MARINUS PHARMACEUTICALS INC
Form 10-Q
September 12, 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

COMMISSION FILE NUMBER 001-36576

MARINUS PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-0198082**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

142 Temple Street; Suite 205

New Haven, CT 06510

(Address of registrant s principal executive offices)

Registrant s telephone number, including area code: **(203) 315-0566**

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. o Yes x No.

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition 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 Exchange Act). o Yes x No.

The number of outstanding shares of the registrant s common stock, par value $0.001 per share, as of September 12, 2014 was: 13,912,155.

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FOR THE QUARTER ENDED JUNE, 30, 2014

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

MARINUS PHARMACEUTICALS, INC.

BALANCE SHEETS

(unaudited)

	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,415,735	$ 10,037,123
Deferred offering costs	932,258	
Prepaid expenses and other current assets	100,536	1,761,379
Total current assets	9,448,529	11,798,502
Property and equipment, net	11,049	16,063
Other assets	19,280	9,380
Total assets	$ 9,478,858	$ 11,823,945
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	1,742,466	77,782
Accrued expenses	466,454	1,096,474
Warrant liability	794,342	1,191,514
Total current liabilities	3,003,262	2,365,770
Notes payable	2,000,000	
Total liabilities	5,003,262	2,365,770
Series A convertible preferred stock, $0.001 par value; 18,777,860 shares authorized, issued, and outstanding at June 30, 2014 and December 31, 2013 (liquidation preference of $31,359,026 at June 30, 2014)	30,596,604	30,596,604
Series B convertible preferred stock, $0.001 par value; 15,275,824 shares authorized, 12,220,661 shares issued and outstanding at June 30, 2014 and December 31, 2013 (liquidation preference of $31,019,214 at June 30, 2014)	17,929,483	17,929,483
Series C convertible preferred stock, $0.001 par value; 18,900,000 shares authorized, 18,803,582 and 18,381,463 shares issued and outstanding at June 30, 2014 and December 31, 2013 , respectively (liquidation preference of $24,829,459 at June 30, 2014)	21,814,119	21,314,119
Stockholders deficit:		
Common stock, $0.001 par value; 100,000,000 shares authorized, 521,295 issued and 492,064 outstanding at June 30, 2014 and 494,260 issued and 465,029 outstanding at	521	494

December 31, 2013		
Additional paid-in capital	1,195,756	1,120,680
Treasury stock at cost, 29,231 shares at December 31, 2013 and June 30, 2014	(190)	(190)
Accumulated deficit	(67,060,697)	(61,503,015)
Total stockholders deficit	(65,864,610)	(60,382,031)
Total liabilities and stockholders deficit	$ 9,478,858	$ 11,823,945

See accompanying notes to financial statements.

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MARINUS PHARMACEUTICALS, INC.

STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Expenses:				
Research and development	$ 2,805,053	$ 1,326,915	$ 4,953,724	$ 2,012,416
General and administrative	457,966	313,884	974,510	555,785
Loss from operations	(3,263,019)	(1,640,799)	(5,928,234)	(2,568,201)
Change in fair value of warrant liability	(30,551)		397,172	
Interest income	349	3,650	4,796	7,738
Interest expense	(29,156)	(44,498)	(31,416)	(90,827)
Net loss	(3,322,377)	(1,681,647)	(5,557,682)	(2,651,290)
Cumulative preferred stock dividends	(1,102,306)	(940,074)	(2,172,989)	(1,726,035)
Net loss applicable to common stockholders	$ (4,424,683)	$ (2,621,721)	$ (7,730,671)	$ (4,377,325)
Per share information:				
Net loss per share of common stock basic and diluted	$ (7.98)	$ (5.66)	$ (15.14)	$ (9.49)
Basic and diluted weighted average shares outstanding	554,126	463,066	510,559	461,041

See accompanying notes to financial statements.

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MARINUS PHARMACEUTICALS, INC.

STATEMENT OF CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS DEFICIT

(unaudited)

	Convertible Preferred Stock						Stockholders Deficit						
	Series A		Series B		Series C		Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Deficit	Total Stockholders Deficit
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount		Shares	Amount		
Balance, December 31, 2013	18,777,860	$ 30,596,604	12,220,661	$ 17,929,483	18,381,463	$ 21,314,119	494,260	$ 494	$ 1,120,680	29,231	$ (190)	$ (61,503,015)	$ (60,382,031)
Stock-based compensation expense									46,986				46,986
Issuance of Series C preferred stock					422,119	500,000							
Exercise of stock options							27,035	27	28,090				28,117
Net loss												(5,557,682)	(5,557,682)
Balance, June 30, 2014	18,777,860	$ 30,596,604	12,220,661	$ 17,929,483	18,803,582	$ 21,814,119	521,295	$ 521	$ 1,195,756	29,231	$ (190)	$ (67,060,697)	$ (65,864,610)

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MARINUS PHARMACEUTICALS, INC.

