Intra-Cellular Therapies, Inc.
Form 10-Q
August 05, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from _____ to _____

Commission File Number: 001-36274

INTRA-CELLULAR THERAPIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**36-4742850**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
430 East 29th Street	
New York, New York	**10016**
(Address of principal executive offices)	**(Zip Code)**

(212) 923-3344

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

Large accelerated filer ¨	Accelerated filer x
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 x

As of August 4, 2015, the registrant had 35,056,246 shares of common stock outstanding.

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In this Quarterly Report on Form 10-Q, the terms we, us, our, and the Company mean Intra-Cellular Therapies, Inc and our subsidiaries. ITI refers to our wholly-owned operating subsidiary ITI, Inc. and its subsidiary.

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PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Intra-Cellular Therapies, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

	June 30, 2015 *(Unaudited)*	December 31, 2014 *(Audited)*
Assets		
Current assets:		
Cash and cash equivalents	**$ 71,418,286**	$ 61,325,044
Investment securities, available-for-sale	**132,570,900**	68,320,672
Accounts receivable	**9,118**	51,603
Prepaid expenses and other current assets	**8,612,651**	1,288,953
Total current assets	**212,610,955**	130,986,272
Property and equipment, net	**722,131**	54,553
Other assets	**70,944**	70,944
Total assets	**$ 213,404,030**	$ 131,111,769
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	**$ 4,911,065**	$ 2,052,765
Accrued and other current liabilities	**3,340,399**	7,529,241
Accrued employee benefits	**1,066,629**	975,058
Total current liabilities	**9,318,093**	10,557,064
Long-term deferred rent	**520,628**	
Total liabilities	**9,838,721**	10,557,064
Stockholders equity:		
Common stock, $.0001 par value: 100,000,000 shares authorized; 35,041,746 and 29,499,059 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	**3,504**	2,950
Additional paid-in capital	**335,668,581**	208,912,345
Accumulated deficit	**(132,054,099)**	(88,255,957)
Accumulated comprehensive loss	**(52,677)**	(104,633)
Total stockholders equity	**203,565,309**	120,554,705

Total liabilities and stockholders equity	**$ 213,404,030**	$ 131,111,769

See accompanying notes to these condensed consolidated financial statements.

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Intra-Cellular Therapies, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
Revenues	**$ 57,390**	$ 219,238	**$ 60,705**	$ 387,025
Costs and expenses:				
Research and development	**17,762,518**	2,709,702	**36,394,945**	5,539,001
General and administrative	**3,985,797**	2,121,120	**7,757,425**	4,034,071
Total costs and expenses	**21,748,315**	4,830,822	**44,152,370**	9,573,072
Loss from operations	**(21,690,925)**	(4,611,584)	**(44,091,665)**	(9,186,047
Interest expense		(2,032)		(7,073)
Interest income	**179,607**	80,077	**293,523**	116,297
Net loss	**$ (21,511,318)**	$ (4,533,539)	**$ (43,798,142)**	$ (9,076,823)
Net loss per common share:				
Basic & Diluted	**$ (0.61)**	$ (0.15)	**$ (1.33)**	$ (0.33)
Weighted average number of common shares:				
Basic & Diluted	**35,002,819**	29,273,357	**32,900,731**	27,882,360

See accompanying notes to these condensed consolidated financial statements.

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Intra-Cellular Therapies, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Loss

	Three-Months Ended June 30,		Six-Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
Net loss	**$ (21,511,318)**	$ (4,533,539)	**$ (43,798,142)**	$ (9,076,823)
Other comprehensive loss:				
Unrealized gain (loss) on investment securities	**(18,773)**	(47,749)	**51,956**	(47,749)
Comprehensive loss	**$ (21,530,091)**	$ (4,581,288)	**$ (43,746,186)**	$ (9,124,572)

See accompanying notes to these condensed consolidated financial statements.

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Intra-Cellular Therapies, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	(Unaudited)	
	Six Months Ended June 30,	
	2015	2014
Cash flows provided by (used in) operating activities		
Net loss	**$ (43,798,142)**	$ (9,076,823)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	**47,120**	12,747
Share-based compensation expense	**4,600,605**	490,215
Issuance of common stock for services	**91,338**	
Amortization of premiums on investment securities	**344,863**	41,753
Changes in operating assets and liabilities:		
Accounts receivable	**42,485**	117,080
Prepaid expenses and other assets	**(7,323,698)**	329,498
Accounts payable	**2,858,300**	(2,979,276)
Accrued liabilities	**(4,097,271)**	(1,115,507)
Deferred rent	**520,628**	
Net cash used in operating activities	**(46,713,772)**	(12,180,313)
Cash flows provided by (used in) investing activities		
Purchases of investments	**(93,670,933)**	(72,444,786)
Maturities of investments	**29,127,798**	25,000,000
Purchases of property and equipment	**(714,698)**	(8,325)
Net cash used in investing activities	**(65,257,833)**	(47,453,111)
Cash flows provided by (used in) financing activities		
Proceeds from stock option exercises	**260,478**	70,058
Proceeds from stock subscriptions		109,833
Gross proceeds of public offering	**122,083,012**	116,191,285
Payment of costs of public offering	**(278,643)**	(748,538)
Net cash provided by financing activities	**122,064,847**	115,622,638
Net increase in cash and cash equivalents	**10,093,242**	55,989,214
Cash and cash equivalents at beginning of period	**61,325,044**	35,150,924
Cash and cash equivalents at end of period	**$ 71,418,286**	$ 91,140,138
Cash paid for interest	**$**	$ 7,073

Cash paid for taxes	**$ 206,600**	$ 27,866

See accompanying notes to these condensed consolidated financial statements.

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Intra-Cellular Therapies, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

June 30, 2015

1. Organization

Intra-Cellular Therapies, Inc. (the Company), through its wholly-owned operating subsidiary, ITI, Inc. (ITI), is a biopharmaceutical company focused on the discovery and clinical development of innovative, small molecule drugs that address underserved medical needs in neuropsychiatric and neurological disorders by targeting intracellular signaling mechanisms within the central nervous system (CNS). The Company s lead product candidate, ITI-007, is in Phase 3 clinical development as a first-in-class treatment for schizophrenia.

ITI was incorporated in the State of Delaware on May 22, 2001 under the name Intra-Cellular Therapies, Inc. and commenced operations in June 2002. ITI was founded to discover and develop drugs for the treatment of neurological and psychiatric disorders.

On August 29, 2013, ITI completed a reverse merger (the Merger) with a public shell company named Oneida Resources Corp. (Oneida). Oneida was formed in August 2012 as a vehicle to investigate and, if such investigation warranted, acquire a target company or business seeking the perceived advantages of being a publicly held corporation. In the Merger, each outstanding share of capital stock of ITI was exchanged for 0.5 shares of common stock of Oneida, and each outstanding option to purchase one share of ITI common stock and each outstanding warrant to purchase one share of ITI common stock was assumed by Oneida and became exercisable for 0.5 shares of Oneida common stock. As a result of the Merger and related transactions, ITI survived as a wholly-owned subsidiary of Oneida, Oneida changed its fiscal year end from March 31 to December 31, and Oneida changed its name to Intra-Cellular Therapies, Inc. (the Company). In addition, the Company began operating ITI and its business, and therefore ceased being a shell company. Following the Merger and the redemption of all then outstanding shares of Oneida at the closing of the Merger, the former shareholders of ITI owned 100% of the shares of the Company s outstanding capital stock.

In accordance with Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) Topic 805, *Business Combinations*, ITI was considered the acquirer for accounting purposes, and had accounted for the transaction as a capital transaction, because ITI s former stockholders received 100% of the voting rights in the combined entity and ITI s senior management represented all of the senior management of the combined entity. Consequently, the assets and liabilities and the historical operations that are reflected in the Company s consolidated financial statements are those of ITI and have been recorded at the historical cost basis of the Company. All share and per share amounts in the condensed consolidated financial statements and related notes have been retrospectively adjusted to reflect the one-for-0.5 shares of capital stock exchange as well as the conversion of the Notes (defined below) and the Series A, B, and C redeemable convertible preferred stock of ITI.

Immediately prior to the Merger, on August 29, 2013, ITI sold to accredited investors approximately $60.0 million of its shares of common stock, or 18,889,307 shares at a price of $3.1764 per share (the Private Placement), which included $15.3 million in principal and $0.8 million in accrued interest from the conversion of ITI s then outstanding convertible promissory notes (the Notes).

On February 5, 2014, the Company completed a public offering of common stock in which the Company sold 7,063,300 shares of common stock, which included the exercise of the underwriters option to purchase an additional

921,300 shares, at an offering price of $17.50 per share. After deducting underwriting discounts, commissions and offering expenses, the net proceeds to the Company were approximately $115.4 million.

On October 31, 2014, the Company entered into a termination agreement with Takeda Pharmaceutical Company Limited (Takeda) terminating the worldwide license and collaboration agreement under which the Company and Takeda were jointly developing the Company s proprietary compound ITI-214 and other selected compounds that selectively inhibit phosphodiesterase type 1 (PDE1) for use in the prevention and treatment of human diseases. Through June 30, 2015, the Company had received approximately $29.0 million in total payments under the agreement and was previously eligible to receive milestone payments and royalties based on net sales. The Company is in the process of refining its strategy for the PDE1 inhibitor program.

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In the first quarter of 2015, the Company moved its headquarters to 430 East 29th Street, New York, New York 10016. The Company has entered into a long-term lease for approximately 16,753 square feet of useable laboratory and office space**.** The lease has a term of 11 years. The Company expects that its facility related costs will increase moderately beginning in 2015 due to this new facility. Due to the amortization of total lease payments, the Company has recognized $0.5 million of deferred rent in the first half of 2015. The deferred rent balance will incrementally increase over the next seven quarters. A board member of the Company is a Chairman of the board of directors, Chief Executive Officer and President of the parent company to the landlord under this lease.

On March 11, 2015, the Company completed a public offering of common stock in which the Company sold 5,411,481 shares of common stock, which included the exercise of the underwriters option to purchase an additional 661,481 shares, at an offering price of $24.00 per share. After deducting underwriting discounts, commissions and offering expenses, the net proceeds to the Company were approximately $121.8 million.

In order to further its research projects and support its collaborations, the Company will require additional financing until such time, if ever, that revenue streams are sufficient to generate consistent positive cash flow from operations. Possible sources of funds include public or private sales of the Company s equity securities, sales of debt securities, the incurrence of debt from commercial lenders, strategic collaborations, licensing a portion or all of the Company s product candidates and technology and, to a lesser extent, grant funding. On August 29, 2014, the Company filed a universal shelf registration statement on Form S-3, which was declared effective by the Securities and Exchange Commission (the SEC) on September 15, 2014, to register $150 million of the Company s common stock, preferred stock, various series of debt securities, warrants, rights and purchase contracts to purchase any of such securities, either individually or in units, for issuance from time to time at prices and on terms to be determined at the time of any such offering. After the public offering in March 2015, approximately $20.1 million of securities remained available for issuance under this shelf registration. On May 28, 2015, the Company filed a universal shelf registration statement on Form S-3, which was declared effective by the SEC on June 5, 2015, to register $350 million of the Company s common stock, preferred stock, various series of debt securities, warrants, rights and purchase contracts to purchase any of such securities, either individually or in units, for issuance from time to time at prices and on terms to be determined at the time of any such offering (including the approximately $20.1 million of securities that remained available for issuance under the Company s previous shelf registration and up to $50 million of the Company s common stock for issuance pursuant to the Sales Agreement (defined below)). This registration statement will remain in effect for up to three years from the initial effective date.

On May 28, 2015, the Company entered into a Sales Agreement (the Sales Agreement) with Cowen and Company, LLC (Cowen) with respect to an at-the-market offering program, under which the Company may offer and sell, from time to time at its sole discretion, shares of its common stock having an aggregate offering price of up to $50 million (the Placement Shares) through Cowen as its sales agent. Under the Sales Agreement, Cowen may sell the Placement Shares by any method permitted by law deemed to be an at the market offering as defined in Rule 415 of the Securities Act of 1933, as amended (the Securities Act), including, without limitation, sales made by means of ordinary brokers transactions on The NASDAQ Global Select Market or otherwise at market prices prevailing at the time of sale, in block transactions, or as otherwise directed by the Company. Cowen agreed to use commercially reasonable efforts to sell the Placement Shares from time to time, based upon instructions from the Company (including any price, time or size limits or other customary parameters or conditions the Company may impose). The Company agreed to pay Cowen a commission of up to three percent (3.0%) of the gross sales proceeds of any Placement Shares sold through Cowen under the Sales Agreement, and also has provided Cowen with customary indemnification and contribution rights. The Company is not obligated to make any sales of Common Stock under the Sales Agreement. The offering of Placement Shares pursuant to the Agreement will terminate upon the earlier of (i) the sale of all Placement Shares subject to the Sales Agreement, or (ii) termination of the Sales Agreement in accordance with its terms.

The Company will no longer be an emerging growth company on December 31, 2015 and will instead become a large accelerated filer, as defined under the Securities Exchange Act of 1934, as amended (the Exchange Act). The Company will therefore no longer be able to rely on those exemptions to reporting requirements available to emerging growth companies. As a result, the Company will need to comply with the independent auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002 beginning with the Company s Annual Report on Form 10-K for the year ending December 31, 2015, will be required to hold a say-on-pay vote and a say-on-frequency vote at its 2016 Annual Meeting of Stockholders, and will no longer be entitled to provide the reduced executive compensation disclosures permitted by emerging growth companies in its Annual Report on the Form 10-K and proxy statement for the year ending December 31, 2015. The Company expects that the Company s transition from emerging growth company to large accelerated filer will require additional attention from management and will result in increased costs to the Company, which could include higher legal fees, accounting and related fees and fees associated with investor relations activities, among others.

