

MEDICINOVA INC
Form 10-Q
August 11, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

Commission file number: 001-33185

MEDICINOVA, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or Other Jurisdiction of

33-0927979
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

4350 La Jolla Village Drive, Suite 950

San Diego, CA
(Address of Principal Executive Offices)

92122
(Zip Code)

(858) 373-1500

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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. (Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of August 8, 2008, the registrant had 11,962,247 shares of Common Stock (\$0.001 par value) outstanding.

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MEDICINOVA, INC.

(a development stage company)

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS.****MEDICINOVA, INC.****(a development stage company)****CONSOLIDATED BALANCE SHEETS**

	June 30, 2008 (Unaudited)	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 28,034,601	\$ 18,778,938
Marketable securities available-for-sale	27,804,379	51,856,571
Prepaid expenses and other current assets	1,624,682	2,443,612
Total current assets	57,463,662	73,079,121
Property and equipment, net	493,087	673,317
Total assets	\$ 57,956,749	\$ 73,752,438
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 717,110	\$ 2,880,462
Accrued expenses	4,074,180	3,619,861
Income taxes payable	4,582	20,000
Accrued compensation and related expenses	518,265	620,604
Total current liabilities	5,314,137	7,140,927
Deferred rent		3,310
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value; 30,000,000 shares authorized at June 30, 2008 and 20,000,000 shares authorized at December 31, 2007; 12,072,027 shares issued at June 30, 2008 and December 31, 2007	12,072	12,072
Additional paid-in capital	274,788,215	273,189,063
Accumulated other comprehensive loss	(44,740)	(131,466)
Treasury stock, at cost; 109,780 shares at June 30, 2008 and 124,581 shares at December 31, 2007	(1,360,720)	(1,404,088)
Deficit accumulated during the development stage	(220,752,215)	(205,057,380)
Total stockholders' equity	52,642,612	66,608,201
Total liabilities and stockholders' equity	\$ 57,956,749	\$ 73,752,438

See accompanying notes.

Table of Contents**MEDICINOVA, INC.****(a development stage company)****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three months ended June 30,		Six months ended June 30,		Period from September 26, 2000 (inception) to June 30, 2008
	2008	2007	2008	2007	
Revenues	\$	\$	\$	\$	\$ 1,558,227
Operating expenses:					
Cost of revenues					1,258,421
Research and development	2,243,778	17,855,366	8,322,189	32,060,611	128,167,236
General and administrative	2,216,146	3,045,782	4,797,408	6,059,514	74,684,420
Total operating expenses	4,459,924	20,901,148	13,119,597	38,120,125	204,110,077
Operating loss	(4,459,924)	(20,901,148)	(13,119,597)	(38,120,125)	(202,551,850)
Impairment charge on marketable securities	(936,420)		(3,295,621)		(3,295,621)
Foreign exchange loss	(5,458)		(623,389)		(623,389)
Interest income, net	509,568	1,121,330	1,343,919	2,436,747	17,101,914
Income taxes			(147)		(20,147)
Net loss	(4,892,234)	(19,779,818)	(15,694,835)	(35,683,378)	(189,389,093)
Accretion to redemption value of redeemable convertible preferred stock					(98,445)
Deemed dividend resulting from beneficial conversion feature on Series C redeemable convertible preferred stock					(31,264,677)
Net loss applicable to common stockholders	\$ (4,892,234)	\$ (19,779,818)	\$ (15,694,835)	\$ (35,683,378)	\$ (220,752,215)
Basic and diluted net loss per common share	\$ (0.40)	\$ (1.68)	\$ (1.30)	\$ (3.08)	
Shares used to compute basic and diluted net loss per common share	12,105,415	11,754,181	12,094,592	11,575,550	

See accompanying notes.

Table of Contents**MEDICINOVA, INC.****(a development stage company)****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	Six months ended June 30, 2008,		Period from September 26, 2000 (inception) to June 30, 2008
	2008	2007	2008
Operating activities:			
Net loss	\$ (15,694,835)	\$ (35,683,378)	\$ (189,389,093)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	1,599,152	2,095,325	42,362,402
Depreciation and amortization	180,230	258,638	1,451,308
Amortization of premium/discount on marketable securities	(706,703)	(155,677)	(2,491,417)
Impairment of property and equipment			35,259
Impairment charge on marketable securities	3,295,621		3,295,621
Changes in operating assets and liabilities:			
Prepaid expenses and other assets	818,930	2,761,679	(1,624,682)
Accounts payable, accrued expenses, income taxes payable and deferred rent	(1,727,762)	1,858,356	4,795,872
Accrued compensation and related expenses	(102,338)	95,256	518,265
Net cash used in operating activities	(12,337,705)	(28,769,801)	(141,046,465)
Investing activities:			
Purchases of marketable securities available-for-sale	(2,000,000)	(16,509,045)	(377,205,766)
Maturities or sales of marketable securities available-for-sale	23,550,000	39,215,285	348,553,451
Acquisition of property and equipment		(317,207)	(2,236,499)
Proceeds from sales of property and equipment		62,024	256,845
Net cash provided by (used in) investing activities	21,550,000	22,451,057	(30,631,969)
Financing activities:			
Net proceeds from the sale of common stock		10,638,592	120,890,566
Sale of preferred stock, net of issuance costs			80,216,971
Purchase of treasury stock, net	43,368		(1,394,502)
Net cash provided by financing activities	43,368	10,638,592	199,713,035
Net increase in cash and cash equivalents	9,255,663	4,319,848	28,034,601
Cash and cash equivalents, beginning of period	18,778,938	8,334,496	
Cash and cash equivalents, end of period	\$ 28,034,601	\$ 12,654,344	\$ 28,034,601
Supplemental disclosure of non-cash investing and financing activities:			
Conversion of convertible preferred stock into common stock upon IPO	\$	\$	\$ 43,515,677
Unrealized loss on marketable securities available-for-sale	\$	\$ (39,841)	

