant to the August 2015 Agreement with Platinum. We issued 628,264 shares of Series B Preferred and Series B Warrants to purchase 628,264 shares of our common stock. Through December 31, 2015, we received an aggregate of $4,397,800 in cash proceeds from our self-placed private placement and sale of the Series B Preferred Units.

We allocated the proceeds from the sale of the Series B Preferred Units to the Series B Preferred and the Seies B Warrants based on their relative fair values on the dates of the sales. As described in Note 7, Convertible Promissory Notes and Other Notes Payable, we determined that the fair value of a share of Series B Preferred was equal to the quoted market value of a share of our common stock on the date of a Series B Preferred Unit sale. We calculated the fair value of the Series B 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 Series B Preferred Unit sales proceeds based on the relative fair values of the Series B Preferred and the Series B Warrants as of their respective Series B Preferred Unit sales dates. The difference between the relative fair value per share of the Series B Preferred, approximately $4.12 per share, and its Conversion Price (or stated value) of $7.00 per share represents a deemed dividend to the purchasers of the Series B Preferred Units. Accordingly, we have recognized a deemed dividend in the aggregate amount of $1,811,800 in arriving at net loss attributable to common stockholders in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss for the nine months

ended December 31, 2015.

See Note 10, Subsequent Events, for disclosure regarding additional sales of Series B Preferred Units after December 31, 2015.

Unit Warrants											
	Weighted Average Issuance Date Valuation Assumptions										
Warrant Shares Issued	Market Price	Exercise Price	Term (Years)	Risk free Interest Rate	Volatility	Dividend Rate	Per Share Fair Value of Warrant	Aggregate Fair Value of Unit Warrants	Aggregate Proceeds of Unit Sales	Aggregate All Based on Rela	Unit Stock
628,264	$ 10.86	$ 7.00	5.00	1.65%	77.16%	0.0%	$ 7.72	$ 4,849,100	$ 4,397,800	$	2,58

Registration Statement for Common Stock underlying Series B Preferred and Series B Warrants

The securities purchase agreements for the Series B Preferred and Series B Preferred Units executed with Platinum, the holders of the Investor Unit Notes, the holders of our promissory notes and other contractual indebtedness converted into shares of Series B Preferred, initial investors in Series B Preferred Units, and certain others to whom we issued Series B Preferred, contained registration rights requiring that a Registration Statement on Form S-1 (Registration Statement) registering, under the Securities Act, certain shares of common stock underlying the Series B Preferred and the Series B Warrants be declared effective on or before August 30, 2015. We filed an initial Registration Statement with the SEC on July 21, 2015, which we amended on August 25, 2015, and which was declared effective by the SEC on August 28, 2015. The Registration Statement registered an aggregate of 3,992,479 shares of our common stock underlying outstanding Series B Preferred and Series B Warrants. Accordingly, we incurred no cash or in kind penalties under the securities purchase agreements.

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Conversion of Series B Preferred to Common Stock

Between September 2015 and December 31, 2015, holders of an aggregate of 213,318 shares of Series B Preferred converted such shares into an equivalent number of registered shares of our common stock. Additionally, we issued an aggregate of 5,976 shares of our restricted common stock in payment of $43,500 in accrued dividends on the Series B Preferred converted.

Issuance of Securities to Professional Service Providers

In June 2015, we issued, in a self-placed private placement transaction, an aggregate of 25,000 shares of our Series B Preferred having a fair value of $250,000 as compensation for legal services related to our debt restructuring and other corporate finance matters. Effective on June 30, 2015, we issued, in a self-placed private placement transaction, an aggregate of 90,000 shares of our Series B Preferred having an aggregate value of $1,350,000 as compensation for financial advisory and corporate development service contracts with two independent contractors for services to be performed through June 30, 2016. The value of the Series B Preferred grants was recorded as a prepaid expense in the Condensed Consolidated Balance Sheet at the date of the grant and is being expensed ratably over the twelve months ending June 30, 2016, with $337,500 and $675,000 expensed as a component of general and administrative expense in the three and nine months ended December 31, 2015, respectively. During the quarter ended June 30, 2015, we also issued, in a self-placed private placement transaction, an aggregate of 50,000 shares of our common stock, having an aggregate value of $500,000, as compensation under two corporate development service contracts. The value of the common stock grants was expensed as a component of general and administrative expense in the Condensed Consolidated Statement of Operations and Comprehensive Loss for the quarter ended June 30, 2015. During the quarter ended September 30, 2015, we issued, in a self-placed private placement transaction, an aggregate of 10,000 shares of our Series B Preferred having an aggregate fair value of $120,000 to two providers of intellectual property-related legal services. During the quarter ended December 31, 2015, we issued warrants to purchase an aggregate of 45,000 shares of our unregistered common stock to four parties as compensation under certain investment banking agreements. We valued the warrants granted on the dates indicated using the Black Scholes Option Pricing Model and the following assumptions

Assumption:	11/23/2015	12/11/2015
Market price per share	$ 6.75	$ 5.00
Exercise price per share	$ 7.00	$ 7.00
Risk-free interest rate	1.70%	1.16%
Contractual term in years	5.0	3.0
Volatility	77.95%	77.88%
Dividend rate	0.0%	0.0%
Fair Value per share	$ 4.22	$ 2.12
Warrant shares granted	7,500	37,500
Expense recognized	$ 31,700	$ 79,600

In connection with the November 2015 warrant grant, we also issued 15,750 shares of unregistered common stock valued at $106,300 and, in connection with the December 11, 2015 warrant grant, we made a cash payment of $20,000. We recognized an aggregate of $237,600 in general and administrative expense during the quarter ended December 31, 2015 attributable to these agreements, of which $20,000 was cash.

Modification of Warrants

In addition to warrants modified in connection with conversions of certain of our outstanding promissory notes into Series B Preferred as described earlier in Note 7, Convertible Promissory Notes and Other Notes Payable, on June 10, 2015, we modified certain other outstanding warrants to purchase an aggregate of 54,576 shares of our common stock to reduce their exercise price. We calculated the fair value of the modified warrants immediately before and after the modifications and determined that the fair value of the warrants increased by an aggregate of $122,300, which we recognized as a component of general and administrative expense in the Condensed Consolidated Statements of Operations and Comprehensive Loss for the quarter ended June 30, 2015, with a corresponding credit to additional paid-in capital. 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	$ 10.00	$ 10.00
Exercise price per share (weighted average)	$ 30.23	$ 11.92
Risk-free interest rate (weighted average)	0.8%	0.83%
Remaining contractual term in years (weighted average)	2.26	2.26
Volatility (weighted average)	73.7%	73.7%
Dividend rate	0.0%	0.0%
Fair Value per share (weighted average)	$ 1.55	$ 3.79

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Warrant Grants and Modifications

On September 2, 2015, when the market price of our common stock was $9.11 per share, our Board of Directors (Board) authorized the grant of fully-vested five-year warrants to purchase an aggregate of 650,000 restricted shares of our common stock at an exercise price of $9.25 per share, including an aggregate of 600,000 of such shares to company officers and independent members of the Board. We valued the new warrant grants at $5.68 per share, or an aggregate of $3,692,900, using the Black Scholes Option Pricing Model and the assumptions indicated in Note 2, Summary of Significant Accounting Policies. We recognized non-cash research and development and general and administrative stock compensation expense in the amounts of $852,200 and $2,840,700, respectively, attributable to the warrant grants in the quarter ended September 30, 2015, which amounts are reflected in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