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2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although actual results could differ from those estimates, management does not believe that such differences would be material.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less from the date of purchase to be cash equivalents. Cash and cash equivalents consist of checking accounts, money market accounts, money market mutual funds, and certificates of deposit with a maturity date of three months or less. Certificates of deposit, commercial paper, corporate notes and corporate bonds with a maturity date of more than three months are classified separately on the balance sheet. Their carrying values approximate the fair market value.

Investment Securities

Investment securities consisted of the following (in thousands):

	June 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Estimated Fair Value
	(unaudited)			
U.S. Government Agency Securities	$ 14,291	$ 1	$ (4)	$ 14,288
FDIC Certificates of Deposit (1)	20,977	10		20,987
Certificates of Deposit	47,000			47,000
Commercial Paper	2,237	1		2,238
Corporate Notes/Bonds	48,118	2	(62)	48,058
	$ 132,623	$ 14	$ (66)	$ 132,571

	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Estimated Fair Value
U.S. Government Agency Securities	$ 4,316	$	$ (3)	$ 4,313
FDIC Certificates of Deposit (1)	16,374		(14)	16,360
Certificates of Deposit	2,000			2,000
Commercial Paper	9,743	1		9,744
Corporate Notes/Bonds	35,992		(89)	35,903

$ 68,425	$ 1	$ (106)	$ 68,320

(1) FDIC Certificates of Deposit consist of deposits that are less than $250,000.

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The Company has classified all of its investment securities available-for-sale, including those with maturities beyond one year, as current assets on the consolidated balance sheets based on the highly liquid nature of the investment securities and because these investment securities are considered available for use in current operations. As of June 30, 2015 and December 31, 2014, the Company held $44.7 million and $31.8 million, respectively, of available-for-sale investment securities with contractual maturity dates more than one year and less than two years.

Fair Value Measurements

The Company applies the fair value method under ASC Topic 820, *Fair Value Measurements and Disclosures*. ASC Topic 820 defines fair value, establishes a fair value hierarchy for assets and liabilities measured at fair value and requires expanded disclosures about fair value measurements. The ASC Topic 820 hierarchy ranks the quality and reliability of inputs, or assumptions, used in the determination of fair value and requires assets and liabilities carried at fair value to be classified and disclosed in one of the following categories based on the lowest level input used that is significant to a particular fair value measurement:

Level 1 Fair value is determined by using unadjusted quoted prices that are available in active markets for identical assets and liabilities.

Level 2 Fair value is determined by using inputs other than Level 1 quoted prices that are directly or indirectly observable. Inputs can include quoted prices for similar assets and liabilities in active markets or quoted prices for identical assets and liabilities in inactive markets. Related inputs can also include those used in valuation or other pricing models, such as interest rates and yield curves that can be corroborated by observable market data.

Level 3 Fair value is determined by inputs that are unobservable and not corroborated by market data. Use of these inputs involves significant and subjective judgments to be made by a reporting entity e.g., determining an appropriate adjustment to a discount factor for illiquidity associated with a given security.

The Company evaluates financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level at which to classify them each reporting period. This determination requires the Company to make subjective judgments as to the significance of inputs used in determining fair value and where such inputs lie within the ASC Topic 820 hierarchy.

The Company has no assets or liabilities that were measured using quoted prices for significant unobservable inputs (Level 3 assets and liabilities) as of June 30, 2015 and December 31, 2014. The carrying value of cash held in money market funds of approximately $14.4 million as of June 30, 2015 and $8.5 million as of December 31, 2014, is included in cash and cash equivalents and approximates market value based on quoted market price or Level 1 inputs.

The fair value measurements of the Company s cash equivalents and available-for-sale investment securities are identified in the following tables (in thousands):

		Fair Value Measurements at Reporting Date Using		
	June 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 14,403	$ 14,403	$	$
U.S. Government Agency Securities	14,288		14,288	
FDIC certificates of deposit	20,987		20,987	
Certificates of deposit	89,500		89,500	
Commercial paper	2,238		2,238	
Corporate Bonds/Notes	48,058		48,058	
	$ 189,474	$ 14,403	$ 175,071	$

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		Fair Value Measurements at Reporting Date Using		
	December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	$ 8,495	$ 8,495	$	$
U.S. Government Agency Securities	4,313		4,313	
FDIC certificates of deposit	16,360		16,360	
Certificates of deposit	41,000		41,000	
Commercial paper	9,744		9,744	
Corporate Bonds/Notes	35,903		35,903	
	$ 115,815	$ 8,495	$ 107,320	$

Financial Instruments

The Company considers the recorded costs of its financial assets and liabilities, which consist of cash equivalents, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, to approximate their fair value because of their relatively short maturities at June 30, 2015 and December 31, 2014. Management believes that the risks associated with its financial instruments are minimal as the counterparties are various corporations, financial institutions and government agencies of high credit standing.

Concentration of Credit Risk

Cash equivalents are held with major financial institutions in the United States. Certificates of deposit held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal risk.

Accounts Receivable

Accounts receivable that management has the intent and ability to collect are reported in the balance sheets at outstanding amounts, less an allowance for doubtful accounts. The Company writes off uncollectible receivables when the likelihood of collection is remote.

The Company evaluates the collectability of accounts receivable on a regular basis. The allowance, if any, is based upon various factors including the financial condition and payment history of customers, an overall review of collections experience on other accounts and economic factors or events expected to affect future collections experience. No allowance was recorded as of June 30, 2015 and December 31, 2014, as the Company has a history of collecting on all of its accounts, including government agencies and collaborations funding its research.

Property and Equipment

Property and equipment is stated at cost and depreciated on a straight-line basis over estimated useful lives ranging from three to five years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the assets or the term of the related lease. Expenditures for maintenance and repairs are charged to operations as incurred.

When indicators of possible impairment are identified, the Company evaluates the recoverability of the carrying value of its long-lived assets based on the criteria established in ASC Topic 360, *Property, Plant and Equipment*. The Company considers historical performance and anticipated future results in its evaluation of potential impairment. The Company evaluates the carrying value of those assets in relation to the operating performance of the business and undiscounted cash flows expected to result from the use of those assets. Impairment losses are recognized when carrying value exceeds the undiscounted cash flows, in which case management must determine the fair value of the underlying asset. No such impairment losses have been recognized to date.

Revenue Recognition

Revenue is recognized when all terms and conditions of the agreements have been met, including that persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. The Company is reimbursed for certain costs incurred on specified research projects under the terms and

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conditions of grants, collaboration agreements, and awards. The Company records the amount of reimbursement as revenues on a gross basis in accordance with ASC Topic 605-45, *Revenue Recognition/Principal Agent Considerations*. The Company is the primary obligor with respect to purchasing goods and services from third-party suppliers, is obligated to compensate the service provider for the work performed, and has discretion in selecting the supplier. Provisions for estimated losses on research grant projects and any other contracts are made in the period such losses are determined.

The Company has entered into arrangements involving the delivery of more than one element. Each required deliverable is evaluated to determine whether it qualifies as a separate unit of accounting. For the Company, this determination is generally based on whether the deliverable has stand-alone value to the customer. The Company adopted this accounting standard on a prospective basis for all Multiple-Deliverable Revenue Arrangements (MDRAs), entered into on or after January 1, 2011, and for any MDRAs that were entered into prior to January 1, 2011, but materially modified on or after that date.

The Company adopted ASC Topic 605-28, *Milestone Method*. Under this guidance, the Company recognizes revenue contingent upon the achievement of a substantive milestone in its entirety in the period the milestone is achieved. Substantive milestone payments are recognized upon achievement of the milestone only if all of the following conditions are met:

- the milestone payments are non-refundable;
- achievement of the milestone involves a degree of risk and was not reasonably assured at the inception of the arrangement;
- substantive effort on the Company s part is involved in achieving the milestone;
- the amount of the milestone payment is reasonable in relation to the effort expended or the risk associated with achievement of the milestone; and
- a reasonable amount of time passes between the up-front license payment and the first milestone payment, as well as between each subsequent milestone payment.

Determination as to whether a payment meets the aforementioned conditions involves management s judgment. If any of these conditions are not met, the resulting payment would not be considered a substantive milestone, and therefore, the resulting payment would be considered part of the consideration for the single unit of accounting and be recognized as revenue as such performance obligations are performed under either the proportional performance or straight-line methods, as applicable. In addition, the determination that one such payment was not a substantive milestone could prevent the Company from concluding that subsequent milestone payments were substantive milestones and, as a result, any additional milestone payments could also be considered part of the consideration for the single unit of accounting and would be recognized as revenue as such performance obligations are performed under either the proportional performance or straight-line methods, as applicable.

Research and Development

Except for payments made in advance of services, which at the commencement of a clinical trial are generally significant, the Company expenses its research and development costs as incurred. For payments made in advance, the Company recognizes research and development expense as the services are rendered. Research and development costs primarily consist of the costs of clinical trials and salaries and related expenses for personnel and resources. Other research and development expenses include pre-clinical analytical testing, outside services, providers, materials and consulting fees.

Income Taxes

Income taxes are accounted for using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and its respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities.

The Company accounts for uncertain tax positions pursuant to ASC Topic 740 (previously included in FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109).* Financial statement recognition of a tax position taken or expected to be taken in a tax return is determined based on a more-likely-than-not threshold of that position being

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sustained. If the tax position meets this threshold, the benefit to be recognized is measured as the tax benefit having the highest likelihood of being realized upon ultimate settlement with the taxing authority. The Company recognizes interest accrued related to unrecognized tax benefits and penalties in the provision for income taxes.

Comprehensive Income (Loss)

All components of comprehensive income (loss), including net income (loss), are reported in the financial statements in the period in which they are incurred. Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. In accordance with accounting guidance, the Company presents the impact of any unrealized gains or (losses) on its investment securities in a separate statement of comprehensive income (loss) for each period.

Share-Based Compensation

Share-based payments are accounted for in accordance with the provisions of ASC Topic 718, *Compensation Stock Compensation*. The fair value of share-based payments is estimated, on the date of grant, using the Black-Scholes-Merton option-pricing model (the Black-Scholes model). The resulting fair value is recognized ratably over the requisite service period, which is generally the vesting period of the option.

For all awards granted with time-based vesting conditions, expense is amortized using the straight-line attribution method. For awards that contain a performance-based vesting condition, expense is amortized using the accelerated attribution method. Share-based compensation expense recognized in the statements of operations for the three and six months ended June 30, 2015 and 2014 is based on share-based awards ultimately expected to vest, and this amount has therefore been reduced for estimated forfeitures. ASC Topic 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated based on the Company s historical experience and have not been material.

The Company utilizes the Black-Scholes model for estimating fair value of its stock options granted. Option valuation models, including the Black-Scholes model, require the input of subjective assumptions, and changes in the assumptions used can materially affect the grant date fair value of an award. These assumptions include the risk-free rate of interest, expected dividend yield, expected volatility and the expected life of the award.

Expected volatility rates are based on historical volatility of the common stock of comparable publicly traded entities and other factors due to the limited historical information of the Company s common stock. The expected life of stock options is the period of time for which the stock options are expected to be outstanding. Given the limited historical exercise data, the expected life is determined using the simplified method, which is defined as the midpoint between the vesting date and the end of the contractual term.

The risk-free interest rates are based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. The Company has not paid dividends to its stockholders since its inception and does not plan to pay cash dividends in the foreseeable future. Therefore, the Company has assumed an expected dividend rate of zero.

Prior to January 1, 2014, given that there was no active market for the Company s common stock, the exercise price of the stock options on the date of grant was determined and approved by the board of directors using several factors, including progress and milestones achieved in the Company s business development and performance, the price per share of its convertible preferred stock offerings and general industry and economic trends. In establishing the estimated fair value of the common stock, the Company considered the guidance set forth in American Institute of

Certified Public Accountants Practice Guide, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. For stock options granted in 2014 and 2015, the exercise price was determined by using the closing market price of the Company s common stock on the date of grant.

Under ASC Topic 718, the cumulative amount of compensation cost recognized for instruments classified as equity that ordinarily would result in a future tax deduction under existing tax law shall be considered to be a deductible difference in applying ASC Topic 740, *Income Taxes*. The deductible temporary difference is based on the compensation cost recognized for financial reporting purposes; however, these provisions currently do not impact the Company, as all the deferred tax assets have a full valuation allowance.

Since the Company had net operating loss carryforwards as of June 30, 2015 and 2014, no excess tax benefits for the tax deductions related to share-based awards were recognized in the statements of operations.

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Equity instruments issued to non-employees are accounted for under the provisions of ASC Topic 718 and ASC Topic 505-50, *Equity/Equity-Based Payments to Non-Employees*. Accordingly, the estimated fair value of the equity instrument is recorded on the earlier of the performance commitment date or the date the services required are completed and are marked to market during the service period.

Loss Per Share

Basic net loss per common share is determined by dividing the net loss allocable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration of common stock equivalents. Diluted net loss per share is computed by dividing the net loss allocable to common stockholders by the weighted-average number of common stock equivalents outstanding for the period. The treasury stock method is used to determine the dilutive effect of the Company s stock option grants.

