Minerva Neurosciences, Inc.
Form 10-Q
August 07, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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 No. 001-36517

Minerva Neurosciences, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**26-0784194**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
245 First St, Suite 1800, Cambridge, MA	**02142**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number, including area code: **(617) 444-8444**

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 o NO x

Explanatory Note: The registrant became subject to the filing requirements of Section 13 of the Securities Exchange Act of 1934 on June 30, 2014.

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 (§229.405 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 o	Accelerated filer o
Non-accelerated filer x (Do not check if smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES o NO x

18,439,482 shares, $0.0001 par value per share, were outstanding as of August 6, 2014.

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This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. These forward-looking statements reflect our plans, estimates and beliefs. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. In some cases, you can identify forward-looking statements by terms such as anticipates, believes, could, estimates, expects, intends, may, plans, potential, predicts, projects, should, would and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Because of these risks and uncertainties, the forward-looking events and circumstances discussed in this report may not transpire. These risks and uncertainties include, but are not limited to, the risks included in this Quarterly Report on Form 10-Q under Part II, Item IA, Risk Factors and beginning on Page 9 under the heading Risk Factors of our prospectus dated June 30, 2014, filed pursuant to Rule 424(b)(4) under the Securities Act of 1933, as amended (the Securities Act), with the Securities and Exchange Commission on July 1, 2014 (the Prospectus).

Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our estimates and assumptions only as of the date of this document. You should read this document with the understanding that our actual future results may be materially different from what we expect. Except as required by law, we do not undertake any obligation to publicly update or revise any forward-looking statements contained in this report, whether as a result of new information, future events or otherwise.

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PART I

MINERVA NEUROSCIENCES, INC.

Condensed Consolidated Balance Sheets

(Unaudited)

		June 30, 2014		December 31, 2013
Assets				
Current assets				
Cash and cash equivalents	$	480,009	$	1,818,317
Prepaid expenses		33,213		852
Total current assets		513,222		1,819,169
Equipment, net		27,165		3,232
In-process research and development		34,200,000		19,000,000
Goodwill		15,104,239		7,918,387
Deferred public offering costs		3,111,744		433,998
Total assets	**$**	**52,956,370**	**$**	**29,174,786**
Liabilities and Stockholders Equity				
Current liabilities				
Accounts payable	$	4,324,673	$	522,981
Accrued expenses and other current liabilities		2,338,465		815,239
Convertible promissory notes		2,007,518		58,270
Loans payable		1,382,817		
Derivative liability				10,093
Total current liabilities		10,053,473		1,406,583
Deferred taxes		13,668,600		7,588,600
Total liabilities		23,722,073		8,995,183
Commitments and contingencies				
Stockholders equity				
Common stock; $.0001 par value; 125,000,000 shares authorized; 8,520,925 and 6,112,738 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively		852		611
Additional paid-in capital		69,367,316		38,008,783
Accumulated deficit		(40,133,871)		(17,829,791)
Total stockholders equity		29,234,297		20,179,603
Total liabilities and stockholders equity	**$**	**52,956,370**	**$**	**29,174,786**

See accompanying notes to condensed consolidated financial statements

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MINERVA NEUROSCIENCES, INC.

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Expenses				
Research and development	$ 14,554,662	$ 249,845	$ 15,140,598	$ 353,782
General and administrative	3,095,173	128,942	5,132,565	296,335
Total expenses	17,649,835	378,787	20,273,163	650,117
Loss from operations	(17,649,835)	(378,787)	(20,273,163)	(650,117)
Foreign exchange gains	10,549		3,987	
Interest expense	(1,726,380)		(2,035,583)	
Interest income	4	2,834	679	2,834
Net loss	$ (19,365,662)	$ (375,953)	$ (22,304,080)	$ (647,283)
Net loss per share, basic and diluted	$ (2.55)	$ (0.10)	$ (3.07)	$ (0.17)
Weighted average shares outstanding, basic and diluted	7,604,503	3,916,774	7,255,648	3,740,593

See accompanying notes to condensed consolidated financial statements

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MINERVA NEUROSCIENCES, INC.

Condensed Consolidated Statements of Stockholders Equity

(Unaudited)

	Common Stock		Additional	Accumulated	
	Shares	Amount	Paid-In Capital	Deficit	Total
Balances at December 31, 2013	**6,112,738**	**$ 611**	**$ 38,008,783**	**$ (17,829,791)**	**$ 20,179,603**
Issuance of shares for business acquisition	1,481,583	148	16,541,686		16,541,834
Vesting of common shares issued	926,604	93	10,542,577		10,542,670
Stock-based compensation			4,274,270		4,274,270
Net loss				(22,304,080)	(22,304,080)
Balances at June 30, 2014	**8,520,925**	**$ 852**	**$ 69,367,316**	**$ (40,133,871)**	**$ 29,234,297**

See accompanying notes to condensed consolidated financial statements

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MINERVA NEUROSCIENCES, INC.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30,	
	2014	**2013**
Cash flows from operating activities		
Net loss	$ (22,304,080)	$ (647,283)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,271	
Amortization of debt discount recorded as interest expense	1,949,248	
Stock-based compensation expense	14,816,940	
Change in fair value of derivative	(10,093)	
Changes in operating assets and liabilities		
Prepaid expenses	10,565	
Accounts payable	1,229,363	
Accrued expenses and other liabilities	520,209	78,928
Net cash used in operating activities	(3,783,577)	(568,355)
Cash flows from investing activities:		
Cash acquired in business combination	1,167,869	
Net cash provided by investing activities	1,167,869	
Cash flows from financing activities		
Proceeds from working capital loans	1,882,817	
Repayments of working capital loans	(500,000)	
Proceeds from sales of common stock		1,850,000
Public offering costs paid	(105,417)	
Net cash provided by financing activities	1,277,400	1,850,000
Net (decrease) increase in cash and cash equivalents	(1,338,308)	1,281,645
Cash and cash equivalents		
Beginning of period	1,818,317	200,314
End of period	$ 480,009	$ 1,481,959
Supplemental disclosure of noncash investing and financing activities		
Common stock issued as consideration for business acquisition	$ 16,541,834	$
Plus liabilities assumed:		
Accrued expenses and other	321,417	
ProteoSys milestone payable	681,600	
Deferred tax liability	6,080,000	
Less assets acquired:		
Prepaid expenses	42,926	
Equipment	28,204	
In-process research and development	15,200,000	
Goodwill	7,185,852	
Cash acquired in business merger	$ 1,167,869	$
Deferred public offering costs included in accrued expenses and other liabilities	$ 3,006,327	$

See accompanying notes to condensed consolidated financial statements

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MINERVA NEUROSCIENCES, INC.

Notes to Condensed Consolidated Financial Statements

For Six Months Ended June 30, 2014

(unaudited)

NOTE 1 NATURE OF OPERATIONS AND LIQUIDITY

Nature of Operations

Minerva Neurosciences, Inc. (Minerva or the Company), formerly known as Cyrenaic Pharmaceuticals Inc. (Cyrenaic) was incorporated on April 23, 2007. The Company is a development stage biopharmaceutical company focused on the development of an experimental drug for the treatment of schizophrenia (discussed further in Note 6 License Agreement). The Company has historically operated as a virtual company with no employees and managed by its Board of Directors. On November 12, 2013, Sonkei Pharmaceuticals, Inc. (Sonkei), a development stage biopharmaceutical company focused on the development of an experimental drug for the treatment of depression and an affiliated company through certain common ownership, was merged into Cyrenaic with Cyrenaic being the surviving company. Subsequent to the merger, Cyrenaic changed its name to Minerva Neurosciences, Inc.

On February 11, 2014, the Company acquired Mind-NRG (discussed further in Note 3 Business Combinations). Mind-NRG is a Swiss development stage biopharmaceutical company focused on the development and commercialization of an experimental drug for the treatment of Parkinson s disease. The Company acquired 100% of the share capital of Mind-NRG largely to obtain the intellectual property estate which underpins Mind-NRG s lead product candidate, renamed MIN-301.

On February 12, 2014, subject to the completion of an initial public offering (IPO), the Company entered into a co-development and license agreement (discussed further in Note 8 Co-Development and License Agreement) pursuant to which the licensor granted the Company an exclusive license, in certain territories, under certain patent and patent applications to sell products containing any orexin 2 compound, controlled by the licensor and claimed in a licensor patent right, as an active ingredient, or MIN-202, for any use in humans. The license will become effective simultaneously with the closing of an IPO and an initial upfront license payment of $22.0 million. The Company completed an IPO on July 7, 2014 and paid the $22.0 million license fee in July 2014.

Going Concern

The Company has limited capital resources and has incurred recurring operating losses and negative cash flows from operations since inception. As of June 30, 2014, the Company has an accumulated deficit of approximately $40.1 million. Management expects to continue to incur operating losses and negative cash flows from operations. The Company has financed its business to date from proceeds from the sale of common stock, loans and convertible promissory notes. On July 7, 2014, the Company completed an IPO and received net proceeds of $29.9 million, including the over allotment and the proceeds of the Mind-NRG private investment, and after deducting the underwriter discount of $2.6

million, expenses of $3.1 million, loan repayments of $1.4 million and the $0.7 million ProteoSys license fee payment. The Company will need to raise additional capital in order to continue to fund operations and fully fund its clinical development programs. The Company believes that it will be able to obtain additional working capital through equity financings or other arrangements to fund operations; however, there can be no assurance that such additional financing, if available, can be obtained on terms acceptable to the Company. If the Company is unable to obtain such additional financing, future operations would need to be scaled back or discontinued.