See accompanying notes.

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MEDICINOVA, INC.

(a development stage company)

Notes to Consolidated Financial Statements

(Unaudited)

1. Interim Financial Information

The Company

We were incorporated in the state of Delaware in September 2000. We are a biopharmaceutical company focused on acquiring and developing novel, small molecule therapeutics for the treatment of diseases with unmet need with a specific focus on the U.S. market. Through strategic alliances primarily with Japanese pharmaceutical companies, we hold rights to a diversified portfolio of clinical and preclinical product candidates, each of which we believe has a well-characterized and differentiated therapeutic profile, attractive commercial potential and patent assets having claims of commercially adequate scope. Since we have not begun principal operations of commercializing any of our product candidates, we are considered to be a development stage company as defined in Statement of Financial Accounting Standards (SFAS) No. 7, *Accounting and Reporting by Development Stage Enterprises*.

Basis of Presentation

We have prepared the accompanying unaudited consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flow for the interim period presented have been included. Operating results for the three months and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008 or for any other period. For further information, see the financial statements and disclosures thereto for the year ended December 31, 2007 in our Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 17, 2008.

Principles of Consolidation

The consolidated financial statements include the accounts of MediciNova, Inc. and its wholly-owned subsidiaries. MediciNova, Inc. and its subsidiaries are collectively referred to herein as we, our or us.

On December 13, 2006, MediciNova (Europe) Limited, a wholly-owned subsidiary of MediciNova, Inc., was incorporated under the laws of England and Wales and established for the purpose of facilitating the clinical development of the Company's compounds for the European marketplace. MediciNova (Europe) Limited's functional currency is the U.S. dollar, the reporting currency of its parent.

On January 4, 2007, MediciNova Japan, Inc., a wholly-owned subsidiary of MediciNova, Inc., was incorporated under the laws of Japan and established to strengthen business development and investor and public relations activities in Japan and other Asian countries. MediciNova Japan, Inc.'s functional currency is the U.S. dollar, the reporting currency of its parent.

All intercompany transactions and investments in our subsidiaries have been eliminated in consolidation.

Use of Estimates

We have prepared the accompanying unaudited consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, which requires management to make

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estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

New Accounting Standards Recently Adopted

In June 2007, the Financial Accounting Standards Board (FASB) ratified the consensus reached by the Emerging Issues Task Force (EITF) in EITF Issue No. 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*, which requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and amortized over the period that the goods are delivered or the related services are performed, subject to an assessment of recoverability. EITF 07-3 was effective for fiscal years beginning after December 15, 2007. Effective January 1, 2008, we adopted EITF 07-3, which resulted in no impact to our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which allows an entity to voluntarily choose to measure certain financial assets and liabilities at fair value. SFAS No. 159 was effective for fiscal years beginning after November 15, 2007. Effective January 1, 2008, we adopted SFAS No. 159, which resulted in no impact to our consolidated financial statements as we did not elect to measure any eligible financial assets or liabilities at fair value.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS No. 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements and is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FASB Staff Position 157-2, which delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008 and interim periods within those fiscal years, which will be our fiscal year 2009. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. Effective January 1, 2008, we adopted SFAS No. 157 for financial assets and liabilities recognized at fair value on a recurring basis. The partial adoption of SFAS No. 157 for financial assets and liabilities did not have a material impact on our consolidated financial statements. *See Note 2, Fair Value Measurements, for information and related disclosures regarding our fair value measurements.*

2. Fair Value Measurements

As stated in Note 1, Interim Financial Information, above, we adopted SFAS No. 157 as of January 1, 2008. As defined in SFAS No. 157, fair value is based on the price that would be received to sell an asset or would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability and consistency of fair value measurements, SFAS No. 157 prescribes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels which are described below: