VistaGen Therapeutics, Inc.
Form 10-Q
November 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013
or

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

For the transition period from to .

Commission File Number: 000-54014

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

Nevada	20-5093315
(State or other jurisdiction of incorporation or organization)	(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 [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

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 [ ] No [X]

As of November 12, 2013, 22,181,877 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 September 30, 2013

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

VISTAGEN THERAPEUTICS, INC.
(a development stage company)
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in Dollars, except share amounts)

	September 30, 2013 (Unaudited)	March 31, 2013 (Note 2)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,500	$ 638,100
Prepaid expenses and other current assets	147,500	33,700
Total current assets	154,000	671,800
Property and equipment, net	205,100	180,700
Security deposits and other assets	46,900	29,000
Total assets	$ 406,000	$ 881,500
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 1,984,000	$ 1,353,600
Accrued expenses	462,000	342,900
Advance from officer	30,000	-
Current portion of notes payable and accrued interest	661,600	617,200
Current portion of notes payable to related parties and accrued interest	100,000	93,000
Convertible promissory notes and accrued interest, net of discount of $200,600 at September 30, 2013	7,400	-
Capital lease obligations	8,400	7,600
Total current liabilities	3,253,400	2,414,300
Non-current liabilities:		
Senior secured convertible promissory notes, net of discount of $2,170,500 at September 30, 2013 and $1,963,100 at March 31, 2013 and accrued interest	1,648,100	1,425,700
Notes payable, net of discount of $1,004,300 at September 30, 2013 and $1,142,600 at March 31, 2013	2,345,700	2,091,800
Notes payable to related parties, net of discount of $125,900 at September 30, 2013 and $147,200 at March 31, 2013 and accrued interest	1,171,700	1,106,000
Warrant liability	4,657,300	6,394,000
Deferred rent liability	81,400	
Capital lease obligations	2,600	6,100
Total non-current liabilities	9,906,800	11,023,600
Total liabilities	13,160,200	13,437,900
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, $0.001 par value; 10,000,000 shares, including 500,000 Series A shares, authorized at September 30, 2013 and March 31, 2013;	500	500

500,000 Series A shares issued and outstanding at September 30, 2013 and March 31, 2013, respectively		
Common stock, $0.001 par value; 200,000,000 shares authorized at September 30, 2013 and March 31, 2013; 24,535,185 and 23,480,169 shares issued at September 30, 2013 and March 31, 2013, respectively	24,500	23,500
Additional paid-in capital	60,336,000	59,266,000
Treasury stock, at cost, 2,713,308 shares of common stock held at September 30, 2013 and March 31, 2013	(3,968,100)	(3,968,100)
Note receivable from sale of common stock	(203,800)	(209,100)
Deficit accumulated during development stage	(68,943,300)	(67,669,200)
Total stockholders' deficit	(12,754,200)	(12,556,400)
Total liabilities and stockholders' deficit	$ 406,000	$ 881,500

See accompanying notes to Condensed Consolidated Financial Statements.

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VISTAGEN THERAPEUTICS, INC.

(a development stage company)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

(Amounts in dollars, except share amounts)

	Three Months Ended September 30,		Six Months Ended September 30,		May 26, 1998 (Inception) Through September 30,
	2013	2012	2013	2012	2013
Revenues:					
Grant revenue	$ -	$ -	$ -	$ 200,400	$ 12,963,100
Collaboration revenue	-	-	-	-	2,283,600
Other	-	-	-	-	1,123,500
Total revenues	-	-	-	200,400	16,370,200
Operating expenses:					
Research and development	669,300	1,106,300	1,364,800	1,972,600	30,920,500
Acquired in-process research and development	-	-	-	-	7,523,200
General and administrative	545,900	575,900	1,150,500	1,631,200	31,831,600
Total operating expenses	1,215,200	1,682,200	2,515,300	3,603,800	70,275,300
Loss from operations	(1,215,200)	(1,682,200)	(2,515,300)	(3,403,400)	(53,905,100)
Other expenses, net:					
Interest expense, net	(323,200)	(273,500)	(639,600)	(376,300)	(11,001,800)
Change in warrant and put and note extension option liabilities	78,600	-	1,883,500	-	666,200
Loss on early extinguishment of debt	-	-	-	-	(4,761,300)
Other income	-	-	-	-	81,900
Loss before income taxes	(1,459,800)	(1,955,700)	(1,271,400)	(3,779,700)	(68,920,100)
Income taxes	-	-	(2,700)	(1,900)	(23,200)
Net loss	$ (1,459,800)	$ (1,955,700)	$ (1,274,100)	$ (3,781,600)	$ (68,943,300)
Basic and diluted net loss per share	$ (0.07)	$ (0.12)	$ (0.06)	$ (0.22)	
Weighted average shares used in computing Basic and diluted net loss per common share	21,630,587	17,094,833	21,225,315	16,969,433	
Comprehensive loss	$ (1,459,800)	$ (1,955,700)	$ (1,274,100)	$ (3,781,600)	$ (68,943,300)

See accompanying notes to Condensed Consolidated Financial Statements.