The accompanying consolidated financial statements have been prepared as though the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting and as required by Regulation S-X, Rule 10-01. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the Company s management, the accompanying unaudited financial statements contain all adjustments (consisting of items of a normal and recurring nature) necessary to present fairly the financial position as of June 30, 2014 and the results of operations for the three and six months ended June 30, 2014 and 2013 and cash flows for the six months ended June 30, 2014 and 2013. The results of operations for the three and six months ended June 30, 2014, are not necessarily indicative of the results to be expected for the full year. When preparing financial statements in conformity with GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period.

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Actual results could differ from those estimates. The balance sheet as of December 31, 2013 was derived from the audited financial statements. The accompanying unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the audited financial statements for the years ended December 31, 2013 and 2012.

From its inception the Company has devoted substantially all of its efforts to business planning, engaging regulatory, manufacturing and other technical consultants, planning and executing clinical trials and raising capital.

Consolidation

The accompanying consolidated financial statements include the results of the Company and its wholly-owned subsidiary, Mind-NRG. Intercompany transactions have been eliminated.

Significant risks and uncertainties

The Company s operations are subject to a number of factors that can affect its operating results and financial condition. Such factors include, but are not limited to: the results of clinical testing and trial activities of the Company s products, the Company s ability to obtain regulatory approval to market its products, competition from products manufactured and sold or being developed by other companies, the price of, and demand for, Company products, the Company s ability to negotiate favorable licensing or other manufacturing and marketing agreements for its products, and the Company s ability to raise capital.

The Company currently has no commercially approved products and there can be no assurance that the Company s research and development will be successfully commercialized. Developing and commercializing a product requires significant time and capital and is subject to regulatory review and approval as well as competition from other biotechnology and pharmaceutical companies. The Company operates in an environment of rapid change and is dependent upon the continued services of its employees and consultants and obtaining and protecting intellectual property.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates.

The Company utilizes significant estimates and assumptions in determining the fair value of its common stock. The board of directors has determined the estimated fair value of the Company s common stock based on a number of objective and subjective factors, including external

market conditions affecting the biotechnology industry sector, discounted cash flows and the likelihood of achieving a liquidity event, such as an IPO of common stock or a sale of the Company. The Company utilized various valuation methodologies in accordance with the framework of the 2013 American Institute of Certified Public Accountants Technical Practice Aid, *Valuation of Privately-Held Company Equity Securities Issued as Compensation,* to estimate the fair value of its common stock. The methodologies included a probability-weighted expected return methodology that determined an estimated value under an IPO scenario and a sale scenario based upon an assessment of the probability of occurrence of each scenario. Each valuation methodology includes estimates and assumptions that require the Company s judgment. These estimates include assumptions regarding future performance, including the successful completion of preclinical studies and clinical trials and the time to complete an IPO or sale. Significant changes to the key assumptions used in the valuations could result in different fair values of common stock at each valuation date.

Research and development costs

Costs incurred in connection with research and development activities are expensed as incurred. These costs include licensing fees to use certain technology in the Company s research and development projects as well as fees paid to consultants and various entities that perform certain research and testing on behalf of the Company. Costs for certain development activities, such as clinical trials are recognized based on an evaluation of the progress to completion of specific tasks using data such as patient enrollment, clinical site activations, or information provided by vendors on their actual costs incurred. Payments for these activities are based on the terms of the individual arrangements, which may differ from the pattern of costs incurred, and are reflected in the financial statements as prepaid or accrued expenses.

In-process research and development (IPR&D) assets represent capitalized incomplete research projects that the Company acquired through business combinations. Such assets are initially measured at their acquisition date fair values. The fair value of the research projects is recorded as intangible assets on the balance sheet, rather than expensed, regardless of whether these assets have an alternative future use.

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The amounts capitalized are being accounted for as indefinite-lived intangible assets, subject to impairment testing, until completion or abandonment of research and development efforts associated with the project. An IPR&D asset is considered abandoned when it ceases to be used (that is, research and development efforts associated with the asset have ceased, and there are no plans to sell or license the asset or derive defensive value from the asset). At that point, the asset is considered to be disposed of and is written off. Upon successful completion of each project, the Company will make a determination about the then remaining useful life of the intangible asset and begin amortization. The Company tests its indefinite-lived intangibles, IPR&D assets, for impairment annually on November 30 and more frequently if events or changes in circumstances indicate that it is more likely than not that the asset is impaired. When testing indefinite-lived intangibles for impairment, the Company may assess qualitative factors for its indefinite-lived intangibles to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the asset is impaired. Alternatively, the Company may bypass this qualitative assessment for some or all of its indefinite-lived intangibles and perform the quantitative impairment test that compares the fair value of the indefinite- lived intangible asset with the asset s carrying amount.

Stock-based compensation

The Company recognizes compensation cost relating to share-based payment transactions in operating results using a fair-value measurement method, in accordance with Financial Accounting Standards Board (FASB) Accounting Series Codification (ASC) -718 *Compensation-Stock Compensation*. ASC-718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in operating results as compensation expense based on fair value over the requisite service period of the awards. The Company will determine the fair value of share-based awards using the Black-Scholes option-pricing model which uses both historical and current market data to estimate fair value. The method incorporates various assumptions such as the risk-free interest rate, expected volatility, expected dividend yield, expected forfeiture rate and expected life of the options.

Grants to non-employees are accounted for in accordance with ASC-505-50 *Equity Based Payments to Non-Employees*. The date of expense recognition is the earlier of the date at which a commitment for performance by the counterparty to earn the equity instrument is reached or the date at which the counterparty s performance is complete. The Company determines the fair value of share-based awards granted to non-employees similar to the way fair value of awards are determined for employees except that certain assumptions used in the Black-Scholes option-pricing model, such as expected life of the option, may be different and the fair value of each unvested award is adjusted at the end of each period for any change in fair value from the previous valuation until the award vests.

Loss per share

Basic loss per share excludes dilution and is computed by dividing net loss by the weighted-average number of common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the earnings of the entity.

Income taxes

The Company utilizes the liability method of accounting for income taxes as required by ASC Topic 740 *Income Taxes*. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax reporting bases of assets and liabilities

and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Uncertain tax positions are evaluated in accordance with this topic and if appropriate, the amount of unrecognized tax benefits are recorded within deferred tax assets. Deferred tax assets are evaluated for realization based on a more-likely-than-not criterion in determining if a valuation allowance should be provided. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

ASC Topic 740 also clarifies the accounting for uncertainty in income taxes recognized in the consolidated financial statements. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. ASC Topic 740 provides guidance on the recognition of interest and penalties related to income taxes. There were no interest or penalties related to income taxes for the three and six months ended June 30, 2014 and 2013. The Company has elected to treat interest and penalties, to the extent they arise, as a component of income taxes. Income tax years beginning in 2010 for federal and state purposes are generally subject to examination by taxing authorities, although net operating losses from all prior years are subject to examinations and adjustments for at least three years following the year in which the tax attributes are utilized.

Deferred public offering costs

Deferred public offering costs include certain legal, accounting and other costs directly attributable to the Company s public offering of common stock. Upon completion of the initial public offering on July 7, 2014, these amounts will be offset against the proceeds of the offering.

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Business combinations

For business combinations the Company utilizes the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. These standards require that the total cost of an acquisition be allocated to the tangible and intangible assets acquired and liabilities assumed based their respective fair values at the date of acquisition. The allocation of the purchase price is dependent upon certain valuations and other studies. Acquisition costs are expensed as incurred. The Company recognizes separately from goodwill the fair value of assets acquired and the liabilities assumed. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the acquisition date fair values of the assets acquired and liabilities assumed. While the Company uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, the Company s estimates are subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company may retroactively record adjustments to the fair value of the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company s consolidated statements of operations.

Goodwill

The Company tests its goodwill for impairment annually, or whenever events or changes in circumstances indicate an impairment may have occurred, by comparing its reporting unit s carrying value to its implied fair value. Impairment may result from, among other things, deterioration in the performance of the acquired business, adverse market conditions, adverse changes in applicable laws or regulations and a variety of other circumstances. If the Company determines that an impairment has occurred, it is required to record a write-down of the carrying value and charge the impairment as an operating expense in the period the determination is made. In evaluating the recoverability of the carrying value of goodwill the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the acquired assets. Changes in strategy or market conditions could significantly impact those judgments in the future and require an adjustment to the recorded balances. The Company tested its goodwill for impairment as of November 30. There was no impairment of goodwill for the year ended December 31, 2013. The Company believes there was no impairment for the three and six months ended June 30, 2014.

Convertible promissory notes

The Company s convertible promissory notes at June 30, 2014 consist of (i) $1.3 million face value convertible promissory notes, plus accrued interest of approximately $67,000 and (ii) 518,519 face value convertible promissory notes, plus accrued interest of approximately $35,000. The Euro denominated notes were acquired in conjunction with the merger with Sonkei (discussed further in Note 3 Business Combinations), and recorded at their fair value of approximately $0.7 million on the date of the merger. At June 30, 2014, the fair market value and carrying of the convertible promissory notes is approximately $2.0 million.

Discount Purchase Option

The Company s 8% convertible promissory notes contain an embedded derivative related to the conversion option containing a discount purchase feature in a qualified financing, as defined. The derivative is carried at fair value and is classified as Level 3 in the fair value hierarchy due to the use of significant unobservable inputs. As of December 31, 2013, the fair value of the derivative liability was determined to be $10,093 using a

probability-weighted valuation model applying the following assumptions: (i) discount rate of 8.0%, (ii) remaining term of approximately 6 months and (iii) the probabilities of conversion under various circumstances as at the date of measurement.

As of March 31, 2014, the fair value of the derivative liability was determined to be $4,900 using a probability-weighted valuation model applying the following assumptions: (i) discount rate of 8.0%, (ii) remaining term of approximately 3 months and (iii) the probabilities of conversion under various circumstances as at the date of measurement. The $5,193 decrease in the fair value of the derivative liability was recognized in interest expense as a gain on change in fair value of derivative liability for the three months ended March 31, 2014.

As of June 30, 2014, the fair value of the derivative liability was determined to be $0. The $4,900 decrease in the fair value of the derivative liability was recognized in interest expense as a gain on change in fair value of derivative liability for the three months ended June 30, 2014.

$3.50/ 3.50 Conversion Option

The Company s 8% convertible promissory notes contain an embedded derivative related to the beneficial conversion feature of the notes. The initial fair value of the derivative liability at the date of issuance in November 2013 was determined by measuring the difference between the conversion price and the fair value of common stock at the commitment date. The Company recorded a debt discount for the fair value of the derivative, which was limited to the proceeds received of approximately $2.0 million, with an offsetting increase to additional paid-in capital. The beneficial conversion charge has been included in the balance sheets at June 30, 2014 and December 31, 2013 as a discount to the related convertible promissory notes. The discount was accreted as non-cash interest expense over the expected term of the debt (June 30, 2014) using the effective interest method, which totaled approximately $1.7 million and $2.0 million for the three and six months ended June 30, 2014, respectively.

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Recent Accounting Pronouncements

From time to time, new accounting pronouncements are issued by FASB and are adopted by the Company as of the specified effective date. The Company believes that the impact of other recently issued but not yet adopted accounting pronouncements will not have a material impact on the financial position, results of operations, and cash flows, or do not apply to the Company s operations.

In June 2014, the FASB issued Accounting Standards Update No. 2014-10, *Development Stage Entities (Topic 915)* which eliminates the definition of a development stage entity and removes the financial reporting distinction between development stage entities and other reporting entities under GAAP. The Company early adopted this standard and thus has eliminated its historical inception to date information in the financial statements.

NOTE 3 BUSINESS COMBINATIONS

Mind-NRG

On February 11, 2014, the Company acquired Mind-NRG, a Swiss development stage biopharmaceutical company focused on the development and commercialization of an experimental drug for the treatment of Parkinson s disease. This transaction was accounted for as a business combination by the Company. The purchase price consists of 1,481,583 shares of the Company s common stock (which includes 148,160 shares held in escrow until the expiration of the holdback period, February 11, 2015) with an estimated fair value of $11.17 per share, or approximately $16.5 million. The Company acquired 100% of the share capital of Mind-NRG largely to obtain the intellectual property estate which underpins Mind-NRG s lead product candidate, recently renamed MIN-301.

The fair value of the Company s common stock issued was determined based on a number of objective and subjective factors, including external market conditions affecting the biotechnology industry sector, discounted cash flows and the likelihood of achieving a liquidity event, such as an IPO or a sale of the Company. The purchase price allocation was based upon an analysis of the fair value of the assets and liabilities acquired from Mind-NRG. The final purchase price may be adjusted up to one year from the date of the merger. Identifying the fair value of the tangible and intangible assets and liabilities acquired required the use of estimates by management, and were based upon currently available data, as noted below.

- The fair value of current assets and liabilities approximated their book value.

- The Company measured the value of the acquired IPR&D using the income approach multi period excess earnings method and assembled workforce using the cost approach (for contributory asset charge calculations). The multi-period excess earning method measures the present value of the future earnings expected to be generated during the remaining lives of the subject assets.

- The Company recorded a deferred tax liability for the difference in the book and tax basis of the IPR&D, multiplied by the effective income tax rate.

The purchase price allocation below is based on February 11, 2014 financial information and may be adjusted upon the completion of the final valuation. The final valuation is expected to be completed as soon as practicable but no later than one year from the consummation of the acquisition. The establishment of the fair value of the consideration for an acquisition, and the allocation to identifiable tangible and intangible assets and liabilities requires the extensive use of accounting estimates and management judgment. The fair values assigned to the assets acquired and liabilities assumed are from estimates and assumptions based on data currently available.

The Company allocated the excess of purchase price over the identifiable intangible and net tangible assets to goodwill. The goodwill recorded recognizes the value of the overall development program, both the current pre-clinical development program in process and the future clinical trial development strategy. Such goodwill is not deductible for tax purposes. The aggregate consideration of $16.5 million has been allocated to assets acquired and liabilities assumed based on estimated fair values at the February 11, 2014 as follows:

Cash	$	1,167,869
Other assets		71,130
Goodwill		7,185,852
In-process research and development		15,200,000
Deferred tax liability		(6,080,000)
Accrued expenses		(321,417)
Proteosys milestone payable		(681,600)
	$	16,541,834

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IPR&D, an indefinite-lived asset, will be included as an asset on the Company s balance sheet until such time that: (i) a marketing approval to commercially sell the drug is received from a regulatory agency, in which case it will be amortized over its expected commercial life, or (ii) such time as the IPR&D is deemed to be impaired, in which case it will be expensed. The transaction is being treated as a stock purchase for income tax purposes and accordingly, the tax bases of Mind-NRG s assets and liabilities are not adjusted for the effect of purchase accounting. A deferred tax liability of $6.1 million has been recorded for the difference in the book and tax basis of the IPR&D, multiplied by the effective income tax.

Sonkei

On November 12, 2013, Cyrenaic was merged with Sonkei, with Cyrenaic being the survivor company. Each share of Sonkei common stock was converted into 0.383 shares of Cyrenaic common stock, resulting in the issuance of 2,423,368 shares. There were certain common stockholders between Sonkei and Cyrenaic however, since the underlying investors in the venture funds were not substantially similar , the merger was accounted for a business combination with Cyrenaic being treated as the acquirer. The results of Sonkei are included in the accompanying consolidated financial statements commencing November 12, 2013. The Company merged with Sonkei in order to acquire Sonkei s lead product candidate, MIN-117.

At the date of the merger, a Sonkei non-employee held 1,112,500 shares of Sonkei common stock with a nonrecourse note due to Sonkei, which was being treated as a stock option for accounting purposes. In connection with the merger, the Company issued 426,176 shares to the holder with a nonrecourse note (discussed further in Note 9 Stockholders Equity) in order to replace the holder s stock options in Sonkei. Due to the nonrecourse note, these shares of the Company were treated as stock options for accounting purposes and the holder of the option can only vest in the stock options if the holder continues to provide services to the Company through the time of a change in control, as defined. In summary, the Company issued replacement stock options of the Company for the old Sonkei stock options. As a change in control was not deemed probable as of the merger date, the options have not been included as part of the consideration transferred in the merger accounting. Accordingly, the Company will recognize all of the compensation expense for these stock options in the consolidated statement of operations once achievement of the performance condition becomes probable (see Note 9 Stockholders Equity). The merger accounting purchase price was therefore determined based upon the common stock shares issued of 1,997,192 at a valuation of $9.49 per common share for a total purchase price of approximately $18.9 million.

The fair value of the Company s common stock issued was determined based on a number of objective and subjective factors, including external market conditions affecting the biotechnology industry sector, discounted cash flows and the likelihood of achieving a liquidity event, such as an IPO or a sale of the Company. The purchase price allocation was based upon an analysis of the fair value of the assets and liabilities acquired from Sonkei. Identifying the fair value of the tangible and intangible assets and liabilities acquired required the use of estimates by management, and were based upon currently available data, as noted below.

- The fair value of current assets and liabilities approximated their book value.

- The fair value of the convertible promissory notes was determined based upon a number of factors including (i) interest rate, (ii) creditworthiness of the Company, (iii) the applicable foreign exchange rate and (iv) the conversion features (described in Note 7 Debt). The face amount of the note acquired is 518,519 (approximately $0.7 million at November 12, 2013).

- The Company measured the value of the acquired IPR&D using the income approach multi period excess earnings method and assembled workforce using the cost approach (for contributory asset charge calculations). The multi-period excess earning method measures the present value of the future earnings expected to be generated during the remaining lives of the subject assets.

- The Company recorded a deferred tax liability for the difference in the book and tax basis of the IPR&D, multiplied by the effective income tax rate.