The following common stock equivalents were excluded in the calculation of diluted loss per share because their effect would be anti-dilutive as applied to the loss from operations for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Stock options	1,491,457	1,102,945	1,485,991	1,102,945

3. Property and Equipment

Property and equipment consist of the following:

	June 30, 2015	December 31, 2014
Computer equipment	**$ 39,589**	$ 39,160
Furniture and fixtures	**218,476**	35,958
Scientific equipment	**2,728,399**	2,207,848
	2,986,464	2,282,966
Less accumulated depreciation	**(2,264,333)**	(2,228,413)
	$ 722,131	$ 54,553

Depreciation expense for the six months ended June 30, 2015 and 2014 was $47,120 and $12,747 respectively.

4. Share-Based Compensation

The Company sponsors the Intra-Cellular Therapies, Inc. 2013 Equity Incentive Plan (the 2013 Plan) to provide for the granting of stock-based awards, such as stock options, restricted common stock, restricted stock units and stock appreciation rights to employees, directors and consultants as determined by the Board of Directors. In August 2013, the Company assumed in the Merger the ITI 2003 Equity Incentive Plan, as amended (the 2003 Plan), which expired by its terms in July 2013. As of June 30, 2015, there were options to purchase 1,004,096 shares of common stock outstanding under 2013 Plan. Effective in November 2013, the Company adopted the 2013 Plan. The Company initially reserved 2,850,000 shares of common stock for issuance under the 2013 Plan. In both January 2015 and 2014, the number of shares of common stock reserved for issuance under the 2013 Plan automatically increased by 800,000 pursuant to the evergreen provisions of the 2013 Plan. On June 16, 2015, the stockholders of Company approved, at the Company s 2015 Annual Meeting of Stockholders, an amendment to the 2013 Plan to increase the number of shares of common stock available for issuance under the plan by 3,100,000 shares, to increase by 100,000 shares the maximum number of shares available for issuance of options, stock appreciation rights and other similar awards to any one participant in any calendar year for purposes of meeting the requirements for qualified performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code) and to eliminate the evergreen provisions of the 2013 Plan under which 800,000 shares were automatically added to the plan on each of January 1, 2014 and 2015.

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Stock options granted under the 2013 Plan may be either incentive stock options (ISOs) as defined by the Code, or non-qualified stock options. The Board of Directors determines who will receive options, the vesting periods (which are generally two to three years) and the exercise prices of such options. Options have a maximum term of 10 years. The exercise price of ISOs granted under the 2013 Plan must be at least equal to the fair market value of the common stock on the date of grant.

Total stock-based compensation expense, related to all of the Company s share-based awards to employees, directors and consultants recognized during three and six months ended June 30, 2015 and 2014, was comprised of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Research and development	**$ 1,000,047**	$ 134,833	**$ 1,671,656**	$ 232,250
General and administrative	**1,500,732**	155,628	**2,928,949**	257,965
Total share-based compensation expense	**$ 2,500,779**	$ 290,461	**$ 4,600,605**	$ 490,215

The following table describes the weighted-average assumptions used for calculating the value of options granted during the six months ended June 30, 2015 and June 30, 2014:

	2015	**2014**
Dividend yield	**0%**	**0%**
Expected volatility	**80%**	**80%**
Weighted-average risk-free interest rate	**1.8%**	**2.0%**
Expected term	**6.3 years**	**6.2 years**

Information regarding the stock options activity including with respect to grants to employees, directors and consultants as of June 30, 2015, and changes during the six-month period then ended, are summarized as follows:

	Number of Shares	**Weighted-Average Exercise Price**	**Weighted-Average Contractual Life**
Outstanding at December 31, 2014	2,233,460	$ 9.20	7.3 years
Options granted	815,973	$ 19.04	9.6 years
Options exercised	(127,864)	$ 2.04	3.0 years
Options canceled or expired	(13,500)	$ 3.26	7.9 years
Outstanding at June 30, 2015	2,908,069	$ 12.31	7.8 years

Vested or expected to vest at June 30, 2015	2,908,069	$	12.31	
Exercisable at June 30, 2015	1,356,039	$	6.75	6.1 years

5. Collaborations and License Agreements

The Bristol-Myers Squibb License Agreement

On May 31, 2005, the Company entered into a worldwide, exclusive License Agreement with Bristol-Myers Squibb Company (BMS), pursuant to which the Company holds a license to certain patents and know-how of BMS relating to ITI-007 and other specified compounds. The agreement was amended on November 3, 2010. The licensed rights are exclusive, except BMS retains rights in specified compounds in the fields of obesity, diabetes, metabolic syndrome and cardiovascular disease. However, BMS has no right to use, develop or commercialize ITI-007 and other specified compounds in any field of use. The Company has the right to grant sublicenses of the rights conveyed by BMS. The Company is obliged under the license to use commercially reasonable efforts to develop and commercialize the licensed technology. The Company is also prohibited from engaging in the clinical development or commercialization of specified competitive compounds.

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Under the agreement, the Company made an upfront payment of $1.0 million to BMS, a milestone payment of $1.25 million in December 2013, and a milestone payment of $1.5 million in December 2014 following the initiation of the Company s first Phase 3 clinical trial for ITI-007 for patients with exacerbated schizophrenia. Possible milestone payments remaining total $12.0 million, including $2.0 million payable by the Company upon the FDA s acceptance of a New Drug Application. Under the agreement, the Company may be obliged to make other milestone payments to BMS for each licensed product of up to an aggregate of approximately $14.75 million. The Company is also obliged to make tiered single digit percentage royalty payments on sales of licensed products. The Company is obliged to pay to BMS a percentage of non-royalty payments made in consideration of any sublicense.

The agreement extends, and royalties are payable, on a country-by-country and product-by-product basis, through the later of ten years after first commercial sale of a licensed product in such country, expiration of the last licensed patent covering a licensed product, its method of manufacture or use, or the expiration of other government grants providing market exclusivity, subject to certain rights of the parties to terminate the agreement on the occurrence of certain events. On termination of the agreement, the Company may be obliged to convey to BMS rights in developments relating to a licensed compound or licensed product, including regulatory filings, research results and other intellectual property rights.

The Takeda Pharmaceutical License and Collaboration Agreement and Termination Agreement

On February 25, 2011, the Company entered into a license and collaboration agreement (the Takeda License Agreement) with Takeda Pharmaceutical Company Limited (Takeda) under which the Company agreed to collaborate to research, develop and commercialize its proprietary compound ITI-214 and other selected compounds that selectively inhibit PDE1 for use in the prevention and treatment of human diseases. As part of the agreement, the Company assigned to Takeda certain patents owned by the Company that claim ITI-214 and granted Takeda an exclusive license to develop and commercialize compounds identified in the conduct of the research program that satisfy specified criteria. However, the Company retained rights to all compounds that do not meet the specified criteria and the Company continues to develop PDE1 inhibitors outside the scope of the agreement.

On October 31, 2014, the Company entered into an agreement with Takeda terminating the Takeda License Agreement, pursuant to which all rights granted under the Takeda License Agreement were returned to the Company. Takeda will complete certain ongoing activities relating to non-clinical studies and will transfer product inventory and materials to the Company but will not have any other ongoing involvement or funding obligations in connection with the development program. ITI-214 is the first compound in its class to successfully advance into Phase 1 clinical trials. The Company intends to continue the development of ITI-214 for the treatment of CNS and other disorders. The Company is in the process of refining its strategy for the PDE1 inhibitor program. By regaining unrestricted access to ITI-214, backups and the proprietary chemistry, the Company can now integrate the efforts of its internal PDE program to include the later stage portfolio. The Company does not anticipate a significant increase in its operating expenses related to its PDE development programs during 2015. Other compounds in the PDE portfolio are also being advanced for the treatment of various indications, including non-CNS therapeutic areas.

Other License Agreement

In May 2002, the Company entered into a license agreement (the License) and research agreement with a university. Under the provisions of the License, the Company is entitled to use this organization s patented technology and other intellectual property relating to diagnosis and treatment of central nervous system disorders.

The License expires upon expiration of the patent rights or 15 years subsequent to the first sale of products developed through this License. ITI is required to make future milestone payments for initiation of clinical trials and approval of

a New Drug Application (NDA). Should ITI commercialize the technology related to this License, ITI would be required to make royalty payments, and would also be required to pay fees under any sublicense agreements with third parties.

In addition, ITI is required to use at least $1.0 million annually of its resources for the development and commercialization of the technology until ITI submits an NDA. ITI met its spending requirements in 2014 and 2015. There were no other payments made or required for the three and six months ended June 30, 2015 and 2014.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following in conjunction with our unaudited condensed consolidated financial statements and the related notes thereto that appear elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K filed on March 12, 2015. In addition to historical information, the following discussion and analysis includes forward-looking information that involves risks, uncertainties and assumptions. Our actual results and the timing of events could differ materially from those anticipated by these forward-looking statements as a result of many factors, including those discussed under Risk Factors in our Annual Report on Form 10-K filed on March 12, 2015, as updated from time to time in our subsequent periodic and current reports filed with the SEC.

Overview

We are a biopharmaceutical company focused on the discovery and clinical development of innovative, small molecule drugs that address underserved medical needs in neuropsychiatric and neurological disorders by targeting intracellular signaling mechanisms within the central nervous system, or CNS. Our lead drug candidate, ITI-007, is in Phase 3 clinical development as a first-in-class treatment for schizophrenia. Current medications available for the treatment of schizophrenia do not adequately address the broad array of symptoms associated with this CNS disorder. Use of these current medications also is limited by their substantial side effects. ITI-007 is designed to be effective across a wider range of symptoms, treating both the acute and residual phases of schizophrenia, with improved safety and tolerability.

ITI-007 exhibited antipsychotic efficacy in a randomized, double-blind, placebo and active controlled Phase 2 clinical trial in patients with an acutely exacerbated episode of schizophrenia. In December 2013, we announced the clinical results from this Phase 2 trial. In this Phase 2 trial, 335 patients were randomized to receive one of four treatments: 60 mg of ITI-007, 120 mg of ITI-007, 4 mg of risperidone (active control) or placebo in a 1:1:1:1 ratio, orally once daily for 28 days. The primary endpoint for this clinical trial was change from baseline to Day 28 on the Positive and Negative Syndrome Scale, or PANSS, total score. In this study, ITI-007 met the trial s pre-specified primary endpoint, improving symptoms associated with schizophrenia as measured by a statistically significant and clinically meaningful decrease in the PANSS total score. The trial also met key secondary outcome measures related to efficacy on PANSS subscales and safety.

We are proceeding with Phase 3 development of ITI-007 for the treatment of schizophrenia. We are conducting two randomized, double-blind, placebo-controlled Phase 3 clinical trials of ITI-007 in patients with acutely exacerbated schizophrenia, with 450 patients fully enrolled in the first trial and approximately 580 patients planned to be enrolled in the second trial.

We initiated the first Phase 3 clinical trial in schizophrenia in the fourth quarter of 2014 and completed enrollment of patients for the trial in the second quarter of 2015. In this trial, we randomized patients to two doses of ITI-007 (60mg or 40mg) or placebo over a 4-week treatment duration, and the primary outcome measure is change from baseline to Day 28 on the PANSS total score. Clinical conduct for this trial has been completed. We anticipate that the results of the first Phase 3 clinical trial of ITI-007 in patients with schizophrenia will be available late in the third quarter or early in the fourth quarter of 2015.

We initiated the second Phase 3 clinical trial in schizophrenia in the second quarter of 2015. In this trial, we are randomizing patients to two doses of ITI-007 (60mg or 20mg), risperidone (active control) or placebo over a 6-week treatment duration, and the primary outcome measure is change from baseline to Day 42 on the PANSS total score.

Subject to timely enrollment, we anticipate topline results from the second Phase 3 clinical trial will be available in mid-2016. In addition to our two Phase 3 clinical trials, we will need to complete other clinical and non-clinical trials and manufacturing and pre-commercialization activities necessary to support the submission of a planned New Drug Application, or NDA, for ITI-007 in schizophrenia, which we currently expect could occur at the end of 2016 or in the first half of 2017.

Following communication with the FDA, we are also proceeding with a Phase 3 development program of ITI-007 for the treatment of depressive episodes associated with bipolar disorder (bipolar depression). The Phase 3 program in bipolar depression consists of two multicenter, randomized, double-blind, placebo-controlled clinical trials. The first Phase 3 trial will evaluate ITI-007 as a monotherapy and the second Phase 3 trial will evaluate ITI-007 as an adjunctive therapy with lithium or valproate. We plan to commence these studies in the second half of 2015.

In addition, in the fourth quarter of 2014, we announced the topline data from ITI-007-200, a Phase 1/2 clinical trial designed to evaluate the safety, tolerability and pharmacokinetics of low doses of ITI-007 in healthy geriatric subjects and in patients with dementia, including Alzheimer s disease. The completion of this study marks an important milestone in our strategy to develop low doses of ITI-007 for the treatment of behavioral disturbances associated with dementia and related disorders. The ITI-007-200 trial results to date indicate that ITI-007 is safe and well-tolerated across a range of low doses, has linear- and dose-related pharmacokinetics and improves cognition in the elderly. The most frequent adverse event was mild sedation at the higher doses. We believe these results further position ITI-007 as a development candidate for the treatment of behavioral disturbances in patients with dementia and other neuropsychiatric and neurological conditions. We plan to initiate additional clinical programs evaluating ITI-007 in patients with behavioral disturbances associated with dementia and related disorders, including Alzheimer s disease, in the second half of 2015.

