Neuralstem, Inc.
Form 10-Q
May 15, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended March 31, 2018

Or

Transition Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 001-33672

NEURALSTEM, INC.

(Exact name of registrant as specified in its charter)

Delaware	**52-2007292**
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

20271 Goldenrod Lane
Germantown, Maryland **20876**
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code **(301)-366-4841**

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 No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a small reporting company) Smaller reporting company

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

As of April 30, 2018, there were 15,160,014 shares of common stock, $.01 par value, issued and outstanding.

Neuralstem, Inc.

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PART I

FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Neuralstem, Inc.

Unaudited Condensed Consolidated Balance Sheets

	March 31, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$9,724,248	$6,674,940
Short-term investments	-	5,000,000
Trade and other receivables	137,372	312,802
Current portion of related party receivable, net of discount	-	58,784
Prepaid expenses	346,995	402,273
Total current assets	10,208,615	12,448,799
Property and equipment, net	149,668	172,886
Patents, net	839,314	883,462
Related party receivable, net of discount and current portion	334,303	365,456
Other assets	18,048	13,853
Total assets	$11,549,948	$13,884,456
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$1,169,736	$875,065
Accrued bonuses	-	418,625
Other current liabilities	109,266	220,879
Total current liabilities	1,279,002	1,514,569
Warrant liabilities	3,662,663	3,852,882
Other long term liabilities	1,172	1,876
Total liabilities	4,942,837	5,369,327
Commitments and contingencies (Note 5)		
STOCKHOLDERS' EQUITY		
	10,000	10,000

Preferred stock, 7,000,000 shares authorized, $0.01 par value; 1,000,000 shares issued and outstanding at both March 31, 2018 and December 31, 2017		
Common stock, $0.01 par value; 300 million shares authorized, 15,160,014 shares issued and outstanding at both March 31, 2018 and December 31, 2017	151,600	151,600
Additional paid-in capital	217,289,009	217,050,174
Accumulated other comprehensive income	2,746	2,631
Accumulated deficit	(210,846,244)	(208,699,276)
Total stockholders' equity	6,607,111	8,515,129
Total liabilities and stockholders' equity	$11,549,948	$13,884,456

See accompanying notes to unaudited condensed consolidated financial statements.

Neuralstem, Inc.

Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss

	Three Months Ended March 31,	
	2018	2017
Revenues	$2,500	$2,500
Operating expenses:		
Research and development expenses	1,169,441	2,902,086
General and administrative expenses	1,182,054	1,332,421
Total operating expenses	2,351,495	4,234,507
Operating loss	(2,348,995)	(4,232,007)
Other income (expense):		
Interest income	17,749	20,883
Interest expense	(1,920)	(138,732)
Change in fair value of derivative instruments	190,219	(2,741,314)
Warrant inducement and other expenses	(4,021)	(476,084)
Total other income (expense)	202,027	(3,335,247)
Net loss	$(2,146,968)	$(7,567,254)
Net loss per share - basic and diluted	$(0.14)	$(0.68)
Weighted average common shares outstanding - basic and diluted	15,116,937	11,140,898
Comprehensive loss:		
Net loss	$(2,146,968)	$(7,567,254)
Foreign currency translation adjustment	115	(171)
Comprehensive loss	$(2,146,853)	$(7,567,425)

See accompanying notes to unaudited condensed consolidated financial statements.

Neuralstem, Inc.

Unaudited Condensed Consolidated Statements of Cash Flows

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(2,146,968)	$(7,567,254)
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	67,374	112,205
Share-based compensation expense	238,835	522,439
Amortization of deferred financing fees and debt discount	-	47,654
Change in fair value of liability classified warrants	(190,219)	2,741,314
Warrant inducement expense	-	476,084
Changes in operating assets and liabilities:		
Trade and other receivables	175,430	(4,224)
Related party receivable	89,937	84,481
Prepaid expenses	56,241	221,649
Other assets	(4,000)	(159)
Accounts payable and accrued expenses	293,119	(227,650)
Accrued bonuses	(418,625)	(852,963)
Other current liabilities	(7,369)	12,542
Other long term liabilities	(704)	(2,080)
Net cash used in operating activities	(1,846,949)	(4,435,962)
Cash flows from investing activities:		
Maturity of short-term investments	5,000,000	-
Net cash provided by investing activities	5,000,000	-
Cash flows from financing activities:		
Proceeds from issuance of common stock from warrants exercised, net of issuance costs	-	2,200,004
Proceeds from sale of common stock	-	50,000
Payments of fees related to prior financing	-	(11,596)
Payments of long-term debt	-	(1,222,519)
Payments of short-term notes payable	(104,244)	(94,193)
Net cash (used in) provided by financing activities	(104,244)	921,696
Effects of exchange rates on cash	501	(184)
Net increase (decrease) in cash and cash equivalents	3,049,308	(3,514,450)
Cash and cash equivalents, beginning of period	6,674,940	15,194,949
Cash and cash equivalents, end of period	$9,724,248	$11,680,499
Supplemental disclosure of cash flows information:		

Cash paid for interest	$1,920	$136,718

See accompanying notes to unaudited condensed consolidated financial statements.