The Company allocated the excess of purchase price over the identifiable intangible and net tangible assets to goodwill. The goodwill recorded recognizes the synergies and value of the overall combined development programs, both the current pre-clinical development program in process and the future clinical trial development strategy. Such goodwill is not deductible for tax purposes. The aggregate consideration of $18.9 million has been allocated to assets acquired and liabilities assumed based on estimated fair values at the date of merger November 12, 2013 as follows:

Cash	$	631,478
Goodwill		7,918,387
In-process research and development		19,000,000
Accrued expenses		(334,423)
Derivative liability		(3,476)
Deferred taxes		(7,588,600)
Convertible promissory notes (see Note 7)		(680,000)
	$	18,943,366

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The above cash was obtained by Sonkei in a November 6, 2013 financing and thus has been classified as a financing activity in the consolidated statements of cash flows. The IPR&D, an indefinite-lived asset, will be included as an asset on the Company s consolidated balance sheet until such time that: (i) a marketing approval to commercially sell the drug is received from a regulatory agency, in which case it will be amortized over its expected commercial life, or (ii) such time as the IPR&D is deemed to be impaired, in which case it will be expensed. The transaction is being treated as a stock purchase for income tax purposes and accordingly, the tax bases of Sonkei s assets and liabilities are not adjusted for the effect of purchase accounting. A deferred tax liability of $7.6 million has been recorded for the difference in the book and tax basis of the IPR&D, multiplied by the effective income tax. The acquired net operating losses of Sonkei of approximately $5.3 million had a full valuation allowance, however, will be not limited under Internal Revenue Code Section 382 as the amount that could be utilized after limitation exceeds the amount of the net operating loss carryforward.

Pro Forma Results

The unaudited financial information in the table below summarizes the combined results of operations for the Company, Sonkei and Mind-NRG on a pro forma basis as though the companies had been combined as of January 1, 2013. The unaudited pro forma financial information for the three and six months ended June 30, 2014 and 2013 combines the Company s historical results for these years with the historical results for the comparable reporting periods for Sonkei and Mind-NRG. The unaudited pro forma financial information below is for informational purposes only and is not indicative of the results of operations or financial condition that would have been achieved if the merger would have taken place at the beginning of each of the periods presented and should not be taken as indicative of the Company s future results of operations or financial condition.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Operating loss	$ (19,365,662)	$ (928,569)	$ (22,756,955)	$ (1,571,977)
Loss per share	$ (2.55)	$ (0.13)	$ (2.99)	$ (0.22)

NOTE 4 ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following:

	June 30, 2014	**December 31, 2013**
Research and development costs	$ 350,784	$ 58,117
Professional fees (1)	210,000	595,215
Expenses due to related parties	177,230	126,910
Interest payable	114,429	24,276
Vacation pay	26,090	5,690
Bonus (2)	486,000	
ProteoSys milestone payable (3)	682,250	
Primomed research funding (4)	236,294	
Consulting and other costs	55,388	5,031
	$ 2,338,465	$ 815,239

(1) Included in accrued professional fees at June 30, 2014 and December 31, 2013 are $0.2 million and $0.4 million, respectively, incurred in connection with the preparation of a public offering of the Company s common stock.

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(2) Under the terms of certain employment agreements, the Company is obligated to pay $0.5 million in bonuses upon the completion of an IPO. The Company s registration statement was declared effective on June 30, 2014 and thus, the bonuses became probable. The portion accrued as of June 30, 2014 represents the amortization of the bonus expense from the date of the employment agreements through June 30, 2014.

(3) Under the terms of the acquisition agreement for Mind-NRG, the Company is obligated to make a 0.5 million (or $0.7 million, as converted) milestone payment to ProteoSys by the earlier of January 1, 2015, or upon completion of an IPO, or equity financing of at least $5.0 million.

(4) Under the terms of a research agreement with Primomed, the Company received grant funds that will be used to offset certain costs under the MIN-301 development program.

NOTE 5 NET LOSS PER SHARE OF COMMON STOCK

Diluted loss per share is the same as basic loss per share for all periods presented as the effects of potentially dilutive items were anti-dilutive given the Company s net loss. Basic loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding. The following table sets forth the computation of basic and diluted loss per share for common stockholders:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net loss	$ (19,365,662)	$ (375,953)	$ (22,304,080)	$ (647,283)
Weighted average shares of common stock outstanding	7,604,503	3,916,774	7,255,648	3,740,593
Net loss per share of common stock basic and diluted	$ (2.55)	$ (0.10)	$ (3.07)	$ (0.17)

The following securities outstanding at June 30, 2014 and 2013 have been excluded from the calculation of weighted average shares outstanding as their effect on the calculation of loss per share is antidilutive:

	June 30, 2014	June 30, 2013
Non-vested stock issued (see Note 9 Stockholders Equity)		821,429
Common stock options	2,141,807	

The above table does not include the potentially dilutive securities that would be issuable under the convertible promissory notes outstanding as described in Note 7 Debt.

NOTE 6 LICENSE AGREEMENT

In January 2014, the Company renegotiated the structure of the license for MIN-101 such that the Company is required to make milestone payments upon the achievement of one development milestone totaling $0.5 million and certain commercial milestones, which could total up to $47.5 million. In addition, in the event that the Company sells the rights to the license, the licensor will be entitled to a percentage of milestone payments in the low teens and a percentage of royalties received by the Company in the low double digits. Under the terms of the amended agreement, the Company is required to meet a certain diligence obligation to commence a clinical pharmacology study of the licensed compound by the end of April 2015. The Company may extend this deadline for a further year by making an extension payment of $0.5 million. The number of extension payments which may be made is unlimited. In addition, if the Company fails to achieve this development milestone by end of April 2015 or make an extension payment, the licensor may elect to terminate the agreement.

In January 2014, the Company renegotiated the structure of the license for MIN-117 such that the Company is required to make certain milestone payments upon the achievement of certain commercial milestones up to $47.5 million. In addition, in the event that the Company sells the rights to the license, the licensor will be entitled to a percentage of milestone payments in the low teens and a percentage of royalties received by the Company in the low double digits. Under the terms of the amended agreement, the Company is required to meet a certain diligence obligation to initiate either a Phase II(a) or Phase II(b) study with the licensed compound in patients suffering major mood disorders where initiation is defined as first patient enrolled in the study by the end of April 2015. If the Company fails to achieve this milestone, the Company may elect to extend the timeline to achieve the milestone by one year increments by making an extension payment of $0.5 million. The number of extension payments which may be made is unlimited. In addition, if the Company fails to achieve this development milestone by end April 2015 or make an extension payment, the licensor may elect to terminate the agreement.

The Company did not make any license payments under the agreements for the six months ended June 30, 2014 and 2013.

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NOTE 7 DEBT

Loans Payable

In conjunction with the Mind-NRG acquisition on February 11, 2014 (discussed further in Note 3 Business Combinations), working capital loans were executed between Mind-NRG and several stockholders or affiliates of stockholders for a maximum drawdown of $0.6 million. The loans bear interest at 8% and are repayable at the time the Company completes an IPO or December 1, 2015. The loans may be repaid at any time and contains standard terms of default, under which the interest rate would increase to 11%.

In April 2014, Mind-NRG repaid the working capital loans plus accrued interest, and certain stockholders and their affiliates subsequently executed new working capital loan agreements, with substantially identical terms, directly with the Company (the April Bridge Loan). The Company drew down the maximum $0.6 million available under the agreement in May 2014.

In May 2014, the Company entered into a new loan agreement (the May Bridge Loan) with certain stockholders and their affiliates. The Third Loan Agreement provides loan facilities to the Company up to a maximum of $1.0 million. The Third Loan Agreement bears interest at 8% per annum and is repayable at the time the Company completes an IPO or on December 1, 2015. The Third Loan Agreement contains standard terms of default, under which the interest rate would increase to 11% per annum. The Third Loan Agreement provides that any amount outstanding may be repaid at any time without penalty.

At June 30, 2014, the balance outstanding under the April and May Bridge Loan agreements was approximately $1.4 million, which has been included under loans payable. Interest expense related to these loans for the three and six months ended June 30, 2014 was $11 thousand.

Convertible Promissory Notes

On November 6, 2013, the Company issued $1.3 million 8% convertible promissory notes due June 30, 2014 to certain stockholders that are payable on demand at maturity. The notes contain certain terms of default, under which conditions the interest rate increases to 11% per annum.

In conjunction with the merger of Sonkei on November 12, 2013, the Company assumed convertible promissory notes held by certain stockholders with a principal amount of 518,519 ($0.7 million as of June 30, 2014). These notes have a stated interest rate of 8% per annum, mature on June 30, 2014, and are payable on demand on such date. The notes contains certain terms of default, under which conditions the interest rate increases to 11% per annum.

The notes issued by the Company on November 6, 2013 and the notes issued by Sonkei on November 6, 2013 and subsequently acquired by the Company on November 12, 2013 (collectively, the Notes) contain identical terms and may be converted into common shares of the Company

under the following conditions;

i) *Discount Purchase Option*. If the Company sells shares of its capital stock in the qualified financing, as defined, and the convertible promissory notes have not been paid in full, then the outstanding principal balance of these convertible promissory notes and accrued interest thereon shall convert into the common stock sold at the first closing of the qualified financing at a conversion price equal to the price per share paid by the Investors for each share of common stock multiplied by 80%. A qualified financing shall mean the first sale of the qualified stock, in one transaction or series of related transactions with aggregate gross proceeds to the Company of at least $5.0 million, which sale or sales shall take place on or before the maturity date; provided, however, that an IPO shall not be deemed a qualified financing. A qualified financing is defined as a transaction (or a series of transactions) with gross proceeds to the Company of at least $5.0 million, which takes place on or before June 30, 2014.

ii) *Initial Public Offering*. If the Company conducts an IPO of its common shares before June 30, 2014, then the convertible promissory notes plus accrued interest will convert at the price per share issued in the IPO. Under the terms of the Notes, an IPO is not considered a qualified financing.

iii) *$3.50/ 3.50 Conversion Option.* Subsequent to April 30, 2014, investors may elect to convert the Notes, and accrued interest into common stock of the Company at a conversion price of $3.50 per common share.