On November 11, 2015, when the market price of our common stock was $6.50 per share, our Board authorized the modification of outstanding warrants to purchase an aggregate of 1,123,533 shares of our common stock, including warrants to purchase an aggregate of 600,000 shares granted in September 2015, as described above, previously granted to company officers, independent members of the Board and a key scientific advisor to reduce the exercise prices thereof to $7.00 per share and to extend through March 19, 2019 the expiration date of such warrants to purchase an aggregate of 10,803 shares of our unregistered common stock otherwise scheduled to expire during calendar 2016. We calculated the fair value of the modified warrants immediately before and after the modifications and determined that the fair value of the warrants increased by an aggregate of $492,600. We recognized $357,500 of such increase as a component of general and administrative expense in the Condensed Consolidated Statements of Operations and Comprehensive Loss for the quarter ended December 31, 2015, and the remaining $135,100 as a component of research and development expense in the same period. 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	$ 6.50	$ 6.50
Exercise price per share (weighted average)	$ 9.97	$ 7.00
Risk-free interest rate (weighted average)	1.74%	1.75%
Remaining contractual term in years (weighted average)	5.13	5.16
Volatility (weighted average)	78.8%	78.7%
Dividend rate	0.0%	0.0%
Fair Value per share (weighted average)	$ 3.65	$ 4.08

Warrants Outstanding

Following the Series B Warrant issuances and other warrant grants and modifications described above, at December 31, 2015, we had outstanding warrants to purchase shares of our unregistered common stock at a weighted average exercise price of $7.81 per share as follows:

Exercise Price per Share	Expiration Date	Shares Subject to Purchase at December 31, 2015
$ 7.00	9/30/2017 to 3/3/2023	4,169,645
$ 9.25	9/2/2020	50,000

$	10.00	1/31/2016 to 1/11/2020	554,915
$	15.00	2/14/2018 to 3/4/2018	75,389
$	20.00	7/30/2016 to 9/15/2019	115,448
$	30.00	2/13/2016 to 11/20/2017	6,100
			4,971,497

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Note 9. Related Party Transactions

Cato Holding Company, doing business as Cato BioVentures (CBV), the parent of Cato Research Ltd. (CRL), is one the largest institutional holders of our common stock at December 31, 2015. In October 2012, we issued a 7.5% promissory note (CHC Note) and a warrant (CHC Warrant) to CHC in settlement of prior indebtedness. As disclosed in Note 7, Convertible Promissory Notes and Other Notes Payable, during June 2015, the outstanding balance of the CHC Note was converted into shares of our Series B Preferred and we reduced the exercise price of the CHC Warrant from $30.00 per share to $7.00 per share. Total interest expense, including amortization of note discount, on the CHC Note was $0 and $7,400 for the quarters ended December 31, 2015 and 2014, respectively, and $4,700 and $22,500 in the nine month periods ended December 31, 2015 and 2014, respectively.

During fiscal year 2007, we entered into a master contract research, development and regulatory service arrangement with CRL, a contract research organization (CRO), related to the development of AV-101, our orally available small molecule prodrug candidate now in Phase 2 clinical development for Major Depressive Disorder, and subsequent other projects under which we incurred expenses of $19,400 and $7,500 for the quarters ended December 31, 2015 and 2014, respectively, and $41,500 and $22,500 in the nine month periods ended December 31, 2015 and 2014, respectively.

In October 2012, we issued to CRL (i) a 7.5% promissory note (CRL Note) as payment in full for all contract research, development and regulatory services and advice (CRO Services) rendered by CRL to us through December 31, 2012 with respect to certain AV-101 preclinical and clinical development and regulatory activities, and (ii) a warrant (CRL Warrant). As disclosed in Note 7, Convertible Promissory Notes and Other Notes Payable, during June 2015, the entire outstanding balance of the CRL Note and all other outstanding amounts owed to CRL for CRO services were converted into shares of our Series B Preferred and we reduced the exercise price of the CRL Warrant from $20.00 per share to $7.00 per share. Total interest expense, including amortization of the note discount, on the CRL Note was $0 and $36,300 for the quarters ended December 31, 2015 and 2014, respectively, and $23,500 and $109,900 for the nine month periods ended December 31, 2015 and 2014, respectively.

Note 10. Subsequent Events

Series B Preferred Unit Offering

Between January 1, 2016 and February 12, 2016, in self-placed private placement transactions, we sold to accredited investors Series B Preferred Units consisting of (i) an aggregate of 18,286 shares of our Series B Preferred and (ii) Series B Warrants to purchase an aggregate of 18,286 shares of our common stock at an exercise price of $7.00 per share. We received cash proceeds of $128,000 from these sales of Series B Preferred Units.

Conversion of Series B Preferred into Common Stock

Between January 1, 2016 and February 12, 2016, holders of an aggregate of 13,500 shares of Series B Preferred converted such shares into an equivalent number of registered shares of our common stock. Additionally, we issued an aggregate of 716 shares of our restricted common stock in payment of $6,200 in accrued dividends on the Series B Preferred converted.

Creation of Series C Convertible Preferred Stock

On January 13, 2016, our Board authorized the creation of, and effective January 25, 2016, we filed a Certificate of Designation of the Relative Rights and Preferences of the Series C Convertible Preferred Stock of VistaGen Therapeutics, Inc. (the "Certificate of Designation") with the Nevada Secretary of State to designate, 3.0 million shares

of our preferred stock, par value $0.001 per share, as Series C Convertible Preferred Stock ("Series C Preferred"). Upon liquidation, each share of Series C Preferred ranks pari-passu with our Series B Preferred and our Series A Convertible Preferred Stock ("Series A Preferred"), and is convertible, at the option of the holder into one share of our common stock, subject to certain beneficial ownership limitations as set forth in the Certificate of Designation. Shares of the Series C Preferred do not accrue dividends, and holders of the Series C Preferred have no voting rights. Each share of Series C Preferred is convertible into one (1) share of our common stock.

Warrant Exchanges

On January 25, 2016, we entered into an Exchange Agreement (the "Exchange Agreement") with Platinum and Montsant Partners, LLC, an organization affiliated with Platinum ("Montsant" and, together with Platinum, the "Holders"), pursuant to which (i) 200,000 shares of our common stock held by the Holders were exchanged for 200,000 shares of Series C Preferred; (ii) the Holders canceled 2,368,658 warrants previously issued to them by the Company (the "Warrants") in exchange for a total of 1,776,494 shares of Series C Preferred. In addition, Platinum terminated its right under the Note Exchange and Purchase Agreement, originally dated October 11, 2012 (the "NEPA"), as amended, to receive warrants ("Series A Warrants") to purchase a total of 455,358 shares of our common stock upon conversion of all of its shares of our Series A Preferred, and, as consideration, we issued to Platinum 341,518 shares of Series C Preferred. Upon execution of the Exchange Agreement and the termination of Platinum's right to receive Series A Warrants under the NEPA, we issued Series A Warrants to purchase a total of 80,357 shares of our common stock to the holder of shares of Series A Preferred previously held, but subsequently assigned, by Platinum.