NOTES TO INTERIM FINANCIAL STATEMENTS

(unaudited)

MARINUS PHARMACEUTICALS, INC.

STATEMENTS OF CASH FLOWS

(unaudited)

	Six Months Ended June 30, 2014		Six Months Ended June 30, 2013	
Cash flows from operating activities				
Net loss	$	(5,557,682)	$	(2,651,290)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization		5,014		4,403
Stock-based compensation expense		46,986		88,482
Noncash interest on convertible notes payable				90,498
Change in fair value of warrant liability		(397,172)		
Changes in operating assets and liabilities:				
Prepaid expenses and other assets		854,220		(592,544)
Accounts payable and accrued expenses		1,534,664		760,140
Net cash used in operating activities		(3,513,970)		(2,300,311)
Cash flows from investing activities				
Purchases of property and equipment				(12,044)
Net cash used in investing activities				(12,044)
Cash flows from financing activities				
Proceeds from exercise of stock options		28,117		14,429
Financing costs		(135,535)		
Proceeds from notes payable		2,000,000		
Proceeds from issuance of convertible preferred stock and common stock, net of offering costs				7,531,849
Net cash provided by financing activities		1,892,582		7,546,278
Net increase (decrease) in cash and cash equivalents		(1,621,388)		5,233,923
Cash and cash equivalents beginning of period		10,037,123		8,633,775
Cash and cash equivalents end of period	$	8,415,735	$	13,867,698
Supplemental disclosure of cash flow information				
Conversion of notes principal and accrued interest to preferred stock	$		$	2,761,019
Cash paid for interest	$	19,539	$	
Issuance of Series C Preferred Stock	$	500,000	$	

See accompanying notes to financial statements.

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MARINUS PHARMACEUTICALS, INC.

NOTES TO INTERIM FINANCIAL STATEMENTS

(unaudited)

1. Description of the Business and Liquidity

We are a biopharmaceutical company dedicated to the development of innovative neuropsychiatric therapeutics. Our clinical stage product candidate, ganaxolone, is a synthetic small molecule that is an analog of allopregnanolone, a natural occurring neurosteriod produced by the human body. Allopregnanolone modulates the activity of gammaaminobutyric acid (GABA) at GABA A type receptors in the brain, which has been identified as playing an important role in certain seizure, psychiatric and developmental disorders. Our primary focus to date since our inception has been directed towards developing business strategies, raising capital, research and development activities and conducting preclinical testing and human clinical trials of our product candidates.

Liquidity

We have not generated any product revenues and have incurred operating losses since inception. There is no assurance that profitable operations will ever be achieved, and if achieved, could be sustained on a continuing basis. In addition, development activities, clinical and preclinical testing, and commercialization of our product candidates will require significant additional financing. Our accumulated deficit as of June 30, 2014 was $67.1 million and we expect to incur substantial losses in future periods. We plan to finance our future operations with a combination of proceeds from the issuance of equity securities, the issuance of additional debt, potential collaborations and revenues from potential future product sales, if any. We have not generated positive cash flows from operations, and there are no assurances that we will be successful in obtaining an adequate level of financing for the development and commercialization of our planned product candidates.

In connection with the closing our initial public offering during the third quarter of 2014, we issued a total of 5,758,000 shares of common stock and received aggregate net proceeds, after underwriting discounts and commissions and other estimated offering expenses, of approximately $41.3 million. Our cash and cash equivalents balance as of June 30, 2014 along with net proceeds from our initial public offering completed during the third quarter of 2014 are adequate to fund our operations into 2016.

2. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited interim financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Accordingly, they do not include all information and disclosures necessary for a presentation of our financial position, results of operations and cash flows in conformity with generally accepted accounting principles in the United States of America (GAAP). In the opinion of management, these unaudited interim financial statements reflect all adjustments, consisting primarily of normal recurring accruals, necessary for a fair presentation of our financial position and results of operations and cash flows for the periods presented. The results of operations for interim periods are not necessarily indicative of the results for the full year. These unaudited interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2013 and accompanying notes thereto included in our final prospectus filed with the SEC on August 1, 2014.

Recapitalization

Our board of directors and stockholders approved a reverse stock split of our common stock at a ratio of one share for every six and one-half shares previously held. The reverse stock split was effected on July 16, 2014. All common stock share and per-share data included in these financial statements reflect the reverse stock split. In addition, the board of directors approved an increase in the authorized shares of our common stock to 100,000,000 shares.

MARINUS PHARMACEUTICALS, INC.