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Discount Purchase Option

The Notes contain an embedded derivative related to the discount purchase feature. The initial fair value of the derivative liability at the date of initial recognition was determined to be $9,976 using a probability-weighted valuation model applying the following assumptions: (i) discount rate of 8.0%, (ii) remaining term of approximately 7 months and (iii) the probabilities of conversion under various circumstances as at the date of measurement. The proceeds allocated to this conversion option of $9,976 were deducted from the initial fair value of the debt obligation. As of December 31, 2013, the fair value of the derivative liability was determined to be $10,093 using a probability-weighted valuation model applying the following assumptions: (i) discount rate of 8.0%, (ii) remaining term of approximately 6 months and (iii) the probabilities of conversion under various circumstances as at the date of measurement.

As of March 31, 2014, the fair value of the derivative liability was determined to be $4,900 using a probability-weighted valuation model applying the following assumptions: (i) discount rate of 8.0%, (ii) remaining term of approximately 3 months and (iii) the probabilities of conversion under various circumstances as at the date of measurement. The $5,193 decrease in the fair value of the derivative liability was included as a component of interest expense for the three months ended March 31, 2014.

As of June 30, 2014, the fair value of the derivative liability was determined to be $0. The $4,900 decrease in the fair value of the derivative liability was included as a component of interest for the three months ended June 30, 2014.

$3.50/ 3.50 Conversion Option

The Notes contain a beneficial conversion feature. The intrinsic value of the beneficial conversion feature was calculated by measuring the difference between the effective conversion price and the fair value of the common stock at initial recognition. The Company recorded a debt discount for the intrinsic value of the beneficial conversion feature which was limited to the proceeds of the Notes received of approximately $2.0 million, with an offsetting increase to additional paid-in capital. The discount was amortized to interest expense using the effective interest method through the Notes maturity date of June 30, 2014.

On April 25, 2014, the Company amended the convertible promissory notes such that the option to convert the outstanding principal and interest into common shares at a conversion price of $3.50 per share on or after April 30, 2014 was extended to September 30, 2014. Also, in the event that the Company files a registration statement for an IPO with the Securities and Exchange Commission and it becomes effective by September 30, 2014, the $3.50/ 3.50 conversion option will be cancelled.

As of June 30, 2014 and December 31, 2013, the convertible promissory notes and debt discount are as follows:

	June 30, 2014	December 31, 2013
Convertible promissory notes	$ 1,991,754	$ 1,973,500
Debt discount		(1,937,269)
Foreign exchange effect on Euro denominated notes	15,764	22,039

	$ 2,007,518	$	58,270

For the three months ended June 30, 2014, the Company recognized interest expense of $1.7 million related to the Notes, comprised primarily of the amortization of the debt discount and $40 thousand in coupon interest. For the six months ended June 30, 2014, the Company recognized interest expense of approximately $2.0 million related to the Notes, which includes $1.9 million for the amortization of the debt discount and $79 thousand in coupon interest.

NOTE 8 CO-DEVELOPMENT AND LICENSE AGREEMENT

Upon completion of the Company s IPO and payment of a $22.0 million license fee in July 2014, the Company closed on a co-development and license agreement dated February 12, 2014, pursuant to which, among other things, the licensor granted the Company an exclusive license, with the right to sublicense, in the European Union, Switzerland, Liechtenstein, Iceland and Norway, referred to as the Minerva Territory, under certain patent and patent applications to sell products containing any orexin 2 compound, controlled by the licensor and claimed in a licensor patent right, as an active ingredient, or MIN-202, for any use in humans. In addition, upon regulatory approval in the Minerva Territory (and earlier if certain default events occur), the Company will have rights to manufacture MIN-202. The Company has granted to the licensor an exclusive license, with the right to sublicense, under all patent rights and know-how controlled by the Company related to MIN-202 to sell MIN-202 outside the Minerva Territory.

In consideration of the licenses granted, the Company made an initial upfront payment of $22.0 million in July 2014 which will be expensed in the third quarter of 2014 and will pay a quarterly royalty in the high single digits on the aggregate net sales for MIN-202 products sold by the Company, its affiliates and sublicensees in the European Union. The licensor will pay a quarterly royalty in the high single digits on the aggregate net sales for MIN-202 products sold by the licensor outside the European Union.

The Company will pay 40% of MIN-202 development costs related to the joint development of any MIN-202 products. However, the Company s share of aggregate development costs shall not exceed (i) $5.0 million for the period beginning from the effective date of the license and ending following the completion of certain Phase Ib clinical trials and animal toxicology studies, and (ii) $24.0 million for the period beginning from the effective date of the license and ending following the completion of certain Phase II clinical trials.

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The licensor has a right to opt out at the end of certain development milestones, with the first milestone being the completion of a single day Phase I clinical trial in patients with Major Depressive Disorder (MDD). Upon opt out, the licensor will not have to fund further development of MIN-202 and the Minerva Territory will be expanded to also include all of North America. The Company would then owe the licensor a reduced royalty in the mid-single digits for all sales in the Minerva Territory. The Company has the right to terminate the license following certain development milestones the first being completion of a certain Phase Ib clinical trial in patients with insomnia and certain toxicology studies in animals. If the Company terminates the license within 45 days of this milestone, the Company must pay a termination fee equal to $3.0 million. If the Company terminates the license at any time following the last development milestone involving a certain Phase IIb clinical trial, the Company will be entitled to a royalty in the mid-single digits from sales of MIN-202 by the licensor. The licensor may also terminate the agreement for the Company s material breach or certain insolvency events, including if the Company is unable to fund its portion of the development costs.

The Company entered into a common stock purchase agreement with an affiliate of the above mentioned licensor, dated as of February 12, 2014, pursuant to which, among other things, the affiliate agreed to purchase from the Company up to $26.0 million of common stock in a private placement concurrent with the closing of the IPO at a price equal to the IPO price. This investment was consummated simultaneously with the closing of an IPO in July 2014 with the purchase by the affiliate of 3,284,353 shares of common stock resulting in net proceeds to the Company of $19.7 million.

NOTE 9 STOCKHOLDERS EQUITY

Reverse Stock Split

The board of directors and holders of the requisite number of outstanding shares of our common stock have approved an amendment to our restated certificate of incorporation to effect a 3.5-to-1 reverse stock split of our outstanding common stock (the reverse stock split). The reverse stock split became effective on June 9, 2014 upon the filing of our Certificate of Amendment of the Restated Certificate of Incorporation with the Delaware Secretary of State. The reverse stock split did not result in an adjustment to par value. All issued and outstanding common stock, warrants for common stock, options to purchase common stock, share transactions, and related per share amounts contained in the financial statements have been retroactively adjusted to reflect this reverse stock split for all periods presented. On June 9, 2014, the Company amended its Amended and Restated Certificate of Incorporation to increase the total number of authorized shares to 225,000,000 shares, consisting of 125,000,000 shares of common stock, par value $0.0001 per share and 100,000,000 shares of preferred stock, par value $0.0001 per share.

Common Stock Issued for Nonrecourse Notes

On April 26, 2012, the Company issued 821,429 shares of its common stock in exchange for a nonrecourse note of $3,058,026 (or approximately $3.71 per share, the Original Price). The note payable was due in a single installment on February 28, 2014, and was amended to extend the maturity date to June 30, 2014. The note bears interest at the rate of 0.19% per annum and is secured solely by the underlying stock. The stock purchase agreement contains i) a right of first refusal held by the Company, whereby if a third party buyer offers to buy the holder s stock at a certain price, then the Company has the right to purchase the stock at that same price; and ii) a standard drag-along in case of a sale of the Company. In lieu of payment, the holder is entitled to offset amounts owed under the nonrecourse note in connection with the Company repurchasing common stock from the holder. The Company has the option (a call option) to repurchase the shares if the holder ceases to provide services to the Company or after June 30, 2014, at the Original Price. The holder has the option (a put option) to require the Company to repurchase the shares at any time at the Original Price.

In accordance with ASC 718-10-25, the purchase of stock in exchange for a nonrecourse note effectively is the same as granting a stock option. If the value of the underlying shares falls below the note amount, the stockholder will relinquish the stock in lieu of repaying the note and would be in the same position as if he or she never purchased the stock. Further, as the shares sold subject to the nonrecourse note are considered an option for accounting purposes, the Company did not record a nonrecourse note or shares outstanding on the balance sheet. The Company also did not recognize interest income on the note as that interest is included in the exercise price of the option. The ultimate holder of the option can only benefit from the instrument if he continues to provide services to the Company through the time of a change in control, as defined. As a change in control is not deemed probable, stock-based compensation expense was not recorded for the year ended December 31, 2013 or the six months ended June 30, 2014.

In December 2013, the Company issued 27,925 shares of common stock to the holder, subject to a $97,737 nonrecourse note payable by the holder. The accounting for the additional share issuance is consistent with the 821,429 shares discussed above.

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Sonkei had a similar arrangement with the consultant, whereby Sonkei issued 1,112,500 shares of its common stock in exchange for a nonrecourse note of 1,119,017 (approximately $1.5 million at December 31, 2013). The note payable is due in a single installment on April 30, 2015. The note bears interest at the rate of 0.19% per annum and is secured solely by the underlying stock. As the shares sold subject to the nonrecourse note are considered an option for accounting purposes, the Company did not record a note or shares outstanding on the balance sheet. The Company also did not recognize interest income on the note as that interest is included in the exercise price of the option.