Between January 29, 2016 and February 12, 2016, we entered into Warrant Exchange Agreements with certain holders of outstanding warrants to purchase an aggregate of 824,887 shares of our common stock pursuant to which the holders agreed to the cancellation of such warrants in exchange for our issuance to them of an aggregate of 618,685 shares of our unregistered common stock. At February 12, 2016, we had warrants outstanding to purchase 1,874,595 shares of our common stock.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes forward-looking statements. All statements contained in this Quarterly Report on Form 10-Q includes forward-looking statements. All statements contained in this Quarterly Report on Form 10-Q other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward- looking statements. The words "believe," "may," "estimate," "continue," "anticipate," "intend," "expect" and similar expressions are in to identify forward-looking statements. We have based these forward- looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions. Our business is subject to significant risks including, but not limited to, our ability to obtain additional financing, the results of our research and development efforts, the results of non-clinical and clinical testing, the effect of regulation by the United States Food and Drug Administration (FDA) and other agencies, the impact of competitive products, product development, commercialization and technological difficulties, the effect of our accounting policies, and other risks as detailed in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended March 31, 2015 and in our other filings with the SEC. Further, even if our product candidates appear promising at various stages of development, our share price may decrease such that we are unable to raise additional capital without significant dilution or other terms that may be unacceptable to our management, Board of Directors and stockholders.

Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of these forward-looking statements after the date of this Quarterly Report on Form 10-Q or to conform these statements to actual results or revised expectations. If we do update one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements.

Business Overview

We are a clinical-stage biopharmaceutical company committed to developing and commercializing innovative product candidates for patients with diseases and disorders involving the central nervous system (CNS) and cancer. Our lead new drug candidate, AV-101, is a new generation, orally available prodrug candidate in Phase 2A development, initially for the adjunctive treatment of Major Depressive Disorder (MDD) in patients with an inadequate response to standard antidepressants. AV-101's novel mechanism of action, as an N-methyl D aspartate receptor (NMDAR) antagonist binding selectively at the glycine binding (GlyB) co-agonist site of the NMDAR, is fundamentally differentiated from all antidepressants currently approved by the U.S. Food and Drug Administration (FDA). A Phase 2A clinical study of AV-101 in subjects with treatment-resistant MDD is being conducted and funded by the National Institutes of Mental Health (NIMH) under a Cooperative Research and Development Agreement (CRADA). The

Principal Investigator of this NIMH-funded Phase 2A study, which was initiated in October 2015, is Dr. Carlos Zarate, Jr., Chief of the NIMH's Experimental Therapeutics & Pathophysiology Branch and its Section on Neurobiology and Treatment of Mood and Anxiety Disorders. Dr. Zarate is an internationally recognized expert in the field of depression and was among the first clinical researchers in the world to discover the therapeutic potential of the NMDAR antagonist ketamine in treatment-resistant MDD.

We also believe AV-101 has therapeutic potential in multiple additional CNS indications, including neuropathic pain and epilepsy, and in neurodegenerative diseases such as Parkinson's disease and Huntington's disease.

We are applying our proprietary, human pluripotent stem cell (hPSC) technology for drug rescue to develop proprietary new chemical entities (NCEs) for our internal drug candidate pipeline. Initial drug rescue programs are focused on NCEs for the treatment of cancer. We are also considering potential therapeutic and commercial applications of our stem cell technology platform for regenerative medicine (RM), including, through strategic collaborations, nonclinical and clinical proof of concept studies focused on RM using blood, cartilage, heart and liver cells derived from our hPSC technology platform.

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AV-101 and Major Depressive Disorder

Background

The World Health Organization estimates that 350 million people worldwide are affected by depression. According to the U.S. National Institutes of Health (NIH), major depression is one of the most common mental disorders in the U.S. The NIMH reports that in 2014, an estimated 15.7 million adults aged 18 or older in the U.S. had at least one major depressive episode in the past year. This represented 6.7 percent of all U.S. adults. According to the U.S. Centers for Disease Control and Prevention (CDC), one in 10 Americans takes an antidepressant medication.

Unfortunately, millions of depression sufferers (more than 30%) do not benefit from initial treatment with standard antidepressants, generally a selective serotonin reuptake inhibitor (SSRI) or a serotonin-norepinephrine reuptake inhibitor (SNRI). Moreover, even when they do relieve depressive symptoms and induce remission of a major depressive episode, SSRIs and SNRIs take many weeks to achieve therapeutic benefits because of their mechanism of action. During the weeks to months before onset of antidepressant effects, side effects of SSRIs and SNRIs, including anxiety, metabolic syndrome, sleep disturbance, sexual dysfunction and suicidal thoughts and behaviors, may be considerable. Unfortunately, even after treatment with as many as four different standard antidepressants, millions of patients (more than 30% of drug-treated patients) do not achieve an adequate therapeutic response to their standard antidepressant therapies.

AV-101

AV-101, our orally available prodrug candidate, is in Phase 2 clinical development, initially for the adjunctive treatment of MDD patients with an inadequate response to standard antidepressant therapies. As published in the October 2015 issue of the peer-reviewed, Journal of Pharmacology and Experimental Therapeutics, in an article entitled, The prodrug 4-chlorokynurenine causes ketamine-like antidepressant effects, but not side effects, by NMDA/glycineB-site inhibition, in well-established preclinical models of depression, AV-101 was shown to induce fast-acting, dose-dependent, persistent and statistically significant antidepressant-like responses, following a single treatment, which responses were equivalent to responses seen with a control single sub-anesthetic dose of the NMDAR antagonist ketamine, an FDA-approved anesthetic administered intravenously by clinicians in a medical setting to treat MDD patients who have not responded adequately to standard antidepressant therapies). In the same preclinical studies, the SSRI fluoxetine did not induce rapid onset antidepressant-like responses.

Following two successful randomized, double-blind, placebo-controlled Phase 1A and Phase 1B safety studies funded by the NIH, we are now collaborating with the NIMH on a Phase 2A efficacy and safety study of AV-101 in subjects with treatment-resistant MDD. This NIMH-funded Phase 2A study began in late-2015, and is expected to enroll from 24 to 28 patients. As noted above, Dr. Carlos Zarate, Jr.of the NIMH is the Principal Investigator of the study.

Preclinical studies also support the hypothesis that AV-101 has the potential to treat several additional CNS disorders and neurodegenerative diseases, including chronic neuropathic pain, epilepsy, Parkinson’s disease and Huntington’s disease, where modulation of the NMDAR or active metabolites of AV-101 may have therapeutic benefit.

NCE Drug Rescue and Regenerative Medicine

Our drug rescue programs involve using CardioSafe 3D(TM), our customized in vitro bioassay system, to predict potential human heart toxicity of NCEs, long before they are ever tested in animal and human studies. We are are focused on leveraging our stem cell technology platform to recapture value from substantial prior investments by pharmaceutical companies and others related to screening large-scale compound libraries, optimizing and testing for efficacy NCEs that were terminated before FDA approval due to heart toxicity risks and are now available in the

public domain and amenable to drug rescue.

Our current interests in the regenerative medicine arena include collaborative nonclinical proof of concept studies with academic research partners to explore potential regenerative medicine applications involving hPSC-derived blood, bone, cartilage, heart, and liver cells.

Financial Operations Overview and Results of Operations

Our critical accounting policies and estimates and recent accounting pronouncements are disclosed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2015, as filed with the SEC on June 29, 2015, and in Note 3 to the accompanying unaudited Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

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Summary

Net Loss

We have not yet achieved revenue-generating status from any of our product candidates. Since inception, we have devoted substantially all of our time and efforts developing AV-101 from early preclinical studies to our ongoing Phase 2A clinical study in Major Depressive Disorder, as well as stem cell research and bioassay development, small molecule drug development, and creating, protecting and patenting intellectual property, with the corollary initiatives of recruiting personnel and raising working capital. As of December 31, 2015, we had an accumulated deficit of approximately $123.2 million. Our net loss for the nine month period ended December 31, 2015 was $38.7 million, including a non-cash loss of approximately $26.7 million attributable to converting over $17.2 million of our indebtedness into equity securities between May 2015 and August 2015. Our net loss for the nine month period ended December 31, 2014 was $7.7 million. We expect losses to continue for the foreseeable future, primarily related to our further development of AV-101 for Major Depressive Disorder and additional CNS indications.