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VISTAGEN THERAPEUTICS, INC.
(a development stage company)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Amounts in Dollars)

	Six Months Ended September 30,		Period From May 26, 1998 (Inception) Through September 30, 2013
	2013	2012	
Cash flows from operating activities:			
Net loss	$(1,274,100)	$(3,781,600)	(68,943,300)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	25,800	11,800	803,300
Acquired in-process research and development	-	-	7,523,200
Amortization of imputed discount on non-interest bearing notes	-	-	45,000
Amortization of discounts on 7%, 7.5% and 10% notes	161,900	53,000	635,600
Amortization of discounts on Platinum notes	40,100	-	3,602,200
Amortization of discounts on August 2010 short-term notes	-	-	572,000
Amortization of discounts on February 2012 12% convertible notes	-	18,100	22,700
Loss (gain) on currency fluctuation	(9,300)	(28,500)	(62,300)
Loss on early extinguishment of debt	-	-	4,761,300
Loss on settlements of accounts payable	-	78,300	78,300
Change in warrant and put and note term extension option liabilities	(1,883,500)	-	(666,300)
Stock-based compensation	424,300	148,300	6,019,900
Expense related to modification of warrants	(32,900)	440,700	1,217,000
Non-cash rent and relocation expense	40,800	-	40,800
Fair value of Series C preferred stock, common stock, and warrants granted for services	-	-	925,400
Fair value of common stock granted for services prior to the Merger	-	-	2,225,500
Fair value of common stock granted for services following the Merger	-	183,100	792,000
Fair value of warrants granted for services and interest following the Merger	46,600	48,500	794,900
Fair value of additional warrants granted pursuant to exercises of modified warrants (fiscal year 2013) and under Discounted Warrant Exercise Program (fiscal year 2012)	-	35,900	174,000
Fair value of common stock issued for note term modification	-	-	22,400
Interest income on note receivable for stock purchase	(500)	-	(28,100)

Consulting services by related parties settled by issuing promissory notes	-	-	44,600
Gain on sale of assets	-	-	(16,800)
Changes in operating assets and liabilities:			
Unbilled contract payments receivable	-	106,200	-
Prepaid expenses and other current assets	3,300	(26,300)	45,000
Security deposits and other assets	(17,900)	-	(46,900)
Accounts payable and accrued expenses	1,159,000	1,195,100	17,130,500
Deferred revenues	-	(13,200)	-
Net cash used in operating activities	(1,316,400)	(1,530,600)	(22,288,100)
Cash flows from investing activities:			
Purchases of equipment, net	(33,700)	-	(849,900)
Net cash used in investing activities	(33,700)	-	(849,900)
Cash flows from financing activities:			
Net proceeds from issuance of common stock and warrants, including units	267,300	170,000	4,252,400
Net proceeds from issuance of preferred stock and warrants	-	-	4,198,600
Proceeds from exercise of modified warrants	264,200	262,100	1,692,600
Proceeds from issuance of notes under line of credit	-	-	200,000
Proceeds from issuance of 7% note payable to founding stockholder	-	-	90,000
Proceeds of advance from officer	30,000	-	30,000
Net proceeds from issuance of 7% convertible notes	-	-	575,000
Net proceeds from issuance of 10% convertible notes and warrants	-	-	1,655,000
Net proceeds from issuance of Platinum notes and warrants	250,000	1,250,000	7,172,100
Net proceeds from issuance of 2008/2010 notes and warrants	-	-	2,971,800
Net proceeds from issuance of 2006/2007 notes and warrants	-	-	1,025,000
Net proceeds from issuance of 7% notes payable	-	-	55,000
Net proceeds from issuance of August 2010 short-term notes and warrants	-	-	800,000
Net proceeds from issuance of February 2012 12% convertible notes and warrants	-	-	466,500
Repayment of capital lease obligations	(2,700)	(10,000)	(120,100)
Repayment of notes	(90,300)	(209,100)	(1,919,400)
Net cash provided by financing activities	718,500	1,463,000	23,144,500
Net (decrease) increase in cash and cash equivalents	(631,600)	(67,600)	6,500
Cash and cash equivalents at beginning of period	638,100	81,000	-
Cash and cash equivalents at end of period	$6,500	$13,400	$6,500

See accompanying notes to Condensed Consolidated Financial Statements.