The ultimate holder of the option can only benefit from the instrument if he continues to provide services to the Company through the time of a change in control, as defined. As a change in control is not deemed probable, stock-based compensation expense will not be recorded until a change in control occurs at the then fair value of the option. The Company assumed this agreement upon the merger with Sonkei, and the Sonkei shares were converted into the Company s common shares in accordance with the terms of the merger agreement (see Note 3 Business Combinations).

On March 31, 2014, the issuer of the $4.7 million nonrecourse notes, which includes accrued interest, remitted to the Company 348,926 shares of common stock with a fair value of $13.51 per share in full settlement of the outstanding note due in a cashless transaction. Additionally, the Company further modified the awards by cancelling the put option and adding a term whereby upon an IPO the award will vest. The remittance of the shares in exchange for settling the outstanding note, the cancellation of the put option, and the addition of the IPO performance condition, represents a modification of the original terms of the stock options. The effect of these changes is that the Company has modified the awards and has converted approximately 1.3 million stock options with an exercise price of $4.7 million to 926,604 shares of non-vested stock (with no exercise price). The non-vested stock is still subject to the above mentioned vesting conditions of a change in control and IPO, which are not deemed probable until they occur. As described in the preceding sentence, the effect of the modification was to replace stock options that were improbable of vesting with non-vested stock that is improbable of vesting and accordingly, the Company will recognize stock-based compensation expense for the non-vested stock at the time that the vesting conditions are deemed probable of occurrence. The following is a summary of common shares issued in exchange for nonrecourse notes for the years December 31, 2012 and 2013 and the six months ended June 30, 2014:

	Common Shares
Outstanding January 1, 2012	
Issued	821,429
Outstanding December 31, 2012	821,429
Assumed in Sonkei merger	426,176
Issued	27,925
Outstanding December 31, 2013	1,275,530
Repurchased	(348,926)
Balance June 30, 2014	926,604

The 926,604 shares of non-vested common stock held by the consultant became probable of vesting upon the effectiveness of the Company s IPO registration statement on June 30, 2014, resulting in a charge for stock-based compensation of approximately $10.5 million, representing the 926,604 shares multiplied by the fair value per share on May 1, 2014, the date the consultant became an employee, less previous compensation expense recorded.

NOTE 10 STOCK OPTION PLAN

The Company adopted the 2013 Equity Incentive Plan (the Plan) in December 2013, which provides for the issuance of options, stock appreciation rights, stock awards and stock units. On April 30, 2014, the Company increased the shares reserved for issuance under the 2013 Equity Incentive Plan to 3,543,754. The exercise price per share shall not be less than the fair value of the Company s underlying common stock on the grant date and no option may have a term in excess of ten years. Stock option activity under the Plan is as follows:

	Stock Options		Weighted-Average Exercise Price
Outstanding January 1, 2013			
Granted	646,759	$	9.49
Outstanding December 31, 2013	646,759	$	9.49
Granted	1,495,048	$	6.00
Outstanding June 30, 2014	2,141,807	$	7.05
Exercisable June 30, 2014	594,930	$	6.33

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The fair value of each stock option to purchase common stock of the Company granted on December 20, 2013 was estimated by management using the Black-Scholes option pricing model applying the following assumptions: (i) expected term of 5.8 to 10 years, (ii) risk free interest rate of 1.9 to 2.9%, (iii) volatility of 102 to 107%, (iv) no dividend yield and (v) a grant date fair value of common stock of $9.49 per share. The Company recognized stock-based compensation expense for the three and six months ended June 30, 2014 related to these options of $0.3 million and $0.6 million, respectively, which is included in general and administrative expense.

The table above includes stock options granted on December 20, 2013 to purchase 20,089 of the Company s common stock which became fully vested and exercisable upon June 30, 2014, the effective date of the Company s IPO registration statement. The Company recognized stock-based compensation expense for the six months ended June 30, 2014 related to these options of $0.1 million, which is included in general and administrative expense.

The Company entered into two employment agreements effective May 1, 2014. The aggregate salaries are $655,000 plus an annual bonus target of 50% of their annual salaries and a one-time bonus to one of the employees of $175,000 to be paid within seven days following the closing of an IPO. The employment agreements can be terminated with six-months notice and contain severance provisions. In addition, the employment agreements provide for the grant of (1) an aggregate of 539,116 fully vested stock options to purchase common shares of the Company at an exercise price equal to the common stock price issued to the public in connection with an IPO and (2) stock options to purchase an aggregate number of common shares such that, upon the closing of an IPO, the holders will have options equal to 2.2% of the number of fully diluted shares of the Company, which vest over four years. In addition, under the employment agreement with the CEO, the Company is obligated to grant stock options to purchase an aggregate number of common shares such that, upon the pricing of an IPO, the CEO will have options equal to 5% of the number of fully diluted shares of the Company, which vest over 4 years.

In accordance with these employment agreements, 539,116 stock options were granted upon the effective date of the Company s IPO registration statement, and were 100% vested on the grant date. The Company recognized stock-based compensation expense related to these options of approximately $2.8 million for the three and six months ended June 30, 2014. The fair value of each stock option to purchase common stock of the Company granted on June 30, 2014 was estimated by management using the Black Scholes option pricing model applying the following assumptions: (i) expected term of 6.25 years, (ii) risk free interest rate of 1.94%, (iii) volatility of 113%, (iv) no dividend yield and (v) a grant date fair value of common stock of $6.00 per share.

Also in accordance with the above three employment agreements, an additional 955,932 stock options were granted upon the effective date of the Company's registration statement, which vest over a four-year period beginning from November 12, 2013, the date of the Sonkei Merger. The Company recognized stock-based compensation expense related to these options of approximately $0.8 million for the three and six months ended June 30, 2014. The fair value of each stock option to purchase common stock of the Company granted on June 30, 2014 was estimated by management using the Black Scholes option pricing model applying the following assumptions: (i) expected term of 6.25 years, (ii) risk free interest rate of 1.94%, (iii) volatility of 113%, (iv) no dividend yield and (v) a grant date fair value of common stock of $6.00 per share.

The weighted average fair value of stock options granted in June 2014 was $5.11 per share. Total unrecognized compensation costs related to non-vested awards at June 30, 2014 was approximately $8.0 million and is expected to be recognized within future operating results over a period of 3.3 years. At June 30, 2014, the weighted average contractual term of the options outstanding is approximately 9.9 years. The intrinsic value of outstanding stock options at June 30, 2014 was zero.

NOTE 11 INCOME TAXES

There was no provision for income taxes for the three and six month periods ended June 30, 2014 and 2013 due to losses.

As of December 31, 2013, the Company has approximately $16.0 million of Federal net operating losses that will begin to expire in 2027. As of December 31, 2013, the Company had approximately $11.0 million of New Jersey operating losses that will begin to expire in 2014. As of December 31, 2013, the Company had approximately $0.2 million of federal research and development credits that will begin to expire in 2027. The Internal Revenue Code (IRC) limits the amounts of net operating loss carryforwards that a company may use in any one year in the event of certain cumulative changes in ownership over a three-year period as described in Section 382 of the IRC. The Company has not performed a detailed analysis to determine whether an ownership change has occurred as of December 31, 2013.

Deferred tax liabilities related to indefinite-lived assets typically are not used as a source of income to support realization of deferred tax assets in jurisdictions where tax attributes expire (e.g., jurisdictions where net operating loss carryforwards expire) unless the deferred tax liability is expected to reverse prior to the expiration date of the tax attribute. Therefore, the net operating losses of Sonkei cannot be used to offset the deferred tax liability resulting from the IPR&D due to the fact that the IPR&D currently has an indefinite life while the NOLs have a maximum life of 20 years.

NOTE 12 COMMITMENTS

In November 2013, the Company hired a Chief Executive Officer (CEO) pursuant to an employment contract, which calls for a base salary of $425,000 plus bonus of up to 50% of base salary, a special bonus of $250,000 upon successful consummation of an IPO and severance arrangements if terminated for cause or terminated not for cause. In addition, on December 20, 2013, the CEO was granted an option to purchase 5%, or 540,722 shares, of the outstanding common stock of the Company with an exercise price equal to the per share fair value of the Company on such date, which was $9.49 per share. The option will vest ratably over 4 years. Further, upon the pricing of an IPO, which occured on June 30, 2014, the CEO was granted an anti-dilution option to purchase a number of shares of common stock of the Company, with an exercise price equal to $6.00, such that when the option and anti-dilution option are aggregated, the CEO will hold 5% of fully diluted outstanding shares expected to be outstanding on the closing of the IPO. In accordance with this agreement, the Company granted options to purchase 498,621 common shares of the Company discussed in Note 10 - Stock Option Plan.

On February 11, 2014, the Company entered into an agreement with Quotient Ltd, a Contract Research Organization based in Nottingham, UK to conduct a two-part study to evaluate the pharmacokinetic profile of MIN-101 modified release prototype formulations, and to evaluate the relationship between the pharmacokinetic profile and cardiovascular parameters following multiple dose administration. The total cost of the project is 1.6 million (or $2.2 million, as converted).