NOTES TO INTERIM FINANCIAL STATEMENTS

(unaudited)

Use of Estimates

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

Recent Accounting Pronouncement

In June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-10, *Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation*, which eliminates all incremental financial reporting requirements for development stage entities by removing Accounting Standards Codification (ASC) Topic 915, *Development Stage Entities*, from the FASB Accounting Standards Codification. ASC Topic 915 is removed effective for annual periods beginning after December 15, 2014 and early adoption is permitted. The Company adopted the ASU effective with the issuance of the June 30, 2014 interim financial statements.

3. Fair Value Measurements

FASB accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. The accounting guidance outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. In determining fair value, we use quoted prices and observable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources.

The fair value hierarchy is broken down into three levels based on the source of inputs as follows:

- Level 1 Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities.

- Level 2 Valuations based on observable inputs and quoted prices in active markets for similar assets and liabilities.

- Level 3 Valuations based on inputs that are unobservable and models that are significant to the overall fair value measurement.

The following fair value hierarchy table presents information about each major category of our financial assets and liabilities measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
June 30, 2014				
Assets				
Money market funds (cash equivalents)	$ 8,026,993	$	$	$ 8,026,993
Total assets	$ 8,026,993	$	$	$ 8,026,993
Liabilities				
Warrant liability	$	$	$ 794,342	$ 794,342
Total liabilities	$	$	$ 794,342	$ 794,342
December 31, 2013				
Assets				
Money market funds (cash equivalents)	$ 9,250,663	$	$	$ 9,250,663
Total assets	$ 9,250,663	$	$	$ 9,250,663
Liabilities				
Warrant liability	$	$	$ 1,191,514	$ 1,191,514
Total liabilities	$	$	$ 1,191,514	$ 1,191,514

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MARINUS PHARMACEUTICALS, INC.

NOTES TO INTERIM FINANCIAL STATEMENTS

(unaudited)

We have outstanding warrants to purchase our Series B Preferred Stock, or the Series B Warrants. The Series B Preferred Stock underlying the Series B Warrants can be redeemed for cash upon an event that is not within our control, such as the liquidation of our preferred stock, as the preferred stockholders have voting control of our company and control of our board of directors and therefore have the ability to trigger the liquidation of our preferred stock. As a result, the Series B Warrants are recorded as a warrant liability on our balance sheets with subsequent changes to fair value recorded on our statements of operations as change in fair value of warrant liability. On the grant date and in subsequent periods, we estimated the fair value of the preferred stock warrant liability using an option-pricing model, which requires inputs such as the expected volatility based on comparable public companies (75% - 80%), the estimated fair value of the Series B Preferred Stock ($0.63 - $1.51 per share), and the estimated time to liquidity (0.2 - 4 years). For this liability, we developed our own assumptions that do not have observable inputs or available market data to support the fair value.

The following tables set forth a summary of changes in the fair value of Level 3 preferred stock warrant liability for the three and six months ended June 30, 2014:

	Beginning of Period	Issuances	Exercises	Change in Fair Value	End of Period
Six months ended June 30, 2013	1,344,200				1,344,200
Six months ended June 30, 2014	$ 1,191,514	$	$	$ (397,172)	$ 794,342

In connection with the closing of our initial public offering during the third quarter of 2014, the Series B Warrants expired in accordance with the terms of the warrants. As a result, the fair value of the Series B warrants recorded as a liability as of June 30, 2014 was reduced to zero during the third quarter of 2014.

4. Property and Equipment

Property and equipment consisted of the following:

	June 30, 2014	December 31, 2013
Laboratory equipment	$ 368,542	$ 368,542
Office equipment	76,300	76,300
	444,842	444,842
Less: accumulated depreciation and amortization	(433,793)	(428,779)

	$	11,049	$	16,063

Depreciation and amortization expense was $1,110 and $4,034 for the three and six months ended June 30, 2013 and $2,507 and $5,014 for the three and six months ended June 30, 2014, respectively.

5. Accrued Expenses

At June 30, 2014 and December 31, 2013 accrued expenses consisted of the following:

		June 30, 2014		December 31, 2013
Investor deposit	$		$	500,000
Payroll and related costs		171,677		203,718
Clinical trials and drug development		54,282		73,500
Professional fees		198,452		295,000
Other		42,043		24,256
	$	466,454	$	1,096,474

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NOTES TO INTERIM FINANCIAL STATEMENTS

(unaudited)

Investor deposit represents funds received from an investor for 422,119 shares of Series C Preferred Stock. The shares were issued in April 2014.

