

MEDICINOVA INC
Form DEF 14A
April 29, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. ___)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-12

MEDICINOVA, INC.

(Name of Registrant as Specified In Its Charter)

Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

April 29, 2009

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of MediciNova, Inc. The meeting will be held on Thursday, June 11, 2009, at 3:00 p.m. Pacific Daylight Time at the Northern Trust Tower, 4370 La Jolla Village Drive, Suite 210, San Diego, California 92122.

With this letter we have enclosed a copy of our Annual Report to Stockholders for the fiscal year ended December 31, 2008, Notice of Annual Meeting of Stockholders, Proxy Statement and proxy card. These materials provide further information concerning our Annual Meeting. If you would like another copy of the Annual Report, please send your request to MediciNova, Inc., 4350 La Jolla Village Drive, Suite 950, San Diego, California 92122, Attention: Investor Relations, and one will be mailed to you. It is also available on our Internet site at www.medicinova.com.

After reading the Proxy Statement, please mark, date, sign and return the enclosed proxy to ensure that your shares will be represented. WE CANNOT ENSURE THAT YOUR SHARES WILL BE VOTED UNLESS YOU SIGN, DATE AND RETURN THE ENCLOSED PROXY SO THAT IT IS RECEIVED BY JUNE 9, 2009, OR YOU ATTEND THE ANNUAL MEETING IN PERSON. Your vote is important, so please return your proxy promptly.

The Board of Directors and management look forward to seeing you at the meeting.

Sincerely yours,

Yuichi Iwaki, M.D., Ph.D.

President, Chief Executive Officer and Director

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD JUNE 11, 2009

To the Stockholders of MediciNova, Inc.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of MediciNova, Inc., a Delaware corporation, or MediciNova, will be held on Thursday, June 11, 2009, at 3:00 p.m. Pacific Daylight Time at the Northern Trust Tower, 4370 La Jolla Village Drive, Suite 210, San Diego, California 92122 for the following purposes:

1. To elect one Class II director to serve until the 2012 Annual Meeting of Stockholders and until his successor is duly elected and qualified;
2. To ratify the appointment of Ernst & Young LLP as MediciNova's independent registered public accounting firm for the fiscal year ending December 31, 2009; and
3. To transact such other business as may properly come before the Annual Meeting and any adjournment or postponement of the Annual Meeting.

Stockholders of record as of the close of business on April 20, 2009 are entitled to notice of and to vote at the Annual Meeting and any adjournment or postponement thereof. A complete list of stockholders entitled to vote at the Annual Meeting will be available for inspection at MediciNova's offices, located at 4350 La Jolla Village Drive, Suite 950, San Diego, California 92122, for ten days prior to the meeting.

It is important that your shares are represented at the Annual Meeting. Even if you plan to attend the meeting in person, we hope that you will mark, sign and date the enclosed proxy and return it promptly so that it is received by June 9, 2009. This will not limit your right to attend or vote at the meeting.

By Order of the Board of Directors,

Yuichi Iwaki, M.D., Ph.D.

President, Chief Executive Officer and Director

San Diego, California

April 29, 2009

MEDICINOVA, INC.

4350 LA JOLLA VILLAGE DRIVE, SUITE 950

SAN DIEGO, CALIFORNIA 92122

**PROXY STATEMENT FOR THE ANNUAL MEETING OF
STOCKHOLDERS TO BE HELD JUNE 11, 2009**

What is this document?

This document is the Proxy Statement of MediciNova, Inc., a Delaware corporation, for the Annual Meeting of Stockholders to be held at 3:00 p.m., Pacific Daylight Time, on Thursday, June 11, 2009. A form of proxy card is included. This document and the form of proxy card are first being mailed or given to stockholders on or about May 7, 2009.

We refer to our company throughout this document as we, us, the Company or MediciNova.

Why I am receiving this document?

You are receiving this document because you were one of our stockholders of record as of the close of business on April 20, 2009, the record date for our Annual Meeting, or the Record Date. We are sending this document and the form of proxy card to solicit your proxy to vote upon certain matters at the Annual Meeting.

When and where is the Annual Meeting being held, and who may attend?