NEURALSTEM, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2018 AND 2017

Note 1. Organization, Business and Financial Condition

Nature of business

Neuralstem, Inc. and its subsidiary are referred to as “Neuralstem,” the “Company,” “us,” or “we” throughout this report. The operations of our wholly-owned and controlled subsidiary located in China are consolidated in our unaudited condensed consolidated financial statements and all intercompany activity has been eliminated. The Company operates in one business segment.

Neuralstem is a clinical stage biopharmaceutical company that is utilizing its proprietary human neural stem cell technology to create a comprehensive platform of therapies for the treatment of central nervous system diseases. The Company has utilized this technology as a tool for small-molecule drug discovery and to create cell therapy biotherapeutics to treat central nervous system diseases. The Company was founded in 1997 and currently has laboratory and office space in Germantown, Maryland and laboratory facilities in the People’s Republic of China. Our operations to date have been directed primarily toward developing business strategies, raising capital, research and development activities, and conducting pre-clinical testing and human clinical trials of our product candidates.

Liquidity and Going Concern

The Company has incurred losses since its inception and has not demonstrated an ability to generate significant revenues from the sales of its therapies or services and have not yet achieved profitable operations. There can be no assurance that profitable operations will ever be achieved, or if achieved, could be sustained on a continuing basis. In addition, development activities, clinical and pre-clinical testing, and commercialization of our products will require significant additional financing. These factors create substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the consolidated financial statements are issued. The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. Accordingly, the consolidated financial statements have been prepared on a basis that assumes the Company will continue as a going concern and which contemplates the realization of assets and satisfaction of liabilities and commitments in the ordinary course of business.

In making this assessment the Company performed a comprehensive analysis of its current circumstances including: its financial position at March 31, 2018, its cash flow and cash usage forecasts for the period covering one-year from the issuance date of this Quarterly Report filed on Form 10-Q, its current capital structure including outstanding warrants and other equity-based instruments.

We expect that our existing cash and cash equivalents will be sufficient to enable us to fund our anticipated level of operations based on our current operating plans into the first quarter of 2019. Accordingly, we will require additional capital to further develop our pre-clinical and clinical development programs. To continue to fund our operations and the development of our product candidates, we anticipate raising additional cash through the private and public sales of equity or debt securities, collaborative arrangements, licensing agreements or a combination thereof. Although management believes that such funding sources will be available, there can be no assurance that any such collaborative or licensing arrangements will be entered into or that financing will be available to us when needed in order to allow us to continue our operations, or if available, on terms acceptable to us. If we do not raise sufficient funds in a timely manner, among other things, we may be forced to delay, scale back or eliminate some or all of our research and product development programs, planned clinical trials, and/or our capital expenditures or to license our potential products or technologies to third parties on unfavorable terms. We currently do not have commitments for future funding from any source.

Our independent registered public accounting firm issued an emphasis of matter in their audit report regarding substantial doubt over our ability to continue as a going concern in our audited financial statements as of and for the year ended December 31, 2017.

We have spent and will continue to spend substantial funds in the research, development, pre-clinical and clinical testing of our small molecule and stem cell product candidates with the goal of ultimately obtaining approval from the United States Food and Drug Administration (the “FDA”) and its international equivalents, to market and sell our products. No assurance can be given that (i) FDA or other regulatory agency approval will ever be granted for us to market and sell our product candidates, or (ii) if regulatory approval is granted, that we will ever be able to sell our proposed products or be profitable.

Note 2. Significant Accounting Policies and Basis of Presentation

Basis of Presentation

In management’s opinion, the accompanying interim unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, which are necessary to present fairly our financial position, results of operations and cash flows. The unaudited condensed consolidated balance sheet at December 31, 2017, has been derived from audited financial statements as of that date. The interim results of operations are not necessarily

indicative of the results that may occur for the full fiscal year. Certain information and footnote disclosure normally included in the financial statements prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to instructions, rules and regulations prescribed by the U.S. Securities and Exchange Commission (SEC). We believe that the disclosures provided herein are adequate to make the information presented not misleading when these unaudited condensed consolidated financial statements are read in conjunction with the Financial Statements and Notes included in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC, and as may be amended.

Use of Estimates

The preparation of financial statements in accordance with U.S. 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. The unaudited condensed consolidated financial statements include significant estimates for the expected economic life and value of our licensed technology and related patents, our net operating loss and related valuation allowance for tax purposes, the fair value of our liability classified warrants and our share-based compensation related to employees and directors, consultants and advisors, among other things. Because of the use of estimates inherent in the financial reporting process, actual results could differ significantly from those estimates.