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NOTE 13 RELATED PARTY TRANSACTIONS

An investor provided accounting and other services to the Company and Sonkei for $60 thousand per Company per year during 2013 and early 2014. For the six months ended June 30, 2014 and 2013, the expense recognized in operating results in connection with these services was $35 thousand and $30 thousand, respectively. For the three months ended June 30, 2014 and 2013, the expense recognized in operating results in connection with these services was $15 thousand in both periods.

The Company retained the services of certain consultants who were also stockholders of the Company. For the six months ended June 30, 2014 and 2013, the expense recognized by the Company in connection with these services was $0.3 million and $0.2 million, respectively. For the three months ended June 30, 2014 and 2013, the expense recognized by the Company in connection with these services was $0.2 million and $0.1 million, respectively.

The Company s convertible promissory notes and loans payable are held by certain stockholders and their affiliates. Accrued interest payable of approximately $0.1 million as listed in Note 7 at June 30, 2014 relates to these promissory notes and bridge loans. Interest expense for the six month periods ended June 30, 2014 and 2013 was $2.0 million and $0, respectively.

NOTE 14 SUBSEQUENT EVENTS

The Company evaluated subsequent events for financial reporting purposes through August 7, 2014, the date which the financial statements were available to be issued to determine whether any events occurred that required disclosure in the accompanying financial statements.

On July 7, 2014, the Company closed the sale of 5,454,545 shares of its common stock at a price to the public of $6.00 per share, or an aggregate of approximately $32.7 million. Net proceeds to the Company were approximately $25.2 million, after deducting the underwriting discount of $2.3 million, expenses of approximately $3.1 million, repayment of the bridge loans of $1.4 million and the ProteoSys license payment of $0.7 million.

On July 7, 2014, the Company closed the sale in a private placement of 666,666 shares of its common stock at a price of $6.00 per share, or an aggregate of approximately $4.0 million. Net proceeds to the Company were approximately $3.7 million, after deducting the underwriting discount of $0.3 million.

On July 7, 2014, in accordance with the license agreement for MIN-202, Johnson & Johnson Development Corporation, or JJDC, an affiliate of Janssen Pharmaceutica N.V., or Janssen, purchased 3,284,353 shares of the Company s common stock in a private placement resulting in net proceeds to the Company of approximately $19.7 million.

In July 2014, in accordance with the Company s license agreement for MIN-202 (see Note 8), the Company paid a $22.0 million license fee to Janssen which will be expensed in the third quarter of 2014.

In conjunction with the IPO, the Company s 8% convertible promissory notes due June 30, 2014 in the face amount of $1.3 million and 518,519 ($0.7 million as of June 30, 2014), including $0.1 million in accrued interest, were converted at the IPO price of $6.00 per share into 352,000 shares of the Company s common stock.

In July 2014, the Company repaid its outstanding working capital loans and accrued interest of approximately $1.4 million.

On July 29, 2014, the Company closed the sale of an over-allotment of 160,993 shares of its common stock at a price of $6.00 per share, resulting in net proceeds to the Company of approximately $0.9 million, after deducting the underwriting discount of approximately $0.1 million.

In July 2014, in accordance with certain employment agreements, the Company granted stock options to purchase an aggregate of 366,562 shares of common stock at an exercise price of $6.00 per share to certain employees and directors of the Company for which the Company will begin to recognize stock-based compensation expense in the third quarter of 2014. These options vest over four years.

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and with our annual audited consolidated financial statements included in the Prospectus for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on June 30, 2014.

Overview

We are a clinical-stage biopharmaceutical company focused on the development and commercialization of a portfolio of product candidates to treat patients suffering from central nervous system, or CNS, diseases. Leveraging our domain expertise, we have acquired or in-licensed four development-stage proprietary compounds that we believe have innovative mechanisms of action with potentially positive therapeutic profiles. Our lead product candidates are MIN-101, a compound we are developing for the treatment of patients with schizophrenia, and MIN-117, a compound we are developing for the treatment of patients suffering from major depressive disorder, or MDD. In addition, our portfolio includes MIN-202, a compound we are co-developing for the treatment of patients suffering from primary and secondary insomnia, and MIN-301, a compound we are developing for the treatment of patients suffering from Parkinson s disease. We believe our innovative product candidates have significant potential to transform the lives of a large number of affected patients and their families who are currently not well-served by available therapies in each of their respective indications.

We exclusively licensed MIN-101 from Mitsubishi Tanabe Pharma Corporation, or MTPC, in 2007 with the rights to develop, sell and import MIN-101 globally, excluding most of Asia. In November 2013, we merged with Sonkei Pharmaceuticals Inc., or Sonkei, a clinical-stage biopharmaceutical company and, in February 2014, we acquired Mind-NRG SA, or Mind-NRG, a pre-clinical-stage biopharmaceutical company. We refer to these transactions as the Sonkei Merger and Mind-NRG Acquisition, respectively. Sonkei licensed MIN-117 from MTPC in 2008 with the rights to develop, sell and import MIN-117 globally, excluding most of Asia. With the acquisition of Mind-NRG, we obtained exclusive rights to develop and commercialize MIN-301. We have also entered into a co-development and license agreement with Janssen for the exclusive rights to develop and commercialize MIN-202 in the European Union, subject to royalty payments to Janssen, and royalty rights for any sales outside the European Union.

We have not received regulatory approvals to sell any of our product candidates, and we have not generated any revenue from the sales or license of our product candidates. We have incurred significant operating losses since inception. In addition, neither Sonkei nor Mind-NRG have received any regulatory approvals to sell any product candidates and have also incurred significant operating losses since their respective inceptions in 2008 and 2010.

We have historically financed our operations, including the development of MIN-101, through the sale of common stock and convertible promissory notes. Likewise, Sonkei raised capital to fund the development of MIN-117 through the sale of common stock and convertible promissory notes. Funds managed by Care Capital and Index Ventures are our principal investors, and were the principal investors of Sonkei, and collectively owned approximately 76% of our capital stock at June 30, 2014. The operations of Mind-NRG were financed through the sale of preferred stock. Funds managed by Index Ventures were among the investors in Mind-NRG.

On June 30, 2014, our registration statement on Form S-1 was declared effective by the Securities and Exchange Commission for our initial public offering pursuant to which we sold an aggregate of 5,454,545 shares of our common stock pursuant to an underwriting agreement dated June 30, 2014, at a price to the public of $6.00 per share, or an aggregate of approximately $32.7 million. On July 7, 2014, we closed the sale of all such shares, resulting in net proceeds to us of approximately $25.2 million, after deducting the underwriting discount of $2.3 million, expenses of approximately $3.1 million, the repayment of the bridge loans of $1.4 million and the ProteoSys license fee payment of $0.7 million. On July 7, 2014 we also closed the sale of a private placement of 666,666 common shares resulting in net proceeds to us of approximately $3.7 million, after deducting the underwriting discount of $0.3 million.

On July 7, 2014, in accordance with our license agreement for MIN-202, JJDC purchased 3,284,353 shares of our common stock in a private placement resulting in net proceeds to us of approximately $19.7 million, representing approximately 18% of our outstanding common shares. In conjunction with the private placement and in accordance with our license agreement for MIN-202, on July7, 2014 we paid a $22.0 million license fee to Janssen. We expect to incur net losses and negative cash flow from operating activities for the foreseeable future in connection with the clinical development and the potential regulatory approval, infrastructure development and commercialization of our product candidates.

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Financial Overview

Presentation

Our results include the accounts of Mind-NRG from February 12, 2014 to June 30, 2014, reflecting the Mind-NRG Acquisition, which was effective on February 11, 2014 and accounted for using the acquisition method. The purchase price of approximately $16.5 million was primarily assigned to in-process research and development of $15.2 million and goodwill of $7.2 million, offset by a deferred tax liability of $6.1 million. On the effective date of the acquisition, Mind-NRG had no employees and minimal clinical activity.

Financial Operations Overview

Revenue. None of our product candidates have been approved for commercialization and we have not received any revenue in connection with the sale or license of our product candidates.

Research and Development Expense. Research and development expense consists of costs incurred in connection with the development of our product candidates, including: fees paid to consultants and clinical research organizations, or CROs, including in connection with our non-clinical and clinical trials, and other related clinical trial fees, such as for investigator grants, patient screening, laboratory work, clinical trial database management, clinical trial material management and statistical compilation and analysis; licensing fees; costs related to acquiring clinical trial materials; costs related to compliance with regulatory requirements; and costs related to salaries, bonuses and stock-based compensation granted to consultants and employees in research and development functions. We expense research and development costs as they are incurred.

General and Administrative Expense. General and administrative expenses consist principally of consulting and professional services costs for functions in executive, finance, business development, legal, auditing and taxes. Historically, substantially all of these services were provided by third party consultants, as none of the three former companies had employees in 2011 through October 2013. Our general and administrative expenses in 2014 include non-cash stock-based compensation expense with respect to option grants to consultants and employees hired and directors who joined our board subsequent to October 2013. Other costs primarily include salaries, bonuses, facility costs and professional fees for accounting, consulting and legal services.

Foreign Exchange Gains. Foreign exchange gains are comprised primarily of foreign currency exchange gains or losses resulting from clinical trial expenses denominated in Euros. Since our initial planned clinical trials are expected to be in Europe, we expect to continue to incur expenses in Euros. We record expenses in U.S. dollars at the time the liability is incurred. Changes in the applicable foreign currency rate between the date an expense is recorded and the payment date is recorded as a foreign currency gain or loss.