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

Note 1. History and Organization

VistaGen Therapeutics, Inc., a Nevada corporation ("VistaGen" or the "Company"), is a biotechnology company with expertise in human pluripotent stem cell technology ("hPSC technology"). The Company is currently applying its hPSC technology for drug rescue, including predictive toxicology and drug metabolism screening. The Company's primary goal is to use its hPSC technology platform, Human Clinical Trials in a Test Tube™, and its network of strategic relationships, to generate novel, proprietary, safer variants (Drug Rescue Variants) of once-promising small molecule drug candidates discovered, developed and ultimately discontinued by biotechnology or pharmaceutical companies prior to market approval due to unexpected heart or liver safety concerns. The Company's drug rescue strategy focuses on leveraging both substantial prior third-party investment in discovery and development of drug candidates now suitable for drug rescue and its hPSC technology to make in vitro predictions of how humans will respond to Drug Rescue Variants, early in the drug development cost curve, before they are tested in animals or humans.

AV-101 is VistaGen's orally-available, small molecule prodrug candidate. AV-101 has successfully completed Phase 1 clinical development in the Unites States for treatment of neuropathic pain. Neuropathic pain, a serious and chronic condition causing pain after an injury or disease of the peripheral or central nervous system, affects millions of people worldwide. The NIH awarded VistaGen approximately $8.8 million for preclinical and Phase 1 clinical development of AV-101. VistaGen is currently exploring potential strategic alternatives for further development of AV-101 for neuropathic pain and depression.

VistaGen is in the development stage and, since inception, has devoted substantially all of its time and efforts to hPSC technology research and development, including, among other things, bioassay system development, small molecule drug development, creating, protecting and patenting intellectual property, recruiting personnel and raising working capital.

VistaGen Therapeutics, Inc., a California corporation incorporated on May 26, 1998 ("VistaGen California"), is a wholly-owned subsidiary of the Company. As described more completely in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2013, pursuant to a strategic merger transaction on May 11, 2011, the Company acquired all outstanding shares of VistaGen California in exchange for 6,836,452 shares of the Company's common stock (the "Merger"), and assumed all of VistaGen California's pre-Merger obligations. The Condensed Consolidated Financial Statements of the Company included 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.

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 the Company's interim financial information. The accompanying Condensed Consolidated Balance Sheet at March 31, 2013 has been derived from the Company's audited consolidated financial statements at that date but does not include all disclosures required by U.S. GAAP. The operating results for the quarter and six months ended September 30, 2013 are not necessarily indicative of the

operating results to be expected for the Company's fiscal year ending March 31, 2014 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 the Company’s audited Consolidated Financial Statements for the fiscal year ended March 31, 2013 contained in its Annual Report on Form 10-K, as filed with the United States Securities and Exchange Commission (“SEC”).

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The accompanying Condensed Consolidated Financial Statements have been prepared assuming the Company will continue as a going concern. As a development stage company without sustainable revenues, the Company has experienced recurring losses and negative cash flows from operations. From inception through September 30, 2013, the Company has a deficit accumulated during its development stage of $68.9 million. The Company expects these conditions to continue for the foreseeable future as it expands its Human Clinical Trials in a Test Tube™ platform and executes its drug rescue programs and, potentially, regenerative cell therapy programs.