Fair Value Measurements

The carrying amounts of our short-term financial instruments, which primarily include cash and cash equivalents, short-term investments, accounts payable and accrued expenses, approximate their fair values due to their short maturities. The fair value of our long-term indebtedness was estimated based on the quoted prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities and approximates the carrying value. The fair values of our liability classified warrants were estimated using Level 3 unobservable inputs. See Note 3 for further details.

Foreign Currency Translation

The functional currency of our wholly owned foreign subsidiary is its local currency. Assets and liabilities of our foreign subsidiary are translated into United States dollars based on exchange rates at the end of the reporting period; income and expense items are translated at the weighted average exchange rates prevailing during the reporting period. Translation adjustments for subsidiary are accumulated in other comprehensive income or loss, a component of stockholders' equity. Transaction gains or losses are included in the determination of net loss.

Cash, Cash Equivalents, Short-Term Investments and Credit Risk

Cash equivalents consist of investments in low risk, highly liquid money market accounts and certificates of deposit with original maturities of 90 days or less. Cash deposited with banks and other financial institutions may exceed the amount of insurance provided on such deposits. If the amount of a deposit at any time exceeds the federally insured amount at a bank, the uninsured portion of the deposit could be lost, in whole or in part, if the bank were to fail.

Short-term investments consist entirely of fixed income certificates of deposit ("CDs") with original maturities of greater than 90 days but not more than one year.

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents and short-term investments. Our investment policy, approved by our Board of Directors, limits the amount we may invest in any one type of investment issuer, thereby reducing credit risk concentrations. In addition, our certificates of deposit are typically invested through the Certificate of Deposit Account Registry Service ("CDARS") program which reduces or eliminates our risk related to concentrations of investments above FDIC insurance levels. We attempt to limit our credit and liquidity risks through our investment policy and through regular reviews of our portfolio against our policy. To date, we have not experienced any loss or lack of access to cash in our operating accounts or to our cash equivalents and short-term investments.

Revenue

On January 1, 2018, the Company adopted Topic 606, Revenue from Contracts with Customer using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. The Company analyzes contracts to determine the appropriate revenue recognition using the following steps: (i) identification of contracts with customers; (ii) identification of distinct performance obligations in the contract; (iii) determination of contract transaction price; (iv) allocation of contract transaction price to the performance obligations; and (v) determination of revenue recognition based on timing of satisfaction of the performance obligation. The Company recognizes revenues upon the satisfaction of its performance obligation (upon transfer of control of promised goods or services to customers) in an amount that reflects the consideration to which it expects to be entitled to in exchange for those goods or services. Deferred revenue results from cash receipts from or amounts billed to customers in advance of the transfer of control of the promised services to the customer and is recognized as performance obligations are satisfied. When sales commissions or other costs to obtain contracts with customers are considered incremental and recoverable, those costs are deferred and then amortized as selling and marketing expenses on a straight-line basis over an estimated period of benefit.

Research and Development

Research and development costs are expensed as they are incurred. Research and development expenses consist primarily of costs associated with the pre-clinical development and clinical trials of our product candidates. We record cost reimbursements under our SBIR grant as an offset to research and development expenses. For the three months ended March 31, 2018, we recorded approximately $84,000 of such cost reimbursements as an offset to research and development expenses. No reimbursements were recorded in the three months ended March 31, 2017.

Income (Loss) per Common Share

Basic income (loss) per common share is computed by dividing total net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period.

For periods of net income when the effects are dilutive, diluted earnings per share is computed by dividing net income available to common stockholders by the weighted average number of shares outstanding and the dilutive impact of all dilutive potential common shares. Dilutive potential common shares consist primarily of convertible preferred stock, stock options, restricted stock units and common stock purchase warrants. The dilutive impact of potential common shares resulting from common stock equivalents is determined by applying the treasury stock method. Our unvested restricted shares contain non-forfeitable rights to dividends, and therefore are considered to be participating securities; the calculation of basic and diluted income per share excludes net income attributable to the unvested restricted shares from the numerator and excludes the impact of the shares from the denominator.

For all periods of net loss, diluted loss per share is calculated similarly to basic loss per share because the impact of all dilutive potential common shares is anti-dilutive due to the net losses; accordingly, diluted loss per share is the same as basic loss per share for the three months ended March 31, 2018 and 2017. A total of approximately 9.5 and 8.3 million potential dilutive shares have been excluded in the calculation of diluted net income per share for the three months ended March 31, 2018 and 2017, respectively as their inclusion would be anti-dilutive.

Share-Based Compensation

We account for share-based compensation at fair value. Share-based compensation cost for stock options and stock purchase warrants granted to employees and board members is generally determined at the grant date while awards granted to non-employee consultants are generally valued at the vesting date using an option pricing model that uses Level 3 unobservable inputs; share-based compensation cost for restricted stock and restricted stock units is determined at the grant date based on the closing price of our common stock on that date. The value of the award is recognized as expense on a straight-line basis over the requisite service period or based on probability of vesting for performance-based awards.

Intangible and Long-Lived Assets

We assess impairment of our long-lived assets using a "primary asset" approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long-lived asset to be held and used. Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances

indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not rec