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We are currently conducting an open-label positron emission tomography, or PET, study of ITI-007 examining brain occupancy of striatal D2 receptors. In this study, patients with stable schizophrenia will be treated with ITI-007 for 14 days. We expect topline data from this study in 2015. We believe this study will further characterize ITI-007 and provide additional insight into the molecule s unique mechanism and clinical profile.

We are also pursuing clinical development of ITI-007 for the treatment of additional CNS diseases and disorders. At the lowest doses, ITI-007 has been demonstrated to act primarily as a potent 5-HT2A serotonin receptor antagonist. As the dose is increased, additional benefits are derived from the engagement of additional drug targets, including modest dopamine receptor modulation and modest inhibition of serotonin transporters. We believe that combined interactions at these receptors may provide additional benefits above and beyond selective 5-HT2A antagonism for treating agitation, aggression and sleep disturbances in diseases that include dementia, Alzheimer s disease, Huntington s disease and autism spectrum disorders, while avoiding many of the side effects associated with more robust dopamine receptor antagonism. As the dose of ITI-007 is further increased, leading to moderate dopamine receptor modulation, inhibition of serotonin transporters, and indirect glutamate modulation, these actions complement the complete blockade of 5-HT2A serotonin receptors. At a dose of 60 mg, ITI-007 has been shown effective in treating the symptoms associated with schizophrenia, and we believe this higher dose range will be useful for the treatment of bipolar disorder, depressive disorders and other neuropsychiatric diseases.

Given the potential utility for ITI-007 and follow-on compounds to treat these additional indications, we may investigate, either on our own or with a partner, agitation, aggression and sleep disturbances in additional diseases that include autism spectrum disorders; depressive disorder; intermittent explosive disorder; non-motor symptoms and motor complications associated with Parkinson s disease; and post-traumatic stress disorder. We hold exclusive, worldwide commercialization rights to ITI-007 and a family of compounds from Bristol-Myers Squibb Company pursuant to an exclusive license.

We have a second major program called ITI-002 that has yielded a portfolio of compounds that selectively inhibits the enzyme phosphodiesterase type 1, or PDE1. We believe PDE1 helps regulate brain activity related to cognition, memory processes and movement/coordination. On February 25, 2011, we (through our wholly owned operating subsidiary, ITI) and Takeda Pharmaceutical Company Limited, or Takeda, entered into a license and collaboration agreement, or the Takeda License Agreement, under which we agreed to collaborate to research, develop and commercialize our proprietary compound ITI-214 and other selected compounds that selectively inhibit PDE1 for use in the prevention and treatment of human diseases. On October 31, 2014, we entered into an agreement with Takeda terminating the Takeda License Agreement, or the Termination Agreement, pursuant to which all rights granted under the Takeda License Agreement were returned to us. Takeda will complete certain ongoing activities relating to non-clinical studies and will transfer product inventory and materials to us but will not have any other ongoing involvement or funding obligations in connection with the development program. ITI-214 is the first compound in its class to successfully advance into Phase 1 clinical trials. We intend to continue the development of ITI-214 for the treatment of CNS and other disorders. We expect to finalize our strategy for the PDE1 inhibitor program by the end of 2015. By regaining unrestricted access to ITI-214, backups and the proprietary chemistry, we can now integrate the efforts of our internal PDE1 program to include the later stage portfolio. We do not anticipate a significant increase in our operating expenses related to our PDE development programs in 2015. Other compounds in the PDE1 portfolio are also being advanced for the treatment of various indications, including non-CNS therapeutic areas.

Our pipeline also includes pre-clinical programs that are focused on advancing drugs for the treatment of cognitive dysfunction, in both schizophrenia and Alzheimer s disease, and for disease modification and the treatment of neurodegenerative disorders, including Alzheimer s disease.

We have assembled a management team with significant industry experience to lead the discovery and development of our product candidates. We complement our management team with a group of scientific and clinical advisors that includes recognized experts in the fields of schizophrenia and other CNS disorders, including Nobel laureate, Dr. Paul Greengard, one of our co-founders.

Since inception, we have devoted substantially all of our efforts and resources to our research and development activities. We have incurred significant net losses since inception. As of June 30, 2015, our accumulated deficit was $132.1 million. We expect to continue incurring substantial losses for the next several years as we continue to develop our clinical and pre-clinical drug candidates and programs. Our operating expenses are comprised of research and development expenses and general and administrative expenses.

Our corporate headquarters and laboratory are located in New York, New York.

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Results of Operations

The following discussion summarizes the key factors our management believes are necessary for an understanding of our financial statements.

Revenues

We have not generated any revenue from product sales to date and we do not expect to generate revenues from product sales for at least the next several years. Our revenues for the three and six months ended June 30, 2015 have been from a government grant. For the three and six months ended June 30, 2014, revenues were from our recently terminated license and collaboration agreement with Takeda. We will not receive any further revenue under the Takeda License Agreement, which was terminated on October 31, 2014. We have received and may continue to receive grants from U.S. government agencies and foundations.

We do not expect any revenues that we may generate in the next several years to be significant enough to fund our operations.

Expenses

The process of researching and developing drugs for human use is lengthy, unpredictable and subject to many risks. It is difficult to estimate the costs or the timelines in which those costs will be incurred. Our lead program, ITI-007 for the treatment of schizophrenia, consumes a significant portion of our current, as well as projected, resources. We intend to pursue other disease indications that ITI-007 may address including for the treatment of depressive episodes associated with bipolar disorder (bipolar depression) and the treatment of behavioral disturbances associated with dementia and related disorders, including Alzheimer s disease, but there are large costs associated with pursuing FDA approval for those indications, which would include the cost of additional clinical trials.

Our ITI-002 program has a compound, ITI-214, in Phase 1 development. We intend to pursue the development of this and the other compounds in our PDE1 portfolio for the treatment of central nervous system, cardiovascular and other disorders. We expect to finalize our strategy for the PDE1 inhibitor program that was returned to us from Takeda by the end of 2015. We do not anticipate a significant increase in our operating expenses related to our PDE development programs in 2015. Our other projects are still in the pre-clinical stages, and will require extensive funding not only to complete pre-clinical testing, but to enter into and complete clinical trials. Expenditures that we incur on these projects will be subject to availability of funding in addition to the funding required for the advancement of ITI-007. Any failure or delay in the advancement of ITI-007 could require us to re-allocate resources from our other projects to the advancement of ITI-007, which could have a significant material adverse impact on the advancement of these other projects and on our results of operations. Our operating expenses are comprised of (i) research and development expenses and (ii) general and administrative expenses. Our research and development costs are comprised of:

- internal recurring costs, such as labor and fringe benefits, materials and supplies, facilities and maintenance costs; and

- fees paid to external parties who provide us with contract services, such as pre-clinical testing, manufacturing and related testing, clinical trial activities and license milestone payments.

General and administrative expenses are incurred in three major categories:

- salaries and related benefit costs;
- patent, legal and professional costs; and
- office and facilities overhead.

We expect that research and development expenses will increase substantially as we proceed with our Phase 3 clinical trials for ITI-007 in patients with exacerbated schizophrenia and initiate our anticipated trials in bipolar disorder and in patients with behavioral disturbances associated with dementia and related disorders, including Alzheimer s disease. We also expect that our general and administrative costs will increase substantially from prior periods primarily due to the increased costs associated with being a public reporting entity, which would include adding additional personnel. We granted options to purchase 1,108,000 shares of our common stock in the year ended December 31, 2014 and have granted options to purchase an additional 815,973 shares of our common stock through June 30, 2015. We will recognize expense associated with these options over the next three years in both research and development expenses and general and administrative expenses. We expect this non-cash expense to be material and affect quarter to quarter and year to date comparisons in the upcoming year. We expect to continue to grant stock options and other stock-based awards in the future, which will increase our stock-based compensation expense in future periods.

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The following table sets forth our revenues and operating expenses for the three and six months ended June 30, 2015 and 2014 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Unaudited)		*(Unaudited)*	
Revenues	**$ 57**	$ 219	**$ 61**	$ 387
Expenses				
Research and Development	**17, 763**	2,710	**36,395**	5,539
General and Administrative	**3,985**	2,121	**7,757**	4,034
	21,748	4,831	**44,152**	9,573
Interest Income, net	**180**	78	**294**	109
Net Loss	**$ (21,511)**	$ (4,534)	**$ (43,798)**	$ (9,077)

Comparison of Three and Six Month Periods Ended June 30, 2015 and June 30, 2014

Revenues

Revenues decreased for the three and six months ended June 30, 2015 as compared to the three and six months ended June 30, 2014 by approximately $162,000 and $326,000, respectively, as revenue during the three and six months ended June 30, 2014 were from a license and collaboration agreement with Takeda, which has since been terminated, as compared to revenue of approximately $57,000 and $61,000 during the three and six months ended June 30, 2015 from a government grant.

Research and Development Expenses

Research and development expenses increased to $17.8 million for the three month period ended June 30, 2015 as compared to $2.7 million for the three month period ended June 30, 2014. This change of $15.1 million is due primarily to an increase of approximately $10.6 million of costs associated with outside clinical testing and approximately $3.1 million from nonclinical testing and the remainder due to increased labor and travel expenses in the three month period ended June 30, 2015 over the three month period ended June 30, 2014. The vast majority of the increase is due to costs associated with our ITI-007 Phase 3 clinical program. In late 2014 we began a clinical trial of ITI-007 in patients with schizophrenia and incurred the majority of the costs for this trial in 2015. In 2014 we did not incur significant costs related to clinical trials. Amounts payable to external parties comprise a significant portion of our research and development costs. In the three months ended June 30, 2015, we incurred approximately $15.5 million of costs to external parties who manufactured, tested and performed clinical trial related activities as compared to $1.8 million in the three month period ended June 30, 2014. Of these external costs, approximately $15.4 million in the three months ended June 30, 2015 and $1.7 million in the three month period ended June 30, 2014 were for ITI-007 related projects. The remaining amounts for each of these periods were spent on other projects. Internal costs are comprised primarily of labor, fringe benefits, materials, supplies and facilities and maintenance costs and were approximately $2.3 million and $0.9 million in the three months ended June 30, 2015 and 2014, respectively.

Research and development expenses increased to $36.4 million for the six month period ended June 30, 2015 as compared to $5.5 million for the six month period ended June 30, 2014. This change of $30.9 million is due primarily to an increase of approximately $24.5 million of costs associated with outside clinical testing and approximately $3.9 million from nonclinical testing and the remainder due to increased labor and travel expenses in the six month period ended June 30, 2015 over the six month period ended June 30, 2014. The vast majority of the increase is due to costs associated with conducting our ITI-007 Phase 3 clinical program. In late 2014 we began a clinical trial of ITI-007 in patients with schizophrenia and incurred the majority of the costs for this trial in 2015. In 2014 we did not incur significant costs related to clinical trials. Amounts payable to external parties comprise a significant portion of our research and development costs. In the six months ended June 30, 2015, we incurred approximately $32.3 million of costs to external parties who manufactured, tested and performed clinical trial related activities as compared to $3.8 million in the six month period ended June 30, 2014. Of these external costs, approximately $32.1 million in the six months ended June 30, 2015 and $3.6 million in the six month period ended June 30, 2014 were for ITI-007 related projects. The remaining amounts for each of these periods were spent on other projects. Internal costs are comprised primarily of labor, fringe benefits, materials, supplies and facilities and maintenance costs and were approximately $4.1 million and $1.7 million in the six months ended June 30, 2015 and 2014, respectively.

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As development of ITI-007 progresses, we anticipate costs for ITI-007 to increase considerably in the remainder of 2015 and in the next several years as we conduct Phase 3 and other clinical trials. We are also required to complete non-clinical testing to obtain FDA approval and manufacture material needed for clinical trial use, which includes non-clinical testing of the drug product and the creation of an inventory of drug product in anticipation of possible FDA approval. As of June 30, 2015, we employed 20 full time personnel in our research and development group as compared to 14 full time personnel at June 30, 2014. We expect to hire additional staff as we increase our development efforts and grow our business in the upcoming years.

We currently have several projects, in addition to ITI-007, that are in the research and development stages, including in the areas of cognitive dysfunction and the treatment of neurodegenerative diseases, including Alzheimer s disease, among others. We have used internal resources and incurred expenses not only in relation to the development of ITI-007, but also in connection with these additional projects as well. We have not, however, reported these costs on a project by project basis, as these costs are broadly spread among these projects. The external costs for these projects have been minimal and are reflected in the amounts discussed in this section Research and Development Expenses.

During previous years we also incurred costs that were both reimbursable and non-reimbursable under the Takeda License Agreement. For the three and six months ended June 30, 2015 we incurred no direct costs that were billable to Takeda. For the three and six months ended June 30, 2014, $40,000 of direct costs were billed to Takeda, all in the second quarter of 2014. As we refine our strategy for the PDE1 inhibitor program that was returned to us from Takeda, we do not expect a significant increase in our operating expenses related to our PDE development programs in 2015.