Summary of Nine Months Ended December 31, 2015

Although our financial resources have been limited, we have continued to advance development of AV-101 for Major Depressive Disorder and other CNS indications and explore NCE drug rescue and regenerative medicine opportunities related to our stem cell technology platform. Pursuant to our February 2015 Cooperative Research and Development Agreement (CRADA) with the NIH, the NIH is funding and conducting our Phase 2 clinical study of AV-101 in Major Depressive Disorder.

Throughout fiscal 2014 and 2015 and the nine months ended December 31, 2015, through self-placed private placement transactions and other corporate finance initiatives, our executive management has been focused on raising sufficient operating capital to continue to advance development of AV-101, as well as other research and development objectives, while meeting our continuing operational needs. Among our most significant accomplishments during the nine months ended December 31, 2015 have been the following: (i) entering into our Cooperative Research and Development Agreement (CRADA) with the U.S. National Institute of Mental Health (NIMH); (ii) launching, under the CRADA, our NIH-funded Phase 2A clinical study of AV-101 in subjects with treatment-resistant Major Depressive Disorder (MDD), with Dr. Carlos Zarate, Jr., Chief of the Section on the Neurobiology and Treatment of Mood Disorders and Chief of the Experimental Therapeutics and Pathophysiology Branch at the NIMH, as Principal Investigator; (iii) bolstering our Clinical and Scientific Advisory Board with the additions of both Dr. Maurizio Fava, Professor of Psychiatry at Harvard Medical School and Director of the Division of Clinical Research of the Massachusetts General Hospital Research Institute, and Dr. Gerard Sanacora, Associate Professor at Yale School of Medicine and Director of the Yale Depression Research Program; (iv) publishing AV-101 preclinical data in the October 2015 issue of the peer-reviewed, Journal of Pharmacology and Experimental Therapeutics, in an article entitled “The prodrug 4-chlorokynurenine causes ketamine-like antidepressant effects, but not side effects, by NMDA/glycineB-site inhibition;” (v) successfully negotiating, extinguishing and converting (in self-placed private placement transactions) approximately $17.2 million (substantially all) of our outstanding indebtedness into our equity securities; and (vi) completing self-placed private placement transactions with accredited investors thereby providing additional operating capital through the sale of our equity securities.

To meet our working capital needs, in April and May 2015, we completed self-placed private placement transactions involving securities purchase agreements with accredited investors pursuant to which we sold to such accredited investors 2014 Private Placement Units, for aggregate cash proceeds of $280,000, consisting of (i) 10% convertible notes in the aggregate face amount of $280,000 due between April 30, 2015 and May 15, 2015; (ii) an aggregate of 33,000 restricted shares of our common stock; and (iii) warrants exercisable through December 31, 2016 to purchase an aggregate of 24,250 restricted shares of our common stock at an exercise price of $10.00 per share. Between May

2015 and December 31, 2015, we entered into self-placed private placement transactions involving securities purchase agreements with accredited investors, pursuant to which we sold Series B Preferred Units, for aggregate cash proceeds of approximately $4.3 million, consisting of an aggregate of (i) 628,264 shares of our Series B 10% Convertible Preferred Stock (Series B Preferred); and (ii) five-year warrants to purchase an aggregate of 628,264 shares of our common stock. In connection with the foregoing self-placed private placement transactions, from April 1, 2015 and December 31, 2015, we received aggregate cash proceeds of approximately $4.6 million.

As a matter of course, we seek to minimize cash commitments and expenditures for both internal and external research and development and general and administrative services to the greatest extent possible. The conversion of such a substantial portion of our outstanding indebtedness during the nine months ended December 31, 2015 materially reduced our cash requirements for debt service.

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Comparison of Three Months Ended December 31, 2015 and 2014

The following table summarizes the results of our operations for the three months ended December 31, 2015 and 2014 (amounts in thousands).

	Three Months Ended December 31,	
	2015	2014
Operating expenses:		
Research and development	$ 806	$ 445
General and administrative	1,336	671
Total operating expenses	2,142	1,116
Loss from operations	(2,142)	(1,116)
Interest expense (net)	(3)	(792)
Change in warrant liabilities	-	953
Loss on extinguishment of debt	-	-
Other expense	(2)	(135)
Loss before income taxes	(2,147)	(1,090)
Income taxes	-	-
Net loss	$ (2,147)	$ (1,090)
Accrued dividend on Series B Preferred Stock	(631)	-
Deemed dividend on Series B Preferred Stock	(669)	-
Net loss attributable to common stockholders	$ (3,447)	$ (1,090)

Revenue

We reported no revenue for the quarters ended December 31, 2015 or 2014 and we presently have no revenue generating arrangements. However, as indicated previously, we have entered into a CRADA with the NIH providing for a Phase 2A clinical study of AV-101 in treatment resistant Major Depressive Disorder. This Phase 2A study, which began in late-2015, will be funded by the NIH and conducted at the NIMH.

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Research and Development Expense

Research and development expense totaled $806,300 for the quarter ended December 31, 2015, an increase of approximately 81% compared with the $455,400 reported for the quarter ended December 31, 2014, primarily as a result of increased spending on the development of AV-101, legal and application costs related to a number of U.S. and foreign pending patent applications with respect to AV-101 and our stem cell technology platform, as well as noncash expense related to November 2015 modification of certain outstanding warrants. The following table indicates the primary components of research and development expense for each of the periods (amounts in thousands):

	Three Months Ended December 31,	
	2015	2014
Salaries and benefits	$ 214	$ 230
Stock-based compensation	74	66
Consulting and other professional services	5	23
Technology licenses and royalties	159	43
Project-related research and supplies:		
AV-101	137	7
Stem cell and all other	19	10
	156	17
Rent	55	55
Depreciation	8	11
Warrant modification expense	135	-
Total Research and Development Expense	$ 806	$ 445

To conserve cash resources, during the period from April 2014 through December 2014, Ralph Snodgrass, Ph.D., our Chief Scientific Officer (CSO), voluntarily accepted a temporary salary reduction to substantially less than his contractual pay rate. At December 31 2014, however, we accrued the difference between Dr. Snodgrass' reduced rate and his contractual rate for the three preceding quarters. During the quarter ended December 31, 2015, Dr. Snodgrass has received cash compensation at his contractual base salary rate. Partially offsetting this increase is the impact of the voluntary resignation of one member of our scientific staff at the end of September 2014 and the voluntary reduction of work hours and pay by another member of our scientific staff from October 2014 through September 2015.

Stock based compensation expense reflects the ratable amortization of option grants made to scientific staff and consultants, most recently in September 2015 (in 2015 expense only), March 2014 and October 2013, as well as the ratable amortization of a warrant grant made to our CSO in March 2014. Our stock options are generally amortized over a two-year or four-year vesting period, and warrants granted to the CSO in March 2014 are being amortized over a three-year vesting period. Essentially all of the option grants made prior to October 2013 and a warrant grant made to our CSO in March 2013 became fully-vested and fully-expensed prior to the quarter ended December 31, 2015.