Since its inception in May 1998, the Company has financed its operations and technology acquisitions primarily through the issuance and sale of equity and debt securities, including convertible promissory notes and short-term promissory notes, for cash proceeds of approximately $25.2 million, as well as from an aggregate of approximately $16.4 million of government research grant awards, strategic collaboration payments and other revenues. Additionally, the Company has issued equity securities with an approximate value at issuance of $12.6 million in non-cash settlements of certain liabilities, including liabilities for professional services rendered to the Company or as compensation for such services. At September 30, 2013, the Company had approximately $6,500 in cash and cash equivalents. Such cash and cash equivalents are not sufficient to enable the Company to fund its planned operations, including expected cash expenditures of approximately $5 million through the next twelve months. However, on April 8, 2013, the Company entered into a Securities Purchase Agreement (as amended, the "Securities Purchase Agreement") with Autilion AG, a company organized and existing under the laws of Switzerland ("Autilion"). Under the terms of the Securities Purchase Agreement, Autilion is contractually obligated to purchase an aggregate of 72.0 million restricted shares of the Company's common stock at a purchase price of $0.50 per share for aggregate cash consideration of $36.0 million, in a series of tranches scheduled to have closed on or before September 30, 2013 ("Autilion Financing"). At September 30, 2013, the Company had completed a nominal initial closing of $25,000 and issued 50,000 restricted shares of its common stock under the Autilion Financing. Autilion has informed the Company that the delayed closing of the Autilion Financing is due to administrative matters and financial transactions involving Autilion, its international affiliates, investment partners and counterparties, including financial transactions intended to increase substantially the aggregate amount of investment capital available to Autilion and its affiliates. Although Autilion remains in default under the Securities Purchase Agreement, subsequent to September 30, 2013, Autilion has informed the Company that the Company will receive the full $36 million of proceeds contemplated by the Securities Purchase Agreement. As a result of the delay in closing the Autilion Financing prior to the date of this report, however, the Company, cannot give any assurances as to whether it will receive any additional funding from Autilion in connection with the Autilion Financing in a timely manner, or at all. To provide working capital for operations prior to the anticipated closing of the Autilion Financing, from September 30, 2013 through the date of this report, the Company completed private placements of its securities resulting in aggregate cash proceeds of $175,000, as described in Note 11, Subsequent Events.

To the extent necessary, the Company may also seek to meet its cash needs and fund its working capital requirements through a combination of additional private placements of its securities, which may include both debt and equity securities issued to Platinum Long Term Growth Fund VII ("Platinum"), currently its largest institutional investor, and/or other investors, stem cell technology-based research and development collaborations, stem cell technology and drug candidate license fees and government grant awards. Additionally, the Company expects that its participation in strategic collaborations, including licensing transactions, may provide additional cash in support of its future working capital requirements. If the Company is unable to complete the Autilion Financing under the Securities Purchase Agreement or obtain sufficient financing from other sources, if required, it may be required to reduce, defer, or discontinue certain of its research and development activities or it may not be able to continue as a going concern.

Note 3. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include those relating to revenue recognition, share-based compensation, and assumptions that have been used to value warrants, warrant modifications, and previous put option and note term extension liabilities.

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Revenue Recognition

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

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

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

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

Government grants, which support the Company’s research efforts on specific projects, generally provide for reimbursement of approved costs as defined in the terms of grant awards. Grant revenue is recognized when associated project costs are incurred.

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 sponsored stem cell research and development costs, costs associated with clinical and non-clinical development of AV-101, the Company’s small molecule prodrug candidate for neuropathic pain, depression and potentially other neurological conditions, and costs related to the application and prosecution of patents related to the Company’s hPSC technology platform, Human Clinical Trials in a Test Tube™, and AV-101. All such costs are charged to expense as incurred.

Share-Based Compensation

The Company recognizes compensation cost for all share-based awards to employees based on the grant date fair value of the award. Share-based compensation expense is recognized over the period during which the employee is required to perform services in exchange for the award, which generally represents the scheduled vesting period. The Company has no awards with market or performance conditions. For equity awards to non-employees, the Company re-measures 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.

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The Company recorded share-based compensation costs of $125,900 and $223,700 related to option grants for the three and six month periods ended September 30, 2013, respectively, and $77,300 and $148,300 for the three and six month periods ended September 30, 2012, respectively. The Company recorded additional share-based compensation costs of $100,300 and $200,600 for the three and six month periods ended September 30, 2013 related to warrants granted to certain of its officers and to its independent directors in March 2013. During the six months ended September 30, 2013, the Company granted options to purchase an aggregate of 80,000 shares at exercise prices from $0.80 per share to $0.82 per share (the quoted market price on the grant date) to two employees and a consultant. During the six months ended September 30, 2012, the Company granted options to purchase an aggregate of 155,000 shares at an exercise price of $0.51 per share (the quoted market price on the grant date) to certain employees (excluding senior management) and certain scientific consultants. At September 30, 2013, there were options outstanding to purchase 4,788,110 shares of the Company's common stock at a weighted average exercise price of $1.31 per share.