Interest Expense (Income), Net. Interest expense consists of interest incurred under our debt obligations, including our 8.0% convertible promissory notes and our 8.0% working capital loans. Interest expense under our 8.0% convertible promissory notes includes the amortization

of the debt discount related to the beneficial conversion feature of the convertible promissory notes as well as coupon interest. Interest income consists of interest earned on our cash and cash equivalents.

Costs Associated with the Acquisitions and Financings

On November 12, 2013, Cyrenaic Pharmaceuticals, Inc., or Cyrenaic, merged with Sonkei, with Cyrenaic being the surviving company, which was renamed Minerva. In the merger, each share of Sonkei common stock was converted into 0.383 shares of Cyrenaic common stock, resulting in the issuance of 2,423,368 shares of Cyrenaic common stock to the former Sonkei stockholders. Although there were certain venture funds that were common stockholders of each of Sonkei and Cyrenaic, since the underlying investors in the venture funds were not substantially similar , the merger was accounted for a business combination with Cyrenaic being treated as the acquirer. The results of Sonkei are included in our accompanying financial statements commencing November 12, 2013. We merged with Sonkei in order to acquire Sonkei s lead product candidate, MIN-117.

At the date of the merger, a Sonkei consultant held 1,112,500 shares of Sonkei common stock with a nonrecourse note due to Sonkei, which was being treated as a stock option for accounting purposes. In connection with the merger, we issued 426,176 shares of common stock to this consultant in order to replace the holder s common stock in Sonkei. Due to the nonrecourse note, these shares were treated as stock options for accounting purposes and the holder of the option could only vest in the stock options if the holder continues to provide services to us through the time of a change in control. As a change in control was not deemed probable as of the merger date, the value of the options have not been included as part of the consideration transferred in the merger for accounting purposes. Rather, we will recognize all of the non-cash stock-based compensation expense of approximately $10.5 million for these stock options in our statement of operations upon the effective date of the IPO. The merger accounting purchase price was therefore determined based upon the remaining 1,997,192 shares of common stock issued in the merger at a valuation of $9.49 per share for a total purchase price of approximately $18.9 million.

The fair value of our common stock issued in the merger was determined based on a number of objective and subjective factors, including external market conditions affecting the biotechnology industry sector, discounted cash flows and the likelihood of achieving a liquidity event, such as an initial public offering of common stock or our sale. Substantially all of the purchase price was allocated to in-process research and development and goodwill. As part of the acquisition, we also assumed 0.5 million ($0.7 million as of June 30, 2014) of convertible notes, which have a stated interest rate of 8%. The outstanding principal balance of the notes and accrued but unpaid interest was converted into common stock on July 7, 2014 at the IPO offering price of $6.00 per share.

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We acquired Mind-NRG in February 2014 in order to acquire Mind-NRG s lead product candidate, MIN-301. The fair value of the 1,481,583 shares of common stock issued to the stockholders of Mind-NRG was approximately $16.5 million. The fair value of the common shares issued and the allocation of the purchase price was based upon our valuation of our common stock as approved by our board of directors. Substantially all of the purchase price was allocated to in-process research and development and goodwill.

In connection with the acquisition, we entered into loan agreements for working capital up to a maximum of $0.6 million. The Mind-NRG loans have an interest rate of 8% per annum that is added to the principal. The Mind-NRG loans, including accrued interest, were repaid in full in April 2014 for $0.5 million. We subsequently entered into two loan agreements with certain stockholders for $0.6 million and $1.0 million, the April Bridge Loan and the May Bridge Loan, respectively. The outstanding balance of these loans as of June 30, 2014 was $0.6 million and $0.8 million, respectively. Both bridge loans and accrued interest thereon were repaid in full in July 2014. As part of the Mind-NRG Acquisition, we have agreed to pay ProteoSys a final license payment of 0.5 million ($0.7 million as of June 30, 2014) following the closing of the IPO. This payment was made in July 2014.

Results of Operations

Comparison of Three Months Ended June 30, 2014 versus June 30, 2013

Research and Development Expenses

Research and development expenses totaled $14.6 million for the three months ended June 30, 2014 compared to $0.3 million for the same period in 2013, an increase of $14.3 million. Research and development expenses are summarized in the following table (in thousands):

	Three Months Ended June 30,	
	2014	2013
Research and development expenses (1)	$ 1,589	$ 250
Non-cash stock-based compensation (2)	12,966	
Total research and development expenses	$ 14,555	$ 250

(1) Research and development expenses were $1.6 million for the three months ended June 30, 2014 compared to $0.3 million for the same period in 2013, an increase of $1.3 million. This increase was principally attributable to $0.5 million higher drug development program costs primarily due to a study initiated in 2014 to evaluate the pharmacokinetic profile of MIN-101, $0.3 million higher development costs in 2014 due to the addition of MIN-117 as a result of the Sonkei Merger in November 2013 and $0.5 million in additional development costs related to MIN-301 as a result of the Mind-NRG Acquisition in February 2014.

(2) Research and development expenses included $13.0 million in non-cash stock-based compensation expense for the three months ended June 30, 2014 as compared to $0 for the same period in 2013. The increase in stock-based compensation expense was due to $10.5 million related to previously issued common shares that became probable of vesting upon the effective date of our IPO registration statement. An additional $2.3 million was related to an option grant to one employee on the effective date of the IPO registration statement that was 100% vested on that date.

In the future, we expect research and development expense to consist of the items described above as well as expense incurred in performing research and development activities, including compensation and benefits for full-time research and development employees and facilities expenses. These costs may also include non-cash stock-based compensation expense as part of our compensation strategy to attract and retain qualified staff. We expect research and development expense to be our largest category of operating expense and to increase as we continue our planned pre-clinical and clinical trials for our product candidates, including MIN-202, which we licensed from Janssen upon the completion of our IPO in July 2014. Under this license agreement we made a $22.0 million license fee payment in July 2014, which will be included in research and development expense in the third quarter of 2014.

Completion dates and completion costs can vary significantly for each product candidate and are difficult to predict. We anticipate we will make determinations as to which programs to pursue and how much funding to direct to each program on an ongoing basis in response to the scientific and clinical success or failure of each product candidate, the estimated costs to continue the development program relative to the Company s available resources, as well as an ongoing assessment as to each product candidate s commercial potential. We will need to raise additional capital or may seek additional product collaborations in the future in order to complete the development and commercialization of our product candidates.

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General and Administrative Expenses

General and administrative expenses totaled $3.1 million for the three months ended June 30, 2014 compared to $0.1 million for the same period in 2013, representing an increase of approximately $3.0 million. General and administrative expenses are summarized in the following table (in thousands):

	Three Months Ended June 30,	
	2014	2013
General and administrative expenses (1)	$ 1,061	$ 129
IPO bonus expense (2)	486	
Non-cash stock-based compensation (3)	1,548	
Total general and administrative expenses	$ 3,095	$ 129

(1) General and administrative expenses were $1.1 million for the three months ended June 30, 2014 compared to $0.1 million for the same period in 2013, representing an increase of approximately $1.0 million. The increase in general and administrative expenses in 2014 was due primarily to higher legal and professional fees of $0.6 million related to intellectual property matters and preparing for our operation as a public reporting company and $0.4 million related to staffing, office leases and information systems as we invest in the infrastructure necessary to support the Company s operations.

(2) In accordance with three employment agreements, we recorded $0.5 million for IPO related bonus payments that were probable on June 30, 2014.

(3) General and administrative expenses included $1.5 million in non-cash stock-based compensation expense for the three months ended June 30, 2014 as compared to $0 for the same period in 2013. The increase in stock-based compensation expense was due to $0.3 million related to options granted in December 2013. An additional $1.2 million was due to certain option grants made on the effective date of the IPO registration statement.

In the future, we expect general and administrative expenses to consist primarily of salaries and related benefits, facility costs, information technology, travel expenses and professional fees for auditing, tax and legal services including non-cash stock-based compensation. General and administrative costs also include non-cash stock-based compensation expense as part of our compensation strategy to attract and retain qualified staff. We expect that general and administrative expenses will increase as a result of merging with Sonkei, the acquisition of Mind-NRG and licensing MIN-202 from Janssen. In addition, we expect to incur greater expenses relating to our operations as a public reporting company, including increased payroll, consulting, legal and compliance, accounting, insurance and investor relations costs.

Foreign Exchange Gains

Foreign exchange gains were $11 thousand for the three months ended June 30, 2014 compared to $0 for the same period in 2013. The increase in foreign exchange gains was due primarily to certain expenses of Mind-NRG and certain clinical activities being denominated in Euros, with more positive currency movements in 2014.

Interest (Income)/Expense, Net

Interest expense was $1.7 million for the three months ended June 30, 2014 compared to $0 for the same period in 2013. For the three months ended June 30, 2014, we recognized interest expense of approximately $1.7 million related to our convertible promissory notes, comprised primarily of the amortization of the debt discount related to the debt discount created upon allocation of proceeds to the beneficial conversion feature of the notes and $40 thousand in coupon interest. For the three months ended June 30, 2014, we also recorded $11 thousand in interest expense related to our 8% short term working capital loans.

The convertible promissory notes contain a beneficial conversion feature allowing noteholders to convert the notes and accrued interest into shares of our common stock at a conversion price of $3.50 per common share at any time after April 30, 2014. On