The research and development process necessary to develop a pharmaceutical product for commercialization is subject to extensive regulation by numerous governmental authorities in the United States and other countries. This process typically takes years to complete and requires the expenditure of substantial resources. The steps required before a drug may be marketed in the United States generally include the following:

- completion of extensive pre-clinical laboratory tests, animal studies, and formulation studies in accordance with the FDA s Good Laboratory Practice, or GLP, regulations;

- submission to the FDA of an Investigational New Drug application, or IND, for human clinical testing, which must become effective before human clinical trials may begin;

- performance of adequate and well-controlled human clinical trials to establish the safety and efficacy of the drug for each proposed indication;

- submission to the FDA of a New Drug Application, or NDA, after completion of all clinical trials;

- satisfactory completion of an FDA pre-approval inspection of the manufacturing facility or facilities at which the active pharmaceutical ingredient, or API, and finished drug product are produced and tested to assess compliance with current Good Manufacturing Practices, or cGMPs;

satisfactory completion of FDA inspections of clinical trial sites to assure that data supporting the safety and effectiveness of product candidates has been generated in compliance with Good Clinical Practices; and

FDA review and approval of the NDA prior to any commercial marketing or sale of the drug in the United States.

The successful development of our product candidates and the approval process requires substantial time, effort and financial resources, and is uncertain and subject to a number of risks. We cannot be certain that any of our product candidates will prove to be safe and effective, will meet all of the applicable regulatory requirements needed to receive and maintain marketing approval, or will be granted marketing approval on a timely basis, if at all. Data from pre-clinical studies and clinical trials are susceptible to varying interpretations that could delay, limit or prevent regulatory approval or could result in label warnings related to or recalls of approved products. We, the FDA, or other regulatory authorities may suspend clinical trials at any time if we or they believe that the subjects participating in such trials are being exposed to unacceptable risks or if such regulatory agencies find deficiencies in the conduct of the trials or other problems with our product candidates. Other risks associated with our product candidates are described in the section entitled Risk Factors in our Annual Report on Form 10-K filed with the SEC on March 12, 2015, as updated from time to time in our other periodic and current reports filed with the SEC.

General and Administrative Expenses

General and administrative expenses increased for the three month period ended June 30, 2015 as compared to the three month period ended June 30, 2014 by approximately $1.9 million, or 88%. The increase is primarily the result of

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approximately $1.3 million of higher stock option expense and to a much lesser extent to increased labor costs and state and local franchise and capital taxes. Salaries, bonuses and related benefit costs for our executive, finance and administrative functions for the three months ended June 30, 2015 and 2014 were approximately 56% and 35%, respectively, of our total general and administrative costs. The next major categories of our general and administrative expenses are patent costs, legal, accounting and other professional fees and, to a lesser extent, facilities and general office-related overhead.

General and administrative expenses increased for the six month period ended June 30, 2015 as compared to the six month period ended June 30, 2014 by approximately $3.7 million, or 92%. The increase is primarily the result of approximately $2.7 million of higher stock option expense and to a much lesser extent to increased labor costs and state and local franchise and capital taxes. Salaries, bonuses and related benefit costs for our executive, finance and administrative functions for the six months ended June 30, 2015 and 2014 were approximately 56% and 33%, respectively, of our total general and administrative costs. The next major categories of our general and administrative expenses are patent costs, legal, accounting and other professional fees and, to a lesser extent, facilities and general office-related overhead.

We expect general and administrative costs to increase significantly as we hire additional staff, expand our operations and incur additional costs associated with being a public company and complying with exchange listing and SEC requirements, including the additional complexities and related costs of our transition at the end of 2015 from an emerging growth company to a large accelerated filer under the rules of the SEC. These increases could include higher legal fees, accounting fees and fees associated with investor relations activities, among others.

Liquidity and Capital Resources

Through June 30, 2015, we provided funds for our operations by obtaining approximately $388.5 million of cash primarily through public and private offerings of our common stock and other securities, grants from government agencies and foundations and payments received under the recently terminated Takeda License Agreement. We do not believe that grant revenue will be a significant source of funding in the near future, and Takeda has no ongoing funding obligations following the termination of the Takeda License Agreement on October 31, 2014. On March 11, 2015, we completed a public offering of 5,411,481 shares of our common stock for aggregate gross proceeds of approximately $129.9 million and net proceeds of approximately $121.8 million.

As of June 30, 2015, we had a total of approximately $204.0 million in cash and cash equivalents and available-for-sale investment securities, and approximately $9.3 million of short-term liabilities consisting entirely of liabilities from operations. Excluding the increase in net cash of approximately $121.8 million from the public offering in March, 2015, we spent approximately $47.5 million in cash and reduced working capital by approximately $38.9 million for the six months ended June 30, 2015. This use of cash was primarily for conducting clinical trials and non-clinical testing, including manufacturing related activities and funding recurring operating expenses, as well as for payment of approximately $7.3 million in prepaid expenses relating to a clinical trial.

We expect to use cash of between $45 million and $55 million during the remainder of 2015, which we expect to be due primarily to the development of ITI-007 in patients with schizophrenia, behavioral disturbances in dementia, bipolar disorder and depressive disorders, our ITI-007 long acting injectable development program through pre-clinical and early clinical development, research and preclinical development of our other product candidates, the continuation of manufacturing activities in connection with the development of ITI-007, recurring expenses and costs to produce, develop and validate materials to be used in clinical and non-clinical studies related to ITI-007, and expenses associated with our other development programs and general operations. We expect that cash expenditures will continue to increase after 2015 as we incur costs to fund our development of ITI-007 in patients with

schizophrenia, behavioral disturbances in dementia, bipolar disorder and depressive disorders; our ITI-007 long acting injectable development program through pre-clinical and early clinical development; research and preclinical development of our other product candidates; and the continuation of manufacturing activities in connection with the development of ITI-007. We believe that our existing cash and cash equivalents and investments will be sufficient to fund our operating expenses and capital expenditure requirements through the end of 2016.

We will require significant additional financing in the future to continue to fund our operations. In particular, we anticipate that we will need to secure funding to complete the additional clinical and non-clinical trials, manufacturing and pre-commercialization activities needed for potential regulatory approval and commercialization of ITI-007 in patients with schizophrenia, continuing clinical trials of ITI-007 in patients with dementia, including Alzheimer s disease, for further development of ITI-007 in patients with bipolar disorder, depressive disorders and other indications, and for development of our other product candidates. We have incurred losses in every year since inception with the exception of 2011, when we received an up-front fee and a milestone payment related to the Takeda License Agreement. These losses have resulted in significant cash used in operations. For the six months ended June 30, 2015, we used net cash in operating activities of approximately $46.7 million and expect to use cash up to approximately $100 million for the year ending December 31, 2015. While we have several research and development programs

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underway, the ITI-007 program has advanced the furthest and will continue to consume increasing amounts of cash for conducting clinical trials and the testing and manufacturing of product material. As we continue to conduct these activities necessary to pursue FDA approval of ITI-007 and our other product candidates, we expect the amount of cash needed to fund operations to increase significantly over the next several years.

With the termination of the Takeda License Agreement in October 2014, we will not receive milestone payments and expense reimbursements, including patent filing costs, from Takeda and will be responsible for the costs of developing ITI-214. We expect to finalize our strategy for our PDE1 inhibitor program by the end of 2015. We do not anticipate a significant increase in our operating expenses related to our PDE development programs during 2015.

We seek to balance the level of cash, cash equivalents and investments on hand with our projected needs and to allow us to withstand periods of uncertainty relative to the availability of funding on favorable terms. Until we can generate significant revenues from operations, we will need to satisfy our future cash needs through public or private sales of our equity securities, sales of debt securities, the incurrence of debt from commercial lenders, strategic collaborations, licensing a portion or all of our product candidates and technology and, to a lesser extent, grant funding. We currently have a universal shelf registration statement on Form S-3 that was declared effective by the SEC in June 2015 that allows us to issue up to $350 million of our common stock, preferred stock, various series of debt securities, warrants, rights and purchase contracts to purchase any of such securities, either individually or in units, from time to time at prices and on terms to be determined at the time of any such offering (including up to $50 million of our common stock available for issuance pursuant to the Sales Agreement described below). This registration statement will remain in effect for up to three years from the initial effective date.

In May 2015 we entered into a Sales Agreement with Cowen and Company, LLC, or Cowen, with respect to an at-the-market offering program, under which we may offer and sell, from time to time at our discretion, shares of our common stock, or Placement Shares, having an aggregate offering price of up to $50 million through Cowen as our sales agent. Under the Sales Agreement, Cowen may sell the Placement Shares by any method permitted by law deemed to be an at the market offering as defined in Rule 415 of the Securities Act of 1933, as amended, or the Securities Act, including, without limitation, sales made by means of ordinary brokers transactions on The NASDAQ Global Select Market or otherwise at market prices prevailing at the time of sale, in block transactions, or as otherwise directed by us. Cowen agreed to use commercially reasonable efforts to sell the Placement Shares from time to time, based upon instructions from the us (including any price, time or size limits or other customary parameters or conditions we may impose). We agreed to pay Cowen a commission of up to three percent (3.0%) of the gross sales proceeds of any Placement Shares sold through Cowen under the Sales Agreement, and also have provided Cowen with customary indemnification and contribution rights. We are not obligated to make any sales of common stock under the Sales Agreement. The offering of Placement Shares pursuant to the Sales Agreement will terminate upon the earlier of (i) the sale of all Placement Shares subject to the Sales Agreement, or (ii) termination of the Sales Agreement in accordance with its terms.

We cannot be sure that future funding will be available to us when we need it on terms that are acceptable to us, or at all. We sell securities and incur debt when the terms of such transactions are deemed favorable to us and as necessary to fund our current and projected cash needs. The amount of funding we raise through sales of our common stock or other securities depends on many factors, including, but not limited to, the status and progress of our product development programs, projected cash needs, availability of funding from other sources, our stock price and the status of the capital markets. Due to the volatile nature of the financial markets, equity and debt financing may be difficult to obtain. In addition, any unfavorable development or delay in the progress of our ITI-007 program could have a material adverse impact on our ability to raise additional capital.

To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our existing stockholders will be diluted, and the terms may include liquidation or other preferences that adversely affect the rights of our stockholders. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring debt, making capital expenditures or declaring dividends. If we raise additional funds through government or other third-party funding, marketing and distribution arrangements or other collaborations, strategic alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or to grant licenses on terms that may not be favorable to us.

If adequate funds are not available to us on a timely basis, we may be required to: (1) delay, limit, reduce or terminate pre-clinical studies, clinical trials or other clinical development activities for one or more of our product candidates, including our lead product candidate ITI-007, ITI-214, and our other pre-clinical stage product candidates; (2) delay, limit, reduce or terminate our discovery research or pre-clinical development activities; or (3) enter into licenses or other arrangements with third parties on terms that may be unfavorable to us or sell, license or relinquish rights to develop or commercialize our product candidates, technologies or intellectual property at an earlier stage of development and on less favorable terms than we would otherwise agree.

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Our cash is maintained in checking accounts, money market accounts, money market funds, U.S. Government Agency Securities, certificates of deposit, commercial paper, corporate notes and corporate bonds at major financial institutions. Due to the current low interest rates available for these instruments, we are earning limited interest income. Our investment portfolio has not been adversely impacted by the problems in the credit markets that have existed over the last several years, but there can be no assurance that our investment portfolio will not be adversely affected in the future.

In 2014, we entered into a long-term lease, which was in amended in March 2015, for 16,753 square feet of useable laboratory and office space located at 430 East 29th Street, New York, New York 10016. Due to the amortization of total lease payments, we have recognized $0.5 million of deferred rent in the first half of 2015. The deferred rent balance will incrementally increase over the next seven quarters. We occupied these facilities as our headquarters in March 2015, replacing our previous laboratories and offices. The lease has a term of eleven years. We expect that our facility related costs will increase moderately as a result of leasing this facility.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Contractual Obligations and Commitments

Total contractual obligations as of June 30, 2015 are summarized in the following table (in thousands):

		Payments Due By Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating Lease Obligations	$ 15,782	$ 574	$ 4,308	$ 4,708	$ 6,192

The table of Contractual Obligations and Commitments does not reflect that, under the License Agreement with BMS, we may be obligated to make future milestone payments to BMS totaling $12 million, including $2.0 million payable by us upon the FDA s acceptance of an NDA that we submit; to make other future milestone payments to BMS for each licensed product of up to an aggregate of approximately $14.75 million; to make tiered single digit percentage royalty payments on sales of licensed products; and to pay BMS a percentage of non-royalty payments made in consideration of any sublicense. The table also does not reflect ongoing obligations for clinical trials and other related material transactions that are not long term in nature.

Critical Accounting Policies and Estimates

Our critical accounting policies are those policies which require the most significant judgments and estimates in the preparation of our consolidated financial statements. We evaluate our estimates, judgments, and assumptions on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions. A summary of our critical accounting policies is presented in Part II, Item 7, of our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material changes to our critical accounting policies during the three and six months ended June 30, 2015.

The discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses for the periods presented. Judgments must also be made about the disclosure of contingent liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Management makes estimates and exercises judgment in revenue recognition and stock-based compensation. Actual results may differ from those estimates and under different assumptions or conditions.