6. Notes Payable

In 2010 and 2012 we received $4,000,000 and $300,000, respectively, in proceeds from the issuance of convertible promissory notes (Series C Convertible Notes) to several investors. The Series C Convertible Notes accrued interest at a rate of 8% per year, were payable on demand on various dates after December 31, 2011 and principal and accrued interest were convertible into the next financing, as defined, into the same shares of capital stock issued in connection with and at a conversion price equal to the price per share paid by the investors in the next financing. In December 2012, in connection with the first Series C Preferred Stock closing, $2,000,000 of the Series C Convertible Notes issued in 2010, along with accrued interest of $441,425, were converted into 2,061,141 shares of Series C Preferred Stock at a conversion price of $1.1845 per share. In June 2013, the remaining $2,300,000 of Series C Convertible Notes, along with accrued interest of $461,019, converted into 2,330,955 shares of Series C Preferred Stock at $1.1845 per share (see Note 8).

In April 2014, we borrowed $2,000,000 in connection with a credit facility we entered into with a financial institution. Pursuant to the terms of the credit facility, we are required to make monthly interest-only payments for outstanding borrowings at an interest rate equal to the greater of (a) prime plus 2.25% or (b) 5.5% until November 2015. Commencing in November 2015 and continuing through October 2017, we are required to make monthly payments of 1/36th of our principal borrowings plus interest with the remaining principal balance due in October 2017. In connection with this facility, we issued to the financial institution warrants to purchase 37,991 shares of our Series C Preferred Stock with a term of 8 years. The shares were net exercised and converted into 220 shares of common stock in connection with the closing our initial public offering during the third quarter of 2014.

7. Loss Per Share of Common Stock

Basic loss per share is computed by dividing net loss applicable to common stockholders by the weighted average number of shares of common stock outstanding during each period. Diluted loss per share includes the effect, if any, from the potential exercise or conversion of securities, such as convertible preferred stock, convertible notes payable, warrants, stock options, and unvested restricted stock, which would result in the issuance of incremental shares of common stock. In computing the basic and diluted net loss per share applicable to common stockholders, the weighted average number of shares remains the same for both calculations due to the fact that when a net loss exists, dilutive shares are not included in the calculation. These potentially dilutive securities are more fully described in Note 8.

The following potentially dilutive securities outstanding at June 30, 2013 and 2014 have been excluded from the computation of diluted weighted average shares outstanding, as they would be antidilutive:

	June 30,	
	2014	**2013**
Convertible preferred stock	7,661,868	7,596,927
Warrants	470,026	470,026
Stock options	1,066,173	901,571
	9,198,067	8,968,524

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MARINUS PHARMACEUTICALS, INC.

NOTES TO INTERIM FINANCIAL STATEMENTS

(unaudited)

8. Convertible Preferred Stock and Detachable Warrants

Convertible Preferred Stock

At June 30, 2014, we had 52,953,684 authorized shares of Convertible Preferred Stock, of which 18,777,860 were designated for Series A Preferred Stock, 15,275,824 were designated for Series B Preferred Stock and 18,900,000 were designated for Series C Preferred Stock.

In June 2013, we issued 6,396,065 shares of Series C Preferred Stock at $1.1845 per share for proceeds of $7,530,335, net of issuance costs of $45,804. In addition, we issued 2,330,955 shares of Series C Preferred Stock from the conversion of the remaining outstanding $2,761,019 in Series C Convertible Notes, including related accrued interest of $461,019 (as described in Note 6). In April 2014, we issued 422,119 shares of Series C Preferred Stock. Proceeds of $500,000 related to this issuance were received in 2013 and are reflected as an investor deposit in accrued expenses on the balance sheet as of December 31, 2013.

In connection with the closing our initial public offering during the third quarter of 2014, all outstanding shares of preferred stock were converted to 7,661,868 shares of common stock and the authorized shares of preferred stock were adjusted to 25,000,000 shares.

Detachable Warrants

At June 30, 2014, we had Series B Warrants outstanding to purchase 3,055,163 shares of our Series B Preferred Stock at an exercise price of $1.67 per share. Since the Series B Preferred Stock underlying the Series B Warrants can be redeemed for cash upon an event that is not within our control, these warrants are classified as a derivative liability on our balance sheets with subsequent changes to fair value recorded through earnings at each reporting period on our statement of operations as change in fair value of warrant liability. In accordance with the terms of the Series B Warrants, these warrants terminated in connection with the closing our initial public offering during the third quarter of 2014.

9. Stock Option and Incentive Plans

In 2005, we adopted the 2005 Stock Option and Incentive Plan (2005 Plan) that authorizes us to grant options, restricted stock and other equity-based awards. As amended and as of June 30, 2014, the number of shares of common stock reserved for issuance in connection with the Plan was 1,232,343. The amount, terms of grants, and exercisability provisions are determined and set by our board of directors. There were 1,066,173 shares reserved for outstanding stock options as of June 30, 2014 at a weighted average exercise price of $1.04 per share and no options were issued during the three and six month periods ended June 30, 2014.

Total compensation cost recognized for all stock option awards in the statements of operations is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	**2013**	**2014**	**2013**
Research and development	$ 1,734	$	$ 3,465	$
General and administrative	21,761	72,028	43,521	