The Annual Meeting is scheduled to be held on Thursday, June 11, 2009, at 3:00 p.m. Pacific Daylight Time at the Northern Trust Tower, 4370 La Jolla Village Drive, Suite 210, San Diego, California 92122, as well as any adjournment or postponement thereof. Only stockholders, their proxy holders and our invited guests may attend the meeting. If a broker, bank or other nominee holds your shares in street name, please bring a copy of the account statement reflecting your ownership as of April 20, 2009 so that we may verify your stockholder status and have you check in at the registration desk for the meeting. For security reasons, we also may require photo identification for admission. If you would like directions to the meeting, please send your request to MediciNova, Inc., 4350 La Jolla Village Drive, Suite 950, San Diego, California 92122, Attention: Investor Relations.

What is a proxy, and who is paying the costs to prepare this document and solicit my proxy?

A proxy is your legal designation of another person to vote your shares of our common stock, par value \$0.001 per share, or the Common Stock. The document that designates someone as your proxy is also called a proxy or a proxy card.

We will pay all expenses of this solicitation, including the cost of preparing and mailing this Proxy Statement and the form of proxy card.

Who is soliciting my proxy and will anyone be compensated to solicit my proxy?

Your proxy is being solicited by and on behalf of our Board of Directors, or the Board. In addition to solicitation by use of the mails, proxies may be solicited by our officers and employees in person or by personal interview, telephone, electronic mail, facsimile transmission or other means of communication. Our officers and employees will not be additionally compensated, but they may be reimbursed for out-of-pocket expenses in connection with any solicitation. We also may reimburse custodians, nominees and fiduciaries for their expenses in sending proxies

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and proxy material to beneficial owners. To help ensure that we have the necessary quorum to hold the Annual Meeting, we have hired the firm of Advantage Proxy to assist in soliciting proxies for fees estimated at approximately \$2,500.

Who is entitled to vote at the Annual Meeting?

Only holders of shares of our Common Stock as of the Record Date are entitled to vote at the Annual Meeting. As of the close of business on the Record Date, we had 12,005,792 shares of our Common Stock outstanding.

How many votes do I have, and can I cumulate my vote?

You have one vote for each share of our Common Stock that you held as of the Record Date. Cumulative voting is not allowed.

How many votes must be present to hold the Annual Meeting?

A quorum must be present at the Annual Meeting for any business to be conducted. A quorum exists when the holders of a majority of the 12,005,792 shares of our Common Stock outstanding as of the Record Date are present in person or by proxy at the Annual Meeting. If we do not have a quorum, we will be forced to reconvene the Annual Meeting at a future date.

How may I vote my shares?

You may vote your shares of our Common Stock at the Annual Meeting either in person or by proxy. To vote by proxy, you must mark, date, sign and mail the enclosed proxy. Giving a proxy will not affect your right to vote your shares if you attend the Annual Meeting and want to vote in person. The shares represented by the proxies received in response to this solicitation and not properly revoked will be voted at the Annual Meeting in accordance with the instructions therein.

What am I voting on?

You will be asked to be to vote on the following:

the election of a Class II director;

the ratification of the appointment of our independent registered public accounting firm for 2009; and

such other business that may properly come before the meeting.

How many votes are needed to elect directors and the ratification of the appointment of our accounting firm?

Directors are elected by a plurality vote of the votes cast by the holders of shares of our Common Stock entitled to vote at the Annual Meeting. The ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm will be decided by the affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on such proposal.

May other matters be raised at the Annual Meeting; how will the meeting be conducted?

We currently are not aware of any business to be acted upon at the Annual Meeting other than the two matters described above. Under Delaware law and our governing documents, no other business aside from procedural matters may be raised at the Annual Meeting unless proper notice has been given to us by the stockholders. If other business is properly raised, your proxies have authority to vote as they think best, including to adjourn the meeting.

We have broad authority to conduct the Annual Meeting so that the business of the meeting is carried out in an orderly and timely manner. In doing so, we have broad discretion to establish reasonable rules for discussion,

comments and questions during the meeting. We are also entitled to rely upon applicable law regarding disruptions or disorderly conduct to ensure that the Annual Meeting proceeds in a manner that is fair to all participants.

How are abstentions and broker non-votes counted?