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We believe that the following critical accounting policies affect management s more significant judgments and estimates used in the preparation of our financial statements:

Revenue Recognition

Revenue is recognized when all terms and conditions of the agreements have been met, including that persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured. We are reimbursed for certain costs incurred on specified research projects under the terms and conditions of grants, collaboration agreements, and awards. We record the amount of reimbursement as revenues on a gross basis in accordance with ASC Topic 605-45, *Revenue Recognition/Principal Agent Considerations*. We are the primary obligor with respect to purchasing goods and services from third-party suppliers, are obligated to compensate the service provider for the work performed, and have discretion in selecting the supplier. Provisions for estimated losses on research grant projects and any other contracts are made in the period such losses are determined.

We have entered into arrangements involving the delivery of more than one element. Each required deliverable is evaluated to determine whether it qualifies as a separate unit of accounting. For us, this determination is generally based on whether the deliverable has stand-alone value to the customer. We have adopted this accounting standard on a prospective basis for all Multiple-Deliverable Revenue Arrangements, or MDRAs, entered into on or after January 1, 2011, and for any MDRAs that were entered into prior to January 1, 2011, but materially modified on or after that date.

The adoption of this accounting standard did not have a material impact on our results of operations for the three and six months ended June 30, 2015 and 2014, or on our financial position as of June 30, 2015 and December 31, 2014.

We adopted ASC Topic 605-28, *Milestone Method*. Under this guidance, we recognize revenue contingent upon the achievement of a substantive milestone in its entirety in the period the milestone is achieved. Substantive milestone payments are recognized upon achievement of the milestone only if all of the following conditions are met:

- the milestone payments are non-refundable;
- achievement of the milestone involves a degree of risk and was not reasonably assured at the inception of the arrangement;
- substantive effort on our part is involved in achieving the milestone;
- the amount of the milestone payment is reasonable in relation to the effort expended or the risk associated with achievement of the milestone; and
- a reasonable amount of time passes between the up-front license payment and the first milestone payment, as well as between each subsequent milestone payment.

Determination as to whether a payment meets the aforementioned conditions involves management s judgment. If any of these conditions are not met, the resulting payment would not be considered a substantive milestone, and therefore, the resulting payment would be considered part of the consideration for the single unit of accounting and be recognized as revenue as such performance obligations are performed under either the proportional performance or straight-line methods, as applicable. In addition, the determination that one such payment was not a substantive milestone could prevent us from concluding that subsequent milestone payments were substantive milestones and, as a result, any additional milestone payments could also be considered part of the consideration for the single unit of accounting and would be recognized as revenue as such performance obligations are performed under either the proportional performance or straight-line methods, as applicable.

Stock-Based Compensation

Stock-based payments are accounted for in accordance with the provisions of ASC Topic 718, *Compensation Stock Compensation*. The fair value of share-based payments is estimated, on the date of grant, using the Black-Scholes-Merton option-pricing model, or the Black-Scholes model. The resulting fair value is recognized ratably over the requisite service period, which is generally the vesting period of the option.

For all awards granted with time-based vesting conditions, expense is amortized using the straight-line attribution method. For awards that contain a performance-based vesting condition, expense is amortized using the accelerated attribution method. Share-based compensation expense recognized in the statements of operations for the three and six months ended June 30, 2015 and 2014 is based on share-based awards ultimately expected to vest, and this amount has therefore been reduced for estimated forfeitures. ASC Topic 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated based on our historical experience and have not been material.

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We utilize the Black-Scholes model for estimating fair value of our stock options granted. Option valuation models, including the Black-Scholes model, require the input of subjective assumptions, and changes in the assumptions used can materially affect the grant date fair value of an award. These assumptions include the risk-free rate of interest, expected dividend yield, expected volatility and the expected life of the award.

Expected volatility rates are based on historical volatility of the common stock of comparable publicly traded entities and other factors due to the lack of historic information of our common stock. The expected life of stock options is the period of time for which the stock options are expected to be outstanding. Given the limited historical exercise data, the expected life is determined using the simplified method, which is defined as the midpoint between the vesting date and the end of the contractual term.

The risk-free interest rates are based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. We have not paid dividends to our stockholders since our inception and do not plan to pay cash dividends in the foreseeable future. Therefore, we have assumed an expected dividend rate of zero.

Prior to January 1, 2014, given that there was no active market for our common stock, the exercise price of the stock options on the date of grant was determined and approved by the board of directors using several factors, including progress and milestones achieved in our business development and performance, the price per share of our convertible preferred stock offerings and general industry and economic trends. In establishing the estimated fair value of our common stock, we considered the guidance set forth in American Institute of Certified Public Accountants Practice Guide, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. For stock options granted in 2014 and 2015, the exercise price was determined by using the closing market price of our common stock on the date of grant.

Under ASC Topic 718, the cumulative amount of compensation cost recognized for instruments classified as equity that ordinarily would result in a future tax deduction under existing tax law shall be considered to be a deductible difference in applying ASC Topic 740, *Income Taxes*. The deductible temporary difference is based on the compensation cost recognized for financial reporting purposes; however, these provisions currently do not impact us, as all the deferred tax assets have a full valuation allowance.

Since we had net operating loss carryforwards as of June 30, 2015 and 2014, no excess tax benefits for the tax deductions related to share-based awards were recognized in the statements of operations.

Equity instruments issued to non-employees are accounted for under the provisions of ASC Topic 718 and ASC Topic 505-50, *Equity/Equity-Based Payments to Non-Employees*. Accordingly, the estimated fair value of the equity instrument is recorded on the earlier of the performance commitment date or the date the services required are completed and are marked to market during the service period.

Recently Issued Accounting Pronouncements

We review new accounting standards to determine the expected financial impact, if any, that the adoption of each such standard will have. For the recently issued accounting standards that we believe may have an impact on our financial statements, see Recently Issued Accounting Pronouncements in our Annual Report on Form 10-K for the year ended December 31, 2014 filed on March 12, 2015.

Certain Factors That May Affect Future Results of Operations

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company s future prospects and make informed investment decisions. This Quarterly Report on Form 10-Q contains such forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other important factors which 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. Forward-looking statements include, but are not limited to, statements about: the accuracy of our estimates regarding expenses, future revenues, uses of cash, capital requirements and the need for additional financing; the initiation, cost, timing, progress and results of our development activities, pre-clinical studies and clinical trials; the timing of and our ability to obtain and maintain regulatory approval of our existing product candidates, any product candidates that we may develop, and any related restrictions, limitations, and/or warnings in the label of any approved product candidates; our plans to research, develop and commercialize our product candidates; the election by any collaborator to pursue research, development and commercialization activities; our ability to obtain future reimbursement and/or milestone payments from our collaborators; our ability to obtain and maintain intellectual property protection for our product candidates; our ability to successfully commercialize our product candidates;

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the performance of our third-party suppliers and manufacturers and our ability to obtain alternative sources of raw materials; our ability to obtain additional financing; the use of the proceeds from our securities offerings; our expectations regarding the time during which we will be an emerging growth company under the JOBS Act; and our ability to attract and retain key scientific or management personnel.

Words such as may, anticipate, estimate, expect, may, project, intend, plan, believe, potential, p will, would, could, should, continue and words and terms of similar substance used in connection with any discu of future operating or financial performance, identify forward-looking statements. All forward-looking statements are management s present expectations of future events and are subject to a number of risks and uncertainties that could cause actual results to differ materially and adversely from those described in the forward-looking statements. These risks include, but are not limited to, those set forth under the heading Risk Factors in our most recent Annual Report on Form 10-K, as updated from time to time in our subsequent periodic and current reports filed with the SEC.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this Quarterly Report on Form 10-Q or in any document incorporated by reference might not occur. Stockholders are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent forward-looking statements attributable to the Company or to any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity. As of June 30, 2015, we had cash, cash equivalents and marketable securities of $204.0 million, consisting of cash deposited in a highly rated financial institution in the United States and in a short-term U.S. Treasury money market fund, as well as high-grade corporate bonds and commercial paper. The primary objective of our investment activities is to preserve our capital for the purpose of funding operations and we do not enter into investments for trading or speculative purposes. We believe that we do not have material exposure to high-risk investments such as mortgage-backed securities, auction rate securities or other special investment vehicles within our money-market fund investments. We believe that we do not have any material exposure to changes in fair value as a result of changes in interest rates. Declines in interest rates, however, would reduce future investment income.

Capital Market Risk. We currently have no product revenues and depend on funds raised through other sources. One possible source of funding is through further equity offerings. Our ability to raise funds in this manner depends upon capital market forces affecting our stock price.

Item 4. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures*. Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Form 10-Q, have concluded that, based on such evaluation, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms, and is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) *Changes in Internal Controls*. There were no changes in our internal control over financial reporting, identified in connection with the evaluation of such internal control that occurred during the three months ended June 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are not currently a party to any material legal proceedings.

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Item 1A. RISK FACTORS

The following are material changes to the risk factors described in our Annual Report on Form 10-K for the year ended December 31, 2014, filed with the Securities and Exchange Commission on March 12, 2015.

We currently do not have, and may never have, any products that generate significant revenues.

We have a limited operating history on which to evaluate our business and prospects. To date, we have not generated any product revenues from our product candidates currently in development. We cannot guarantee that any of our product candidates currently in development will ever become marketable products.

We must demonstrate that our drug candidates satisfy rigorous standards of safety and efficacy for their intended uses before the FDA and other regulatory authorities in the European Union and elsewhere will approve them for commercialization. Significant additional research, preclinical testing and clinical testing is required before we can file applications with the FDA or other regulatory authorities for premarket approval of our drug candidates. In addition, to compete effectively, our drugs must be easy to administer, cost-effective and economical to manufacture on a commercial scale. We may not achieve any of these objectives. We completed enrollment of our first Phase 3 clinical trial of our most advanced drug candidate, ITI-007, in schizophrenia in the second quarter of 2015 and we expect that top-line results from this trial will be available late in the third quarter or early in the fourth quarter of 2015. We also initiated enrollment of our second Phase 3 clinical trial of ITI-007 in schizophrenia in the second quarter of 2015 and, subject to timely enrollment, we anticipate that top-line results from this trial will be available in mid-2016. In addition, all rights with respect to ITI-214, which has advanced into Phase 1 clinical trials that we previously granted to Takeda were recently returned to us in connection with the termination of the Takeda License Agreement. We intend to continue the development of ITI-214 for the treatment of CNS and other disorders, and we are in the process of refining our strategy for the PDE1 inhibitor program. We cannot be certain that the clinical development of these or any other drug candidates in preclinical testing or clinical development will be successful, that we will receive the regulatory approvals required to commercialize them or that any of our other research and drug discovery programs will yield a drug candidate suitable for investigation through clinical trials. Our commercial revenues from our product candidates currently in development, if any, will be derived from sales of drugs that will not become marketable for several years, if at all.

There is no guarantee that our planned clinical trials for ITI-007 in schizophrenia or in other indications will be successful.

In our Phase 1 and Phase 2 clinical trials, our lead product candidate, ITI-007, has demonstrated improved sleep maintenance, antipsychotic efficacy, and clinical signals consistent with reduction in negative symptoms associated with schizophrenia, depression and anxiety, and other symptoms associated with impaired social function. ITI-007 exhibited antipsychotic efficacy in a randomized, double-blind, placebo and active controlled Phase 2 clinical trial in patients with an acutely exacerbated episode of schizophrenia. Our preclinical studies and initial clinical trials demonstrate that ITI-007 has shown evidence of addressing the symptoms of schizophrenia without causing cardiovascular and metabolic abnormalities, or motor impairments. Further, ITI-007 was shown effective at a dose that did not cause adverse effects displayed by existing antipsychotic drugs that tend to lead to high rates of noncompliance by the patients who most need these drugs. We are currently planning confirmatory later-stage clinical trials and recently completed enrollment of our first Phase 3 clinical trial in schizophrenia in the second quarter of 2015 and initiated enrollment of our second Phase 3 clinical trial of ITI-007 in schizophrenia in the second quarter of 2015.

The historical rate of failures for product candidates in clinical development and late-stage clinical trials is high. While we plan to conduct further clinical trials in patients with schizophrenia and other indications, there is no

guarantee that we will have the same level of success in these trials as we have had in our earlier clinical trials, or be successful at all.

In addition, although we believe that ITI-007 and follow-on compounds may also have clinical utility in indications other than schizophrenia, such as behavioral disturbances in dementia, bipolar disorder, intermittent explosive disorder, non-motor disorders associated with Parkinson s disease, obsessive compulsive disorder and anxiety disorders and post-traumatic stress disorder, we have never tested ITI-007 in Phase 2 clinical trials in the patient population for these other indications, except for ITI-007-200, a Phase 1/2 clinical trial designed to evaluate the safety, tolerability and pharmacokinetics of low doses of ITI-007 in healthy geriatric subjects and in patients with dementia, including Alzheimer s disease, for which we announced topline data in the fourth quarter of 2014.

If we do not successfully complete clinical development of ITI-007, we will be unable to market and sell products derived from it and to generate product revenues. Even if we do successfully complete clinical trials for ITI-007 in patients with schizophrenia, those results are not necessarily predictive of results of future pivotal trials that may be needed before we may submit an NDA to the FDA for the initial or other future indications. Of the vast number of drugs in development, only a small percentage result in the submission of an NDA to the FDA, and even less result in the NDA ultimately being approved by the FDA for commercialization.