Consulting services reflects fees paid or accrued for scientific services rendered to us by third-parties, primarily by members of our scientific and clinical advisory board.

Technology license expense reflects both recurring annual fees as well as legal counsel and other costs related to patent prosecution and protection that we are required to fund under the terms of certain of our stem cell technology

license agreements or have elected to pursue for commercial purposes. We recognize these costs as they are invoiced to us by the licensors and they do not occur ratably throughout the year or between years. Additionally, in 2015, this expense includes legal counsel and other costs we have incurred to advance in the U.S. and numerous foreign countries several pending patent applications with respect to AV-101 and our stem cell technology platform.

AV-101 expenses in both periods presented reflect the costs associated with monitoring for and responding to potential feedback related to the Phase 1 clinical trial and preparing other reports required under the terms of our prior NIH grant, primarily through our contract research collaborator, Cato Research Ltd. Expenses in 2015 also include costs incurred to explore and develop more efficient and cost-effective production methods for AV-101 as well as costs related to updating documentation to facilitate the Phase 2 clinical trial of AV-101 in treatment resistant Major Depressive Disorder to be sponsored and conducted by the NIH. Stem cell and other project related expenses in both periods were minimal.

Warrant modification expense reflects an increase in the fair value attributable to the November 2015 modification of outstanding warrants to purchase an aggregate of 315,000 shares of our common stock previously granted to our CSO and a key scientific advisor to reduce the exercise prices thereof from a range of $9.25 to $12.80 per share to $7.00 per share

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General and Administrative Expense

General and administrative expense increased significantly, from $671,300 to $1,335,500, for the quarters ended December 31, 2014 and 2015, respectively, primarily as a result of noncash expense related to both grants of equity securities in payment of certain professional services during 2015 and the modification of certain outstanding warrants in November 2015. The following table indicates the primary components of general and administrative expenses for each of the periods (amounts in thousands):

	Three Months Ended December 31,	
	2015	2014
Salaries and benefits	$ 172	$ 254
Stock-based compensation	24	89
Consulting Services	16	28
Legal, accounting and other professional fees	643	157
Investor relations	4	34
Insurance	33	32
Travel expenses	18	7
Rent and utilities	40	39
Warrant modification expense	358	-
All other expenses	28	31
Total General and Administrative Expense	$ 1,336	$ 671

To conserve cash resources, during the period from April 2014 through December 2014, both Shawn Singh, our Chief Executive Officer (CEO), and Jerrold Dotson, our Chief Financial Officer (CFO), voluntarily accepted a temporary salary reduction to substantially less than his contractual or agreed base pay rate. At December 31 2014, however, we accrued the difference between each of their reduced rates and their contractual rates for the three preceding quarters. During the quarter ended December 31, 2015, both Messrs. Singh and Dotson have received cash compensation at their respective contractual base salary rate. Pay rates and administrative employee headcount have otherwise remained generally stable between the periods reported.

Stock based compensation expense reflects the ratable amortization of option grants made to administrative staff and consultants, most recently in September 2015 (in 2015 expense only), March 2014 and October 2013, as well as the ratable amortization of a warrant grant made to officers and independent members of our Board of Directors in March 2014. Our stock options are generally amortized over a two-year or four-year vesting period, and warrants granted to officers and directors in March 2014 are being amortized over a three-year vesting period. Essentially all of the option grants made prior to October 2013 and warrant grants made to our officers and independent members of our Board of Directors in March 2013 became fully-vested and fully-expensed prior to the quarter ended December 31, 2015.

Consulting services primarily includes fees accrued for the services of independent members of our Board of Directors.

The increase in legal, accounting and other professional service fees results primarily from (i) $337,500 of noncash expense recognized during the quarter pursuant to the June 30, 2015 grant of an aggregate of 90,000 shares of our Series B Preferred having an aggregate fair value of $1,350,000 as compensation for financial advisory and corporate development service contracts with two independent contractors for services to be performed through June 30, 2016; and (ii) $138,000 of noncash expense attributable to the fair value of 15,750 shares of our unregistered common stock

and a five-year warrant to purchase 7,500 unregistered shares of our common stock granted in connection with investment banking services. As described in Note 8, Capital Stock, to the accompanying Condensed Consolidated Financial Statements in Part I of this Report, the value of the Series B Preferred grants was recorded as a prepaid expense at the date of the grant and is being expensed ratably over the twelve month period ending June 30, 2016.

In both periods, travel expenses reflect costs associated with meetings with accredited investors in connection with self-placed private placements of our securities.

Warrant modification expense reflects an increase in the fair value attributable to the November 2015 modification of outstanding warrants to purchase an aggregate of 808,553 shares of our common stock previously granted to our CEO, CFO, and independent members of our Board of Directors to reduce the exercise prices thereof from a range of $9.25 to $12.80 per share to $7.00 per share

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Interest and Other Expenses, Net

Interest expense, net totaled $2,500 for the quarter ended December 31, 2015, a significant decrease compared to the $792,400 reported for the quarter ended December 31, 2014 resulting from the extinguishment of substantially all of our promissory notes, as well as other indebtedness, by conversion into our Series B Preferred and the related elimination of note interest and discount amortization. The following table summarizes the primary components of interest expense for each of the periods (amounts in thousands):

	Three Months Ended December 31,	
	2015	2014
Interest expense on promissory notes	$ 2	$ 317
Amortization of discount on promissory notes	-	496
Other interest expense, including on capital leases and premium financing	1	1
	3	814
Effect of foreign currency fluctuations on notes payable	-	(22)
Interest income	-	-
Interest expense, net	$ 3	$ 792

The substantial overall decrease in interest expense on promissory notes and the related amortization of discounts on such notes between the periods primarily reflects the cessation of interest accrual and discount amortization upon the extinguishment and conversion of all outstanding Senior Secured Convertible Notes, 2014 Unit Notes and other outstanding promissory notes into shares of our Series B Preferred between May 2015 and August 2015.

Under the terms of the October 2012 Note Exchange and Purchase Agreement we entered with Platinum Long Term Growth VII, LLC (Platinum), our largest investor, we issued certain Senior Secured Convertible Promissory Notes and a related Exchange Warrant and Investment Warrants between October 2012 and July 2013. Upon Platinum's exchange of the shares of our Series A Preferred Stock held by Platinum into shares of our common stock, we will also be required to issue a Series A Exchange Warrant to Platinum. We determined that the various warrants included certain exercise price adjustment and other anti-dilution features requiring us to treat the warrants as liabilities. Accordingly, we recorded a noncash warrant liability at its estimated fair value as of the date of warrant issuance or contract execution. As described in Note 8, Capital Stock, and Note 4, Fair Value Measurements, to the Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q, on May 12, 2015, we entered into an agreement with Platinum pursuant to which we amended the warrants to fix the exercise price thereof and eliminated the anti-dilution reset features that had previously required the warrants to be treated as liabilities and carried at fair value. Accordingly, we eliminated the entire warrant liability with respect to these warrants during the quarter ended June 30, 2015. (Refer to Note 10, Subsequent Events, to the Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q, regarding the subsequent exchange of these warrants for shares of our Series C Preferred) During the quarter ended December 31, 2014, we recognized noncash income of $953,700 related to the net decrease in the estimated fair value of the warrant liabilities since March 31, 2014, which resulted primarily from the decrease in the market price of our common stock in relation to the exercise price of the warrants.