Abstentions are included in the determination of shares present for quorum purposes. Because abstentions represent shares entitled to vote on any matter presented for shareholder approval, the effect of an abstention will be the same as a vote against a proposal. Shares represented by broker non-votes will be counted in determining whether there is a quorum present but will not be counted as votes either in favor or against a particular proposal.

If my shares are held by my broker in street name, will my broker vote my shares for me?

If you are the beneficial owner of shares held in street name by a broker, your broker is the record holder of the shares. The broker, however, is required to vote those shares in accordance with your instructions. If you do not give instructions to your broker, your broker may exercise discretionary voting power to vote your shares with respect to routine matters, but the broker may not exercise discretionary voting power to vote your shares with respect to non-routine items. All of the matters identified in this Proxy Statement to be voted upon at the Annual Meeting presently are considered to be routine items. In the case of non-routine items, the shares that cannot be voted by your broker would be treated as broker non-votes.

How will my proxy be voted?

The individuals named on the proxy card will vote your proxy in the manner you indicate on the proxy card. If your shares are not held in street name and you return your proxy but do not mark your voting preference, the individuals named as proxies will vote your shares: (i) **FOR** the election of the single nominee for Class II director to serve until the 2012 Annual Meeting of Stockholders and until his successor is duly elected and qualified; and (ii) **FOR** the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009.

If your shares are held in street name and you return your proxy but do not mark your voting preference, the bank, broker or other nominee has the authority to vote your unvoted shares on Proposal One: Election of Class II Director and Proposal Two: Ratification of Appointment of Independent Registered Public Accounting Firm. If the bank, broker or other nominee does not vote your unvoted shares on these proposals, the shares become broker non-votes as to the particular proposals.

We encourage you to provide voting instructions. This ensures your shares of Common Stock will be voted at the Annual Meeting in the manner you desire.

Can I change my mind and revoke my proxy?

Yes. To revoke a proxy given in response to this solicitation, you must:

attend the Annual Meeting and vote in person;

submit a written notice of revocation to us prior to or at the Annual Meeting; or

submit another proxy of a later date that is properly executed prior to or at the Annual Meeting.

Will my vote be confidential?

Yes. We will continue our practice of keeping the votes of all stockholders confidential. Stockholder votes will not be disclosed to our directors, officers, employees or agents, except:

as necessary to meet applicable legal requirements;

in a dispute regarding authenticity of proxies and ballots;

in the case of a contested proxy solicitation, if the other party soliciting proxies does not agree to comply with the confidential voting policy; or

when a stockholder makes a written comment on the proxy card or otherwise communicates the vote to management.

Where is our common stock traded?

Our common stock is traded and quoted on the Nasdaq Global Market, or Nasdaq, under the symbol MNOV and on the Hercules Market of the Osaka Stock Exchange under the code 4875.

IMPORTANT

Please mark, sign and date the enclosed proxy and return it promptly so that it is received by June 9, 2009 to ensure that your shares can be voted, whether or not you intend to be present at the Annual Meeting. This will not limit your rights to attend or vote in person at the Annual Meeting.

MATTERS TO BE CONSIDERED AT THE ANNUAL MEETING

PROPOSAL ONE:

ELECTION OF CLASS II DIRECTOR

General

The Board currently consists of seven members divided into three classes, each serving staggered three-year terms as follows:

Class II, whose term will expire at the Annual Meeting;

Class III, whose term will expire at the Annual Meeting of Stockholders to be held in 2010; and

Class I, whose term will expire at the Annual Meeting of Stockholders to be held in 2011.

The Class II members of the Board are scheduled for election at the Annual Meeting. The Nominating and Corporate Governance Committee of the Board has recommended, and the Board has designated, Yuichi Iwaki, M.D., Ph.D., who is an incumbent director, to be elected as the Class II director at the Annual Meeting. If elected at the Annual Meeting, Dr. Iwaki will hold office until the Annual Meeting of Stockholders in 2012 and until his successor has been duly elected and qualified unless he resigns or is removed. If Dr. Iwaki is unable or declines to serve as a director at the time of the Annual Meeting, proxies will be voted for any nominee designated by the Board, taking into account a recommendation by the Nominating and Corporate Governance Committee, if any, to fill the vacancy.

Daniel Vapnek, Ph.D., who served as a Class