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We have advanced ITI-007 into Phase 3 clinical trials for the treatment of schizophrenia. Although we have discussed our clinical development plans with the FDA, the agency may ultimately determine that our Phase 3 clinical trials and non-clinical studies, even if successfully completed, are not sufficient for regulatory approval. If we are required to conduct additional clinical trials and non-clinical studies, our development of ITI-007 for schizophrenia will be more time-consuming and costly than we presently anticipate, which would have a material adverse effect on our business, results of operations and financial condition.

In June 2014, we held our end-of-Phase 2 meeting with the FDA to discuss our plans for initiating Phase 3 clinical trials of ITI-007 in schizophrenia. Following this meeting, we proceeded with our Phase 3 development program, in which we are conducting two randomized, double-blind, placebo-controlled Phase 3 clinical trials of ITI-007 in patients with acutely exacerbated schizophrenia, with approximately 450 patients fully enrolled in the first Phase 3 clinical trial and approximately 580 patients planned to be enrolled in the second Phase 3 clinical trial. We completed enrollment of the first Phase 3 clinical trial in schizophrenia in the second quarter of 2015 and initiated enrollment of the second Phase 3 clinical trial in schizophrenia in the second quarter of 2015. In the first Phase 3 trial, we randomized patients to two doses of ITI-007 (60mg or 40mg) or placebo over a 4-week treatment duration, and the primary outcome measure is change from baseline to Day 28 on the PANSS total score. In the second Phase 3 trial, we are randomizing patients to receive one of four treatments: 60 mg ITI-007, 20 mg ITI-007, 4 mg risperidone (active control) or placebo in a 1:1:1:1 ratio. The second Phase 3 trial will be conducted for a 6-week treatment duration. We anticipate that the results of the first Phase 3 clinical trial of ITI-007 in patients with schizophrenia will available late in the third quarter or early in the fourth quarter of 2015 and that the results of the second Phase 3 clinical trial will be available, subject to timely enrollment, in mid-2016. Even though we believe that our on-going Phase 3 clinical trials and non-clinical studies for ITI-007 in schizophrenia, if successful, will be sufficient to support our NDA, the FDA may not agree with one or more aspects of our clinical trial designs, including the duration of the trials, clinical endpoints, controls, dose ranges, collection of safety data, or adequacy of our non-clinical studies. If we submit an NDA and the FDA does not agree with our clinical and non-clinical designs, our development of ITI-007 in schizophrenia and other indications may be delayed, and we may incur additional costs and devote additional resources to address any concerns the FDA may have with our trial designs. In addition, we may be required to conduct additional clinical trials or studies, which could result in additional delays and costs. There is no assurance that we will complete the Phase 3 trials and non-clinical studies within the timeframes and the costs that we currently expect, or at all, or in a manner that is acceptable to the FDA. Any delays or unplanned costs resulting from our Phase 3 clinical trials of ITI-007 in schizophrenia may have a material adverse effect on our business, results of operations and financial condition. Even if we eventually complete Phase 3 clinical testing, submit an NDA and receive approval of ITI-007, the FDA may grant approval contingent on the performance of costly additional post-approval clinical trials. The FDA may also approve ITI-007 for a more limited indication or a narrower patient population than we originally requested, and the FDA may not approve the labeling that we believe is necessary or desirable for the successful commercialization of ITI-007 or our other product candidates. Any delay in obtaining, or inability to obtain, applicable regulatory approval for ITI-007 would delay or prevent commercialization of ITI-007 and would materially adversely impact our business, results of operations and financial condition.

We will require substantial additional funding, which may not be available to us on acceptable terms, or at all, and, if not so available, may require us to delay, limit, reduce or cease our operations.

We have consumed substantial amounts of capital since our inception. Our cash, cash equivalents and investment securities totaled $204.0 million at June 30, 2015, which includes net proceeds of approximately $121.4 million from the public offering of shares of our common stock in March 2015. While we believe that our existing cash, cash equivalents and investment securities, together with interest on cash balances, will be sufficient to fund our operating expenses and capital expenditure requirements through the end of 2016, the amount and timing of our actual expenditures will depend upon numerous factors, including the ongoing status of our Phase 3 clinical trials of ITI-007

in patients with acute exacerbated schizophrenia, the process of refining our strategy for the PDE1 inhibitor program and the continued development of ITI-214 for the treatment of CNS and other disorders, and our other planned clinical and non-clinical trials. Furthermore, we anticipate that we will need to secure additional funding to complete additional clinical and non-clinical trials, manufacturing and pre-commercialization activities needed for potential regulatory approval and commercialization of ITI-007 in patients with acute exacerbated schizophrenia, for further development of ITI-007 for other indications, and for development of our other product candidates. If the FDA requires that we perform additional preclinical studies or clinical trials, or we experience delays or other setbacks in our clinical trials, our expenses would further increase beyond what we currently expect and the anticipated timing of any potential NDA would likely be delayed.

We intend to use substantially all of the remaining net proceeds from our public offering completed in February 2014 to fund the completion of two ongoing Phase 3 clinical trials of ITI-007 in patients with acute exacerbated schizophrenia, one of which we completed enrollment in the second quarter of 2015 and the second of which we initiated enrollment in the second quarter of 2015; to fund the initiation of other planned clinical and non-clinical trials, including manufacturing, needed for anticipated regulatory approval of ITI-007 in patients with acute exacerbated schizophrenia and other potential additional indications; and to fund research and preclinical development of our other product candidates. We intend to use substantially all of the net proceeds from our public offering completed in March 2015 to fund a clinical trial of ITI-007 for the treatment of behavioral disturbances in dementia; to fund

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one or more clinical trials of ITI-007 in bipolar disorder; to fund our ITI-007 long acting injectable development program through pre-clinical and early clinical development; to fund one or more clinical trials of ITI-007 for the treatment of depression; and to fund research and preclinical development of our other product candidates and the continuation of manufacturing activities in connection with the development of ITI-007. The remaining proceeds, if any, will be used to fund new and ongoing research and development activities, general corporate purposes, including general and administrative expenses, capital expenditures, working capital and prosecution and maintenance of our intellectual property. Accordingly, we will continue to require substantial additional capital beyond the net proceeds from the offerings to continue our clinical development and commercialization activities. Because successful development of our product candidates is uncertain, we are unable to estimate the actual funds we will require to complete research and development and commercialize our products under development.

Our future capital requirements will depend on, and could increase significantly as a result of, many factors, including:

- the progress in, and the costs of, our preclinical studies and clinical trials and other research and development programs;
- the scope, prioritization and number of our research and development programs;
- the ability of any future collaborators and us to reach the milestones, and other events or developments, triggering payments under any future collaboration agreements or to otherwise make payments under such agreements;
- our ability to enter into new, and to maintain any existing, collaboration and license agreements;
- the extent to which any future collaborators are obligated to reimburse us for clinical trial costs under any future collaboration agreements;
- the costs involved in filing, prosecuting, enforcing and defending patent claims and other intellectual property rights;
- the costs of securing manufacturing arrangements for clinical or commercial production;
- the costs of preparing applications for regulatory approvals for our product candidates;
- the costs of establishing, or contracting for, sales and marketing capabilities if we obtain regulatory clearances to market our product candidates; and

the costs associated with litigation.

Until we can generate significant continuing revenues, we expect to satisfy our future cash needs through our existing cash, cash equivalents and investment securities, strategic collaborations, private or public sales of our securities, debt financings, grant funding, or by licensing all or a portion of our product candidates or technology. Turmoil and volatility in the financial markets have adversely affected the market capitalizations of many biotechnology companies, and generally made equity and debt financing more difficult to obtain. This, coupled with other factors, may limit our access to additional financing. This could have a material adverse effect on our ability to access sufficient funding. We cannot be certain that additional funding will be available to us on acceptable terms, or at all. If we do obtain additional funding through equity offerings, the ownership of our existing stockholders and purchasers of shares of our common stock in any such offering will be diluted, and the terms of any financing may adversely affect the rights of our stockholders. In addition, the issuance of additional shares by us, or the possibility of such issuance, may cause the market price of our shares to decline. If funds are not available, we will be required to delay, reduce the scope of, or eliminate one or more of our research or development programs or our commercialization efforts. We also could be required to seek funds through arrangements with collaboration partners or otherwise that may require us to relinquish rights to some of our technologies or product candidates or otherwise agree to terms unfavorable to us.

Our product candidates have never been manufactured on a commercial scale, and there are risks associated with scaling up manufacturing to commercial scale. In particular, we will need to develop a larger scale manufacturing process that is more efficient and cost-effective to commercialize ITI-007 and other other product candidates, which may not be successful, and which may require us to transfer our production to one or more other third-party manufacturers, potentially delaying regulatory approval and commercialization.

Our product candidates have never been manufactured on a commercial scale, and there are risks associated with scaling up manufacturing to commercial scale including, among others, cost overruns, potential problems with process scale-up, process reproducibility, stability issues, lot consistency and timely availability of raw materials. There is no assurance that our manufactures

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will be successful in establishing a larger-scale commercial manufacturing process for ITI-007 which achieves our objectives for manufacturing capacity and cost of goods. Even if we could otherwise obtain regulatory approval for any product candidate, there is no assurance that our manufacturers will be able to manufacture the approved product to specifications acceptable to the FDA or other regulatory authorities, to produce it in sufficient quantities to meet the requirements for the potential launch of the product or to meet potential future demand. If our manufacturers are unable to produce sufficient quantities of the approved product for commercialization, our commercialization efforts would be impaired, which would have an adverse effect on our business, financial condition, results of operations and growth prospects.

We rely on third-party manufacturers to manufacture and supply our product candidates for us. If one of our suppliers or manufacturers fails to perform adequately or full our needs, we may be required to incur significant costs and devote significant efforts to find new suppliers or manufacturers. We may also face significant delays in our clinical trials, regulatory approvals and product introductions and commercialization.

We have no manufacturing facilities and have limited experience in the manufacturing of drugs or in designing drug-manufacturing processes. We have contracted with third-party manufacturers to produce, in collaboration with us, our product candidates, including ITI-007, for clinical trials. If any of our product candidates are approved by the FDA or other regulatory agencies for commercial sale, we may need to amend our contracts with our current manufacturers or contract with other third parties to manufacture them in larger quantities at commercial scale. While we believe that there are alternative sources available to manufacture our product candidates, in the event that we seek such alternative sources, we may not be able to enter into replacement arrangements without delays or additional expenditures. We cannot estimate these delays or costs with certainty but, if they were to occur, they could cause a delay in our development and commercialization efforts. We have not entered into a long-term agreement with our current third-party manufacturers or with any alternate suppliers. Although we intend to do so prior to any commercial launch of a product that is approved by the FDA in order to ensure that we maintain adequate supplies of commercial drug product, we may be unable to enter into such agreements or do so on commercially reasonable terms, which could delay a product launch or subject our commercialization efforts to significant supply risk.

Manufacturers of our product candidates are obliged to operate in accordance with FDA-mandated current good manufacturing practices, or cGMPs. The manufacture of pharmaceutical products in compliance with the cGMPs requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. Manufacturers of pharmaceutical products often encounter difficulties in production, including difficulties with production costs and yields, quality control, including stability of the product candidate and quality assurance testing, shortages of qualified personnel, as well as compliance with strictly enforced cGMP requirements, other federal and state regulatory requirements and foreign regulations. If our manufacturers were to encounter any of these difficulties or otherwise fail to comply with their obligations to us or under applicable regulations, our ability to provide product candidates in our clinical trials would be jeopardized. Any delay or interruption in the supply of clinical trial materials could delay the completion of our clinical trials, increase the costs associated with maintaining our clinical trial programs and, depending upon the period of delay, require us to commence new clinical trials at significant additional expense or terminate the clinical trials completely.

In addition, the facilities used by our contract manufacturers or other third party manufacturers to manufacture our product candidates must be approved by the FDA pursuant to inspections that will be conducted after we request regulatory approval from the FDA. These requirements include, among other things, quality control, quality assurance and the maintenance of records and documentation. Manufacturers of our product candidates may be unable to comply with these cGMP requirements and with other FDA, state and foreign regulatory requirements. The FDA or similar foreign regulatory agencies may also implement new standards at any time, or change their interpretation and enforcement of existing standards for manufacture, packaging or testing of products. We have little control over our

manufacturers compliance with these regulations and standards. A failure of any of our current or future contract manufacturers to establish and follow cGMPs and to document their adherence to such practices may lead to significant delays in clinical trials or in obtaining regulatory approval of product candidates or the ultimate launch of products based on our product candidates into the market. Failure by our current or future third-party manufacturers or us to comply with applicable regulations could result in sanctions being imposed on us, including fines, injunctions, civil penalties, failure of the government to grant pre-market approval of drugs, delays, suspension or withdrawal of approvals, seizures or recalls of products, operating restrictions, and criminal prosecutions. If the safety of any product supplied is compromised due to our manufacturers failure to adhere to applicable laws or for other reasons, we may not be able to obtain regulatory approval for or successfully commercialize our products and we may be held liable for any injuries sustained as a result. Any of these factors could cause a delay of clinical studies, regulatory submissions, approvals or commercialization of our product candidates, entail higher costs or impair our reputation.

If we are unable to establish sales and marketing capabilities or enter into agreements with third parties to sell and market any products we may develop, we may not be able to generate product revenue.