In October 2014, we accepted a cash payment of $60,000 as settlement in full for a promissory note issued to us in May 2011 for the purchase of shares of our common stock. At the time of the payment, the principal and accrued interest due to us on the note receivable was $194,900, resulting in a recognized loss of $134,900 related to the settlement. Other expense in the quarter ended December 31, 2015 reflects the noncash loss on the disposition of a

piece of failed lab equipment.

We allocated proceeds from the self-placed private placement sales of Series B Preferred Units during the quarter ended December 31, 2015 to the Series B Preferred and the Series B Warrants based on their relative fair values on the dates of the sales. The difference, for accounting purposes, between the relative fair value per share of the Series B Preferred, approximately $4.21 per share, and its Conversion Price (or stated value) of $7.00 per share represents a deemed dividend to the purchasers of the Series B Preferred Units. Accordingly, we have recognized a deemed dividend in the aggregate amount of $668,700 in arriving at net loss attributable to common stockholders for the quarter ended December 31, 2015 in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss included in Part I of this Report. Further, we have recognized $631,300 representing the 10% cumulative dividend payable on our Series B Preferred as an additional deduction in arriving at net loss attributable to common stockholders for the quarter ended December 31, 2015 in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

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Comparison of Nine Months Ended December 31, 2015 and 2014

The following table summarizes the results of our operations for the nine months ended December 31, 2015 and 2014 (amounts in thousands).

	Nine Months Ended December 31,	
	2015	2014
Operating expenses:		
Research and development	$ 2,835	$ 1,477
General and administrative	6,515	2,024
Total operating expenses	9,350	3,501
Loss from operations	(9,350)	(3,501)
Interest expense (net)	(770)	(2,183)
Change in warrant liabilities	(1,895)	528
Loss on extinguishment of debt	(26,700)	(2,371)
Other expense	(2)	(135)
Loss before income taxes	(38,717)	(7,662)
Income taxes	(2)	(2)
Net loss	$ (38,719)	$ (7,664)
Accrued dividend on Series B Preferred Stock	(1,459)	-
Deemed dividend on Series B Preferred Stock	(1,812)	-
Net loss attributable to common stockholders	$ (41,990)	$ (7,664)

Revenue

We reported no revenue for the nine month periods ended December 31, 2015 or 2014 and we presently have no revenue generating arrangements. However, as indicated previously, we have entered into a CRADA with the NIH providing for a Phase 2A clinical study of AV-101 in treatment-resistant Major Depressive Disorder. This Phase 2A study, which began in late-2015, is being funded by the NIH and being conducted at the NIMH.

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Research and Development Expense

Research and development expense totaled $2.8 million for the nine months ended December 31, 2015 compared to $1.5 million for the nine months ended December 31, 2014, primarily as a result of noncash expense related to stock based compensation awards granted in September 2015 and warrant modifications made in November 2015, as well as patent- and technology license-related expenses in support of AV-101 and our stem cell technology platforms. The following table indicates the primary components of research and development expense for each of the periods (amounts in thousands):

	Nine Months Ended December 31,	
	2015	2014
Salaries and benefits	$628	$680
Stock-based compensation	979	265
Consulting and other professional services	51	85
Technology licenses and royalties	646	177
Project-related research and supplies:		
AV-101	161	23
Stem cell and all other	42	49
	203	72
Rent	163	165
Depreciation	29	33
Warrant modification expense	135	-
All other	1	-
Total Research and Development Expense	$2,835	$1,477

The decrease in salaries and benefits is primarily the result of the voluntary resignation of one member of our scientific staff at the end of September 2014 and the voluntary reduction of work hours and pay by another member of our scientific staff during the period October 2014 through September 2015.

The increase in stock based compensation expense for 2015 reflects the $852,200 fair value, determined using the Black-Scholes Option Pricing Model and the assumptions indicated in Note 2, Summary of Significant Accounting Policies, to the accompanying Condensed Consolidated Financial Statements in Part I of this Report, of the September 2015 grant of immediately vested and expensed warrants to purchase 150,000 shares of our common stock granted to our CSO. Stock based compensation expense additionally reflects the ratable amortization of option grants made to scientific staff and consultants, most recently in September 2015, March 2014 and October 2013, as well as the ratable amortization of a warrant grant made to our CSO in March 2014. Our stock options are generally amortized over a two-year or four-year vesting period, and warrants granted to the CSO in March 2014 are being amortized over a three-year vesting period. Essentially all of the option grants made prior to October 2013 and a warrant grant made to our CSO in March 2013 became fully-vested and fully-expensed prior to the quarter ended December 31, 2015.

Consulting services reflects fees paid or accrued for scientific services rendered to us by third-parties, primarily by members of our scientific and clinical advisory board.

Technology license expense reflects both recurring annual fees as well as costs for patent prosecution and protection that we are required to fund under the terms of certain of our stem cell technology license agreements, as well as those we elected to make for commercial purposes. We recognize these costs as they are invoiced to us by the licensors and

they do not occur ratably throughout the year or between years. Additionally, in 2015, this expense includes significant costs we have incurred to advance, in the U.S. and numerous foreign counties, a number of pending patent applications with respect to AV-101 and our stem cell technology platform.

AV-101 expenses in both periods presented reflect the costs associated with monitoring for and responding to potential feedback related to the Phase 1 clinical trial and preparing other reports required under the terms of our prior NIH grant, primarily through our contract research collaborator, Cato Research Ltd. An additional level of expense has been incurred during the nine months ended December 31, 2015 to explore and develop more efficient and cost-effective production methods for AV-101 as well as for updating documentation to facilitate the Phase 2 clinical trial of AV-101 in treatment resistant Major Depressive Disorder that is being funded and conducted by the NIH. Stem cell and other project related expenses in both periods were nominal.

Warrant modification expense reflects an increase in the fair value attributable to the November 2015 modification of outstanding warrants to purchase an aggregate of 315,000 shares of our common stock previously granted to our CSO and a key scientific advisor to reduce the exercise prices thereof from a range of $9.25 to $12.80 per share to $7.00 per share

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General and Administrative Expense

General and administrative expense was $6.5 million for the nine months ended December 31, 2015 compared to $2.0 million reported for the nine months ended December 31, 2014, primarily as a result of noncash expense of approximately $2.9 million related to stock based compensation awards granted in September 2015 and warrant modifications made in November 2015, as well as increased professional services fees. The following table indicates the primary components of general and administrative expenses for each of the periods (amounts in thousands):

	Nine Months Ended December 31,	
	2015	2014
Salaries and benefits	$520	$530
Stock-based compensation	2,889	299
Consulting Services	72	84
Legal, accounting and other professional fees	2,113	658
Investor relations	60	98
Insurance	105	103
Travel expenses	73	49
Rent and utilities	116	117
Warrant modification expense	480	-
All other expenses	87	86
Total General and Administrative Expense	$6,515	$2,024

Administrative employee headcount and pay rates have remained essentially consistent between the periods reported.

The increase in stock based compensation expense for 2015 reflects the $2,840,700 fair value, determined using the Black-Scholes Option Pricing Model and the assumptions indicated in Note 2, Summary of Significant Accounting Policies, to the accompanying Condensed Consolidated Financial Statements in Part I of this Report, of the September 2015 grant of immediately vested and expensed warrants to purchase an aggregate of 500,000 shares of our common stock granted to our officers, independent members of our Board of Directors and certain administrative consultants. Stock based compensation expense additionally reflects the ratable amortization of option grants made to administrative staff and consultants, most recently in September 2015, March 2014 and October 2013, as well as the ratable amortization of a warrant grant made to certain officers and independent members of our Board of Directors in March 2014. Our stock options are generally amortized over a two-year or four-year vesting period, and warrants granted to officers and directors in March 2014 are being amortized over a three-year vesting period. Essentially all of the option grants made prior to October 2013 and warrant grants made to our officers and independent members of our Board of Directors in March 2013 became fully-vested and fully-expensed prior to the quarter ended December 31, 2015.