Warrant Liability

The Company has issued certain warrants to Platinum and, subject to Platinum's exercise of its rights to exchange shares of the Company's Series A Preferred stock that it holds, is obligated to issue an additional warrant to Platinum, that contain an exercise price adjustment feature in the event the Company subsequently issues additional equity instruments at a price lower than the exercise price of the warrants. The Company accounts for these warrants as non-cash liabilities and estimates their fair value as described in Note 4, Fair Value Measurements; Note 7, Convertible Promissory Notes and Other Notes Payable, and Note 9, Capital Stock. The Company computes the fair value of the warrant liability at each reporting period and the change in the fair value is recorded as non-cash expense or non-cash income. The key component in determining the fair value of the warrant and the related liability is the Company's stock price, which is subject to significant fluctuation and is not under the Company's control. The resulting change in the fair value of the warrant liability on the Company's net loss is therefore also subject to significant fluctuation and will continue to be so until all of the warrants are issued and exercised, amended or expire. Assuming all other fair value inputs remain generally constant, the Company will record non-cash expense when its stock price increases and non-cash income when its stock price decreases.

Comprehensive Loss

The Company has no components of other comprehensive loss other than net loss, and accordingly the Company's comprehensive loss is equivalent to its net loss for the periods presented.

Loss per Common Share

Basic loss per share of common stock excludes dilution and is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding for the period. Diluted 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. For all periods presented, potentially dilutive securities are excluded from the computation in loss periods, as their effect would be antidilutive.

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

	September 30,	
	2013	2012
Series A preferred stock issued and outstanding (1)	15,000,000	5,000,000
Warrant shares issuable to Platinum upon exercise of common stock warrants by Platinum upon exchange of Series A preferred stock under the terms of the October 11, 2012 Note Purchase and Exchange Agreement	7,500,000	-

Outstanding options under the 2008 and 1999 Stock Incentive Plans	4,788,110	4,920,771
Outstanding warrants to purchase common stock	14,674,728	5,127,434
February 2012 12% convertible promissory notes and accrued interest	-	357,900
10% convertible Exchange Note and Investment Notes issued to Platinum in October 2012, February 2013 and March 2013, including accrued interest through September 30, 2013 (2)	7,127,926	-
10% convertible note issued to Platinum on July 26, 2013, including accrued interest through September 30, 2013	509,214	-
10% convertible notes issued as a component of Unit Offering, including accrued interest through September 30, 2013	416,111	-
Total	50,016,089	15,406,105

(1) at September 30, 2013, assumes exchange under the terms of the October 11, 2012 Note Exchange and Purchase Agreement with Platinum

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

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Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended September 30, 2013, as compared to the recent accounting pronouncements described in the Company's Form 10-K for the fiscal year ended March 31, 2013, that are of significance or potential significance to the Company.

Note 4. Fair Value Measurements

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

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

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

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

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

The Company does not use derivative instruments for hedging of market risks or for trading or speculative purposes. In conjunction with the issuance of the Senior Secured Convertible Promissory Notes and related Exchange Warrant and Investment Warrants to Platinum in October 2012, February 2013, March 2013, and the potential issuance of the Series A Exchange Warrant (see Note 9, Capital Stock), all pursuant to the Note Exchange and Purchase Agreement of October 2012 between the Company and Platinum (see Note 7, Convertible Promissory Notes and Other Notes Payable), and the issuance of the warrant related to the Senior Secured Convertible Promissory Note issued to Platinum in July 2013, the Company determined that the warrants included certain exercise price adjustment features requiring the warrants to be treated as liabilities, which were recorded at their estimated fair value. The Company determined the initial fair value of the warrant liability using a Monte Carlo simulation model with Level 3 inputs or the Black-Scholes Option Pricing model. Inputs used to determine fair value include the remaining contractual term of the warrants, risk-free interest rates, expected volatility of the price of the underlying common stock, and the probability of a financing transaction that would trigger a reset in the warrant exercise price, and, in the case of the

Series A Exchange Warrant, the probability of Platinum's exchange of the shares of Series A Preferred it holds into shares of common stock. Changes in the fair value of these warrant liabilities since March 31, 2013 have been recognized as non-cash component of other expense, net in the Condensed Consolidated Statements of Operations and Comprehensive Loss for the quarter and six months ended September 30, 2013.

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

	Total Carrying Value	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2013:				
Warrant liability	$ 4,657,300	$ -	$ -	$ 4,657,300
March 31, 2013:				
Warrant liability	$ 6,394,000	$ -	$ -	$ 6,394,000

During the six month period ended September 30, 2013, there was no significant change to the valuation models used for purposes of determining the fair value of the Level 3 warrant liability. The decline in the market price of the Company's common stock since March 31, 2013 and the reduction in the exercise price of the warrants as described in Note 9, Capital Stock, are the primary factors resulting in the reduction in the warrant liability.