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We do not currently have an organization for the sales, marketing or distribution of pharmaceutical products. In order to market any products that may be approved by the FDA, we must build our sales, marketing, managerial, and related capabilities or make arrangements with third parties to perform these critical commercial services. There are risks involved with both establishing our own sales, marketing, managerial and related capabilities and entering into arrangements with third parties to perform these services. For example, recruiting and training a sales force is expensive and time-consuming and could delay any product launch. If the commercial launch of a product candidate for which we recruit a sales force and establish marketing capabilities is delayed or does not occur for any reason, we would have prematurely or unnecessarily incurred these commercialization expenses. This may be costly, and our investment would be lost if we cannot retain or reposition our sales and marketing personnel.

We also may not be successful entering into arrangements with third parties to sell and market our product candidates or may be unable to do so on terms that are favorable to us. We likely will have little control over such third parties, and any of them may fail to devote the necessary resources and attention to sell and market our products effectively, which could damage our reputation. If we do not establish adequate sales, marketing, and distribution capabilities, whether independently or in collaboration with third parties, we will not be successful in commercializing our product candidates, may not be able to generate product revenue and may not become profitable.

Numerous factors could result in substantial volatility in the trading price of our stock.

Since January 31, 2014, our common stock has been listed on the NASDAQ Global Select Market, and from December 20, 2013 to January 30, 2014, was quoted for trading on the OTC Markets OTCQB tier, or OTCQB, in very limited volume. In the 12 months preceding June 30, 2015, the price per share of our common stock has ranged from a high of $35.45 to a low of $12.67. Prior to December 20, 2013, our common stock was not publicly-traded. We have several stockholders, including affiliated stockholders, who hold substantial blocks of our stock. Sales of large numbers of shares by any of our large stockholders could adversely affect our trading price, particularly given our small historic trading volumes. If stockholders holding shares of our common stock sell, indicate an intention to sell, or if it is perceived that they will sell, substantial amounts of their common stock in the public market, the trading price of our common stock could decline.

In addition, the trading price of our common stock may be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. These factors include:

- timing and announcement of regulatory developments and approvals or preliminary, interim or final results of clinical trials;
- actual or anticipated quarterly variation in our results of operations or the results of our competitors;
- announcements of medical innovations or new products by our competitors;
- issuance of new or changed securities analysts reports or recommendations for our stock;
- developments or disputes concerning our intellectual property or other proprietary rights;

commencement of, or our involvement in, litigation;

market conditions in the biopharmaceutical industry;

any future sales of our common stock or other securities in connection with raising additional capital or otherwise;

any major change to the composition of our board of directors or management; and

general economic conditions and slow or negative growth of our markets.

The stock market in general, and market prices for the securities of biotechnology companies like ours in particular, have from time to time experienced volatility that often has been unrelated to the operating performance of the underlying companies. These broad market and industry fluctuations may adversely affect the market price of our common stock, regardless of our operating performance. In several recent situations where the market price of a stock has been volatile, holders of that stock have instituted securities class action litigation against the company that issued the stock. If any of our stockholders were to bring a lawsuit against us, the defense and disposition of the lawsuit could be costly and divert the time and attention of our management and harm our operating results.

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Raising additional capital may cause dilution to existing stockholders, restrict our operations or require us to relinquish rights.

We will need to satisfy our future cash needs through public or private sales of our equity securities, sales of debt securities, the incurrence of debt from commercial lenders, strategic collaborations, licensing a portion or all of our product candidates and technology and, to a lesser extent, grant funding. We filed a universal shelf registration statement on Form S-3 with the SEC, which was declared effective on June 5, 2015, on which we registered for sale up to $350 million of securities of any combination of common stock, preferred stock, debt securities, warrants, rights, purchase contracts and/or units from time to time and at prices and on terms that we may determine, including up to $50 million of our common stock available for issuance pursuant to an at-the-market offering program Sales Agreement that we entered into with Cowen and Company LLC, or Cowen, in May 2015. Pursuant to the Sales Agreement, we may offer and sell, from time to time at our discretion, shares of our common stock having an aggregate offering price of up to $50 million through Cowen as our sales agent. Under the Sales Agreement, Cowen may sell the shares by any method permitted by law deemed to be an at the market offering as defined in Rule 415 of the Securities Act. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of our existing stockholders will be diluted, and the terms may include liquidation or other preferences that adversely affect the rights of our stockholders. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring debt, making capital expenditures or declaring dividends. If we raise additional funds through collaboration and licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies or grant licenses on terms that are not favorable to us.

If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired, which could harm our operating results, our ability to operate our business and investors views of us.

We are required to comply with Section 404 of the Sarbanes-Oxley Act. Section 404 of the Sarbanes-Oxley Act requires public companies to maintain effective internal control over financial reporting. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting. In addition, we will be required to have our independent registered public accounting firm attest to the effectiveness of our internal control over financial reporting beginning with our annual report on Form 10-K for the fiscal year ending December 31, 2015. Ensuring that we have adequate internal financial and accounting controls and procedures in place so that we can produce accurate financial statements on a timely basis is a costly and time-consuming effort that will need to be evaluated frequently. We currently do not have an internal audit group, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. If we fail to maintain the effectiveness of our internal controls or fail to comply in a timely manner with the requirements of the Sarbanes-Oxley Act, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, this could have a material adverse effect on our business. We could lose investor confidence in the accuracy and completeness of our financial reports, which could have an adverse effect on the price of our common stock and we could be subject to sanctions or investigations by NASDAQ, the SEC or other regulatory authorities, which would require additional financial and management resources. In addition, if our efforts to comply with new or changed laws, regulations, and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

Our ability to successfully implement our business plan and comply with Section 404 requires us to be able to prepare timely and accurate financial statements. We expect that we will need to continue to improve existing, and implement

new operational and financial systems, procedures and controls to manage our business effectively. Any delay in the implementation of, or disruption in the transition to, new or enhanced systems, procedures or controls, may cause our operations to suffer and we may be unable to conclude that our internal control over financial reporting is effective and to obtain an unqualified report on internal controls from our independent registered public accounting firm as required under Section 404 of the Sarbanes-Oxley Act. This, in turn, could have an adverse impact on trading prices for our common stock, and could adversely affect our ability to access the capital markets.

We will no longer be an emerging growth company beginning on December 31, 2015 after which we will not be able to take advantage of the reduced disclosure requirements applicable to emerging growth companies.

We will remain an emerging growth company under the JOBS Act until December 31, 2015. As an emerging growth company, we have taken advantage of certain exemptions from various reporting requirements that are applicable to other public companies. On December 31, 2015, we will become a large accelerated filer and the reduced disclosure obligations of emerging growth companies will no longer be available to us. As a result, we will need to comply with the independent auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act beginning with our annual report on Form 10-K for the year ending December 31, 2015, will be required to hold a say-on-pay vote and a say-on-frequency vote at our 2016 annual meeting of stockholders, and will no longer be entitled to provide the reduced executive compensation disclosures permitted by emerging growth companies in our annual report on

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the Form 10-K and proxy statement for the year ending December 31, 2015. We expect that our transition from emerging growth company to large accelerated filer will require additional attention from management and will result in increased costs to us, which could include higher legal fees, accounting fees and fees associated with investor relations activities, among others.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Unregistered Sales of Equity Securities

Not applicable.

(b) Use of Proceeds from Registered Securities

On February 5, 2014, we completed our initial public offering of 7,063,300 shares of our common stock at a price of $17.50 per share for aggregate gross proceeds of approximately $123.6 million. The offer and sale of all of the shares in the offering were registered under the Securities Act pursuant to a registration statement on Form S-1, which was declared effective on January 30, 2014 (File No. 333-193313), and a registration statement on Form S-1 filed pursuant to Rule 462(b) promulgated under the Securities Act (File No. 333-193676). Leerink Partners LLC and Cowen and Company, LLC acted as joint book-running managers for the offering and as representatives of the underwriters. Guggenheim Securities, LLC and JMP Securities LLC acted as co-managers for the offering. The offering commenced on January 24, 2014 and did not terminate until the sale of all of the shares offered.

We received aggregate net proceeds from the offering of approximately $115.4 million, after deducting approximately $7.4 million of underwriting discounts and commissions, and approximately $0.8 million of offering expenses payable by us. None of the underwriting discounts and commissions or other offering expenses were incurred or paid to our directors or officers or their associates or to persons owning 10 percent or more of our common stock or to any of our affiliates.

We have invested the net proceeds from the offering in a variety of capital preservation investments, including short-term, investment grade, interest bearing instruments such as commercial paper and corporate debt securities, U.S. government securities, certificates of deposit and institutional money market funds. As of June 30, 2015, $71.6 million of the net proceeds of the offering had been used primarily for working capital purposes, including recurring expenses and preclinical and clinical trial costs related to the development of ITI-007. There has been no material change in our planned use of the net proceeds from the offering as described in our final prospectus dated January 30, 2014 filed with the Securities and Exchange Commission pursuant to Rule 424(b) under the Securities Act on January 31, 2014. We have broad discretion in the use of the net proceeds from our initial public offering and could spend the proceeds in ways that do not improve our results of operations or enhance the value of our stock.

(c) Issuer Purchases of Equity Securities

We did not repurchase any of our equity securities during the three months ended June 30, 2015.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

On August 3, 2015, we entered into an employment agreement with Michael Halstead, our Senior Vice President, General Counsel and Secretary. The agreement provides for an annual salary of $425,000, subject to our annual review and adjustment in the discretion of our board of directors, and that Mr. Halstead is eligible for bonus payments and equity grants as may be awarded by our board of directors. In addition, his employment agreement provides that we will pay the premium on a life insurance policy in an amount of $150,000. The employment agreement also provides that Mr. Halstead is entitled to participate in our benefit plans on the same basis as other executive level employees as well as long-term disability insurance and reimbursement for reasonable business expenses. The initial term of the agreement is three years and will be renewed for successive one year terms, unless we or Mr. Halstead provides notice that we or he, as the case may be, does not wish to renew the agreement or wishes to renew the agreement on different terms than those contained in the agreement.

If Mr. Halstead s employment is terminated for any reason, he will be entitled to compensation and benefits through the last day of his employment, including accrued but untaken vacation. If his employment is terminated due to his death or disability, we will also pay him or his estate the compensation which would otherwise have been payable to him through the end of the month in which such

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termination occurs as well as payment for any accrued but untaken vacation. If his employment is terminated without cause by us or he terminates his employment for good reason, he will receive the following severance benefits following his employment termination, on condition that he executes a general release in our favor, returns all our property, and complies with his employment agreement, proprietary information, inventions, and non-competition agreement, and the general release: (a) payment of 12 months of his then current base salary and the pro rata portion of an amount equal to the bonus he was awarded for the previous year, if any, which severance payments will be paid in one lump sum on the date the general release he executes becomes effective; (b) payment for 12 months of the portion of the COBRA premiums that we paid prior to his termination; and (c) all of his unvested equity grants will immediately vest. Mr. Halstead will also be entitled to such severance benefits if we elect not to renew his employment agreement for reasons other than death, disability or cause, but (i) such severance benefits are conditioned on Mr. Halstead executing a general release in our favor, returning all our property, and complying with his employment agreement, proprietary information, inventions, and non-competition agreement, and the general release and (ii) Mr. Halstead will not be eligible for such severance benefits if he or we wish to renew the agreement on different terms than those contained in his employment agreement. If his employment is terminated for reasons other than death or disability within three months before or 12 months following a change of control, he terminates his employment for good reason during such period, or he terminates his employment for any reason within one month following a change of control, he will be eligible for the following severance benefits following his employment termination: (a) payment of 18 months of his then current base salary and the pro rata portion of an amount equal to the bonus he was awarded for the previous year, which severance payments will be paid in one lump sum on the eighth day following the effective date of the general release, (b) payment for 18 months of the portion of the COBRA premiums that we paid prior to his termination, and (c) all of his unvested equity grants will immediately vest. Such severance benefits following a change of control are payable on condition that he executes a general release in favor of us, returns all our property and complies with his post-termination obligations under his employment agreement, his proprietary information, inventions, and non-competition agreement, and his general release.

Item 6. EXHIBITS

Exhibit Number	Exhibit Description	Filed Herewith	Incorporated by Reference herein from Form or Schedule	Filing Date	SEC File/ Reg. Number
10.1	Sales Agreement dated May 28, 2015 by and between Intra-Cellular Therapies, Inc., and Cowen and Company, LLC.		8-K (Exhibit 10.1)	5/28/2015	001-36274
10.2*	Intra-Cellular Therapies, Inc. Amended and Restated 2013 Equity Incentive Plan.		8-K (Exhibit 10.1)	6/18/2015	001-36274
31.1	Certification of the Registrant s Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	X			
31.2	Certification of the Registrant s Principal Financial Officer pursuant to Section 302 of	X			

	the Sarbanes-Oxley Act of 2002.	
32	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X
101	The following materials from the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of June 30, 2015 (unaudited) and December 31, 2014 (audited), (ii) Condensed Consolidated Statements of Operations (unaudited) for the three and six months ended June 30, 2015 and 2014, (iii) Condensed Consolidated Statements of Cash Flows (unaudited) for the six months ended June 30, 2015 and 2014, and (iv) Notes to Condensed Consolidated Financial Statements (unaudited).	X

* Management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTRA-CELLULAR THERAPIES, INC.

Date: August 5, 2015

By: /s/ Sharon Mates, Ph.D.
Sharon Mates, Ph.D.
Chairman, President and Chief Executive Officer

Date: August 5, 2015

By: /s/ Lawrence J. Hineline
Lawrence J. Hineline
Vice President of Finance and
Chief Financial Officer