Consulting services primarily includes fees accrued for the services of independent members of our Board of Directors.

The increase in legal, accounting and other professional service fees results primarily from (i) the $675,000 noncash expense recognized pursuant to the June 30, 2015 grant of an aggregate of 90,000 shares of our Series B Preferred having an aggregate value of $1,350,000 as compensation for financial advisory and corporate development service contracts with two independent contractors for services to be performed through June 30, 2016; (ii) the grant of an

aggregate of 50,000 shares of our common stock having an aggregate fair value of $500,000 pursuant to two corporate development contracts initiated during the quarter ended June 30, 2015; (iii) the grant of 25,000 shares of our Series B Preferred having a fair value of $250,000 to legal counsel as compensation for services in connection with our debt restructuring and other corporate finance matters, and (iv) $138,000 of noncash expense attributable to the fair value of 15,750 shares of our unregistered common stock and a five-year warrant to purchase 7,500 unregistered shares of our common stock granted in connection with investment banking services.. As described in Note 8, Capital Stock, to the accompanying Condensed Consolidated Financial Statements in Part I of this Report, the $1,350,000 fair value of the 90,000 shares of Series B Preferred was recorded as a prepaid expense at the date of the grant and is being expensed ratably over the twelve months ending June 30, 2016. Legal expense for 2015 also includes one-time cash fees associated with the conversion of our promissory notes and other debt into our Series B Preferred. Professional services expense in 2015 reflects a $100,000 reduction in expense related to a contract for strategic advisory and business development services compared to 2014. In both years, accounting service fees include expense related to the annual audit of the prior year financial statements and current quarterly financial statement review services.

The decrease in outsourced investor relations service reflects a reduction in investor relations initiatives during the latter portion of calendar 2015.

In both periods, travel expense reflects costs associated with meetings with accredited investors in connection with the self-placed private placements of our securities, and in 2015, with various creditors in connection with extinguishment of a substantial portion of our indebtedness.

Noncash warrant modification expense in 2015 includes (i) a $122,000 increase in the fair value attributable to the June 2015 strategic modification of outstanding warrants to purchase an aggregate of 54,576 shares of our common stock to reduce the exercise prices thereof, generally from $30.00 per share to $10.00 per share; and (ii) a $358,000 increase in the fair value attributable to the November 2015 modification of outstanding warrants to purchase an aggregate of 808,553 shares of our common stock previously granted to our CEO, CFO, and independent members of our Board of Directors to reduce the exercise prices thereof from a range of $9.25 to $12.80 per share to $7.00 per share

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Interest and Other Expenses, Net

Interest expense, net totaled $769,800 for the nine months ended December 31, 2015 compared to the $2,182,900 reported for the nine months ended December 31, 2014, reflecting the extinguishment of substantially all of our promissory notes and related discounts upon conversion into our Series B Preferred between May 2015 and August 2015. The following table summarizes the primary components of interest expense for each of the periods (amounts in thousands):

	Nine Months Ended December 31,	
	2015	2014
Interest expense on promissory notes	$208	$909
Amortization of discount on promissory notes	565	1,295
Other interest expense, including on capital leases and premium financing	3	6
	776	2,210
Effect of foreign currency fluctuations on notes payable	(6)	(22)
Interest income	-	(5)
Interest expense, net	$770	$2,183

The substantial overall decrease in interest expense on promissory notes and the related amortization of discounts on such notes between the periods primarily reflects (i) accrued interest and discount amortization recorded for the issuances between July 2014 and May 2015 of an aggregate of approximately $1.8 million of 10% convertible promissory notes (2014 Unit Notes); and (ii) the offsetting cessation of interest accrual and discount amortization upon the conversion of all outstanding Senior Secured Convertible Notes, 2014 Unit Notes and other outstanding promissory notes aggregating approximately $13.3 million into shares of our Series B Preferred between May 2015 and August 2015.

Under the terms of our October 2012 Note Exchange and Purchase Agreement with Platinum, we issued certain Senior Secured Convertible Promissory Notes and a related Exchange Warrant and Investment Warrants between October 2012 and July 2013. Upon Platinum’s exchange of the shares of our Series A Preferred Stock held by Platinum into shares of our common stock, we will also be required to issue a Series A Exchange Warrant to Platinum. We determined that the various warrants included certain exercise price adjustment features requiring us to treat the warrants as liabilities. Accordingly, we recorded a noncash warrant liability at its estimated fair value as of the date of warrant issuance or contract execution. As described in Note 8, Capital Stock, and Note 4, Fair Value Measurements, to the Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q, on May 12, 2015, we entered into an agreement with Platinum pursuant to which we amended the various warrants to fix the exercise price thereof and eliminate the anti-dilution reset features that had previously required the warrants to be treated as liabilities and carried at fair value. Accordingly, during the quarter ended June 30, 2015, we adjusted these warrants to their fair value, estimated to be $4,903,200, reflecting an increase of $1,894,700 since March 31, 2015, resulting primarily from the increase in the market price of our common stock in relation to the exercise price of the warrants, and then subsequently eliminated the entire warrant liability with respect to these warrants. (Refer to Note 10, Subsequent Events, to the Condensed Consolidated Financial Statements included in Part 1, Item 1 of this Quarterly Report on Form 10-Q, regarding the subsequent exchange of these warrants for shares of our Series C Preferred stock.) During the nine months ended December 31, 2014, we recognized noncash gains of $528,300 related to the net decrease in the estimated fair value of the warrant liabilities since March 31, 2014, which resulted primarily from the decrease in the market price of our common stock in relation to the exercise price of the warrants.

As described more completely in Note 7, Convertible Promissory Notes and other Notes Payable, and Note 8, Capital Stock, to the accompanying Condensed Consolidated Financial Statements in Part I of this Report, between May 12, 2015 and December 31, 2015, we have extinguished the outstanding balances of approximately $17.2 million of promissory notes, including our Senior Secured Notes, our 2014 Unit Notes and other debt and certain adjustments thereto that were either already due and payable or would have otherwise matured prior to March 31, 2016 by converting such balances into shares of our Series B Preferred. We treated the conversion of the indebtedness into Series B Preferred as extinguishments of debt for accounting purposes. Since the fair value of the Series B Preferred we negotiated in settlement of the promissory notes and other indebtedness exceeded the carrying value of the debts, we incurred noncash losses on each of the extinguishments. Additionally, under the terms of the Platinum Agreement, we issued to Platinum 400,000 shares of Series B Preferred having an aggregate fair value of $4.0 million and Series B Warrants to purchase 1.2 million shares of our common stock having an aggregate of fair value of $8,270,900. We recognized this aggregate fair value as an additional noncash component of loss on extinguishment of debt. Many of the 2014 Unit Notes that were converted into Series B Preferred 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 the 2014 Unit Notes were extinguished and converted, an aggregate of $2,237,100, as a reduction to the loss on extinguishment of debt. We recorded an aggregate net noncash loss of $26.7 million attributable to the extinguishment of the indebtedness converted into Series B Preferred.