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Warrant Liability
Balance at March 31, 2013	$ 6,394,000
Recognition of warrant liability upon issuance of Senior Secured Convertible Promissory Note to Platinum on July 26, 2013	146,800
Mark to market gain included in net loss	(1,883,500)
Balance at September 30, 2013	$ 4,657,300

No assets or other liabilities were carried at fair value at September 30, 2013 or March 31, 2013.

Note 5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets is composed of the following at September 30, 2013 and March 31, 2013:

	September 30, 2013	March 31, 2013
Insurance	$ 81,500	$ 19,700
Rent	20,200	-
Legal fees	3,400	3,400
Interest receivable on note receivable from sale of common stock	2,100	1,600
Receivable from landlord	24,100	-
Technology license fees and all other	16,200	9,000
	$ 147,500	$ 33,700

Note 6. Accrued Expenses

Accrued expenses is composed of the following at September 30, 2013 and March 31, 2013:

	September 30, 2013	March 31, 2013
Accrued professional services	$ 98,300	$ 67,800
Accrued vacation pay and other compensation	271,600	219,300
Accrued royalties and license fees	92,100	25,000
All other	-	30,800
	$ 462,000	$ 342,900

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Note 7. Convertible Promissory Notes and Other Notes Payable

The following table summarizes the Company's secured and unsecured promissory notes and other notes payable at September 30, 2013 and March 31, 2013.

	September 30, 2013			March 31, 2013		
	Principal Balance	Accrued Interest	Total	Principal Balance	Accrued Interest	Total
Senior Secured 10% Convertible Promissory Notes issued to Platinum:						
Exchange Note issued on October 11, 2012	$1,272,600	$130,900	$1,403,500	$1,272,600	$61,700	$1,334,300
Investment note issued on October 11, 2012	500,000	51,500	551,500	500,000	24,200	524,200
Investment note issued on October 19, 2012	500,000	50,200	550,200	500,000	23,000	523,000
Investment note issued on February 22, 2013	250,000	15,700	265,700	250,000	2,600	252,600
Investment note issued on March 12, 2013	750,000	43,100	793,100	750,000	4,700	754,700
	3,272,600	291,400	3,564,000	3,272,600	116,200	3,388,800
Convertible promissory note issued on July 26, 2013	250,000	4,600	254,600	-	-	-
Total senior notes	3,522,600	296,000	3,818,600	3,272,600	116,200	3,388,800
Aggregate note discount	(2,170,500)	-	(2,170,500)	(1,963,100)	-	(1,963,100)
Net Senior notes (non-current)	$1,352,100	$296,000	$1,648,100	$1,309,500	$116,200	$1,425,700
10% Convertible Promissory Notes (2013 Unit Notes)	$205,000	$3,000	$208,000	$-	$-	$-
Note discount	(200,600)	-	(200,600)	-	-	-
Net convertible notes (all current)	$4,400	$3,000	$7,400	$-	$-	$-
Notes Payable to unrelated parties:						
7.5% notes payable to service providers for accounts payable converted to notes payable:						
Burr, Pilger, Mayer	$90,400	$3,400	$93,800	$90,400	$-	$90,400
Desjardins	191,600	8,000	199,600	194,100	800	194,900
McCarthy Tetrault	387,300	12,200	399,500	403,100	1,700	404,800
August 2012 Morrison & Foerster Note A	918,200	39,100	957,300	937,400	-	937,400
	1,379,400	126,400	1,505,800	1,379,400	60,100	1,439,500

August 2012 Morrison & Foerster Note B (1)						
University Health Network (1)	549,500	40,100	589,600	549,500	19,400	568,900
	3,516,400	229,200	3,745,600	3,553,900	82,000	3,635,900
Note discount	(1,004,300)	-	(1,004,300)	(1,142,600)	-	(1,142,600)
	2,512,100	229,200	2,741,300	2,411,300	82,000	2,493,300
less: current portion	(385,400)	(62,700)	(448,100)	(450,300)	(2,500)	(452,800)
non-current portion and discount	$2,126,700	$166,500	$2,293,200	$1,961,000	$79,500	$2,040,500
5.75% and 10.25% notes payable to insurance premium financing company (current)	$57,400	$-	$57,400	$4,200	$-	$4,200
10% notes payable to vendors for accounts payable converted to notes payable	$119,400	$28,700				