During the quarter ended June 30, 2014, we entered into agreements with substantially all holders of our 2013 Unit Notes and 2013 Unit Warrants to amend certain terms of the notes and the warrants to essentially conform them to the 2014 Unit Notes and 2014 Unit Warrants. We treated the amendments as an extinguishment of debt for accounting purposes and recognized noncash losses on the extinguishment of debt in the aggregate amount of $526,200 attributable to the amendments. We also recognized an additional $241,800 as a noncash loss on extinguishment of debt as a result of the promissory note, shares of our common stock and warrants issued to Icahn School of Medicine at Mount Sinai in settlement of stem cell technology license maintenance fees and reimbursable patent prosecution costs during the quarter ended June 30, 2014. In July 2014, we entered into an agreement with Platinum, as further amended in September 2014, pursuant to which Platinum agreed to convert into our unregistered equity securities all then outstanding Senior Secured Notes and related accrued interest held by Platinum upon our consummation prior to October 31, 2014 of either (i) a Private Financing or a Public Offering, each as defined in the agreement. Prior to the agreement, the Senior Secured Notes were convertible, at Platinum’s option, at any time prior to maturity at a conversion price of $10.00 per share. The modification of the conversion feature in the Senior Secured Notes was treated as an extinguishment of the debt for accounting purposes and we recognized a non-cash loss on the extinguishment of debt in the aggregate amount of $1,603,400 attributable to the amendment in the quarter ended September 30, 2014.

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In October 2014, we accepted a cash payment of $60,000 as settlement in full for a promissory note issued to us in May 2011 for the purchase of shares of our common stock. At the time of the payment, the principal and accrued interest due to us on the note receivable was $194,900, resulting in a noncash loss of $134,900 related to the settlement recognized in Other expense in the nine months ended December 31, 2014. Other expense in the nine months ended December 31, 2015 reflects the noncash loss on the disposition of a piece of failed lab equipment.

We allocated the proceeds from the self-placed private placement sales of Series B Preferred Units between May 2015 and December 31, 2015 to the Series B Preferred and the Series B Warrants based on their relative fair values on the dates of the sales. The difference, for accounting purposes, between the relative fair value per share of the Series B Preferred, approximately $4.12 per share, and its Conversion Price (or stated value) of $7.00 per share represents a deemed dividend to the purchasers of the Series B Preferred Units. Accordingly, we have recognized a deemed dividend in the aggregate amount of $1,811,800 in arriving at net loss attributable to common stockholders for the nine months ended December 31, 2015 in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss included in Part I of this Report. Further, we have recognized $1,459,300 representing the 10% cumulative dividend payable on our Series B Preferred as an additional deduction in arriving at net loss attributable to common stockholders for the nine months ended December 31, 2015 in the accompanying Condensed Consolidated Statement of Operations and Comprehensive Loss.

Liquidity and Capital Resources

Since our inception in May 1998 through December 31, 2015, we have financed our operations through (1) the issuance and sale of our common stock, preferred stock, warrants for common stock, and promissory notes for aggregate cash proceeds of approximately $33.9 million; (2) issuance of common stock and preferred stock with an approximate value at issuance of $28.9 million as consideration for, among other things, technology licenses and patent prosecution, sponsored research, contract research, drug development, drug manufacturing, regulatory services, and legal, investor relations, corporate development and financial advisory services; and (3) receipt of aggregate non-dilutive cash proceeds of approximately $16.4 million from government research and development grant awards and strategic collaboration transactions.

As described more completely in Note 7, Convertible Promissory Notes and other Notes Payable, and Note 8, Capital Stock, to the accompanying Condensed Consolidated Financial Statements in Part I of this Report, between March 31, 2015 and December 31, 2015, we created our Series B 10% Convertible Preferred Stock (Series B Preferred) and eliminated the outstanding balances of approximately $17.2 million of promissory notes, other indebtedness and certain adjustments thereto that was either already due and payable or would have otherwise matured prior to March 31, 2016, through conversion into our Series B Preferred and, with respect to a portion of the indebtedness converted, warrants to purchase common stock. More specifically, through December 31, 2015, we have extinguished and converted (i) all of the Senior Secured Convertible Promissory Notes originally issued to Platinum, (ii) all of the 2014 Unit Notes outstanding at March 31, 2015 and those issued subsequently, and (iii) substantially all other outstanding promissory notes and accounts payable, including those issued to Cato Research Ltd., Cato Holding Company, Morrison & Foerster (Note A and Note B), University Health Network, McCarthy Tetrault, Desjardins Securities, Burr Pilger & Mayer, National Jewish Health, MicroConstants and several others, into an aggregate of 2,618,917 shares of our Series B Preferred. Additionally, through December 31, 2015, in our self-placed private placement of Series B Units, we have sold additional Series B Preferred Units consisting of an aggregate of 628,264 unregistered shares of Series B Preferred and five year warrants to purchase 628,264 shares of our common stock, and we have received cash proceeds of $4,397,800.

At December 31, 2015, we did not have sufficient cash and cash equivalents to enable us to fund our planned operations over the next twelve months, including expected cash expenditures of approximately $6.0 million. In August 2015, we entered into an agreement with Platinum (August 2015 Agreement) pursuant to which we agreed to

sell to Platinum an additional $3.0 million of our Series B Preferred and Series B Warrants (collectively, Series B Units). Through December 31, 2015, Platinum purchased an additional $1.65 million of Series B Units under the August 2015 Agreement. Concurrently with its December 2015 purchase of $1.0 million of Series B Units and at our request, Platinum agreed to cancel its right to purchase the remaining $1.35 million of the Series B Units under the August 2015 Agreement. As more particularly disclosed in Note 10, Subsequent Events, from January 1, 2016 through February 12, 2016, we have sold to certain accredited investors other than Platinum $128,000 of our Series B Units in self-placed private placement transactions. We intend to raise additional capital through conversions, exchanges, issuances, and/or sales of our securities, which may include both debt and equity securities. We may also seek research and development collaborations that could generate revenue, as well as government grant awards. Further, strategic collaborations, such as our February 2015 Cooperative Research and Development Agreement (CRADA) with the U.S. National Institute of Mental Health (NIMH) providing NIMH funding of our Phase 2A study of AV-101 in MDD, may provide resources to support a portion of our future cash needs and working capital requirements. Although we may seek additional collaborations that could generate revenue, as well as new government grant awards, no assurance can be provided that any such collaborations or awards will occur in the future. Our future working capital requirements will depend on many factors, including, without limitation, the scope and nature of opportunities related to our success and the success of certain other companies in clinical trials, including our development of AV-101 as a treatment for MDD and other CNS conditions, and our stem cell technology platform, the availability of, and our ability to obtain, government grant awards and our ability to enter into collaborations on terms acceptable to us. To further advance the clinical development of AV-101 and our stem cell technology platform, as well as support our operating activities, we plan to continue to carefully manage our routine operating costs, including the size of our staff and staff salaries and benefits, as well as costs relating to regulatory consulting, contract research and development, investor relations and corporate development, legal, accounting, public company compliance and other professional services and working capital costs.

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 additional financing on a timely basis 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.

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Cash and Cash Equivalents

The following table summarizes changes in cash and cash equivalents for the periods stated (in thousands):

	Nine Months Ended December 31,	
	2015	2014
Net cash used in operating activities	$ (3,499)	$ (1,874)
Net cash used in investing activities	(5)	-
Net cash provided by financing activities	4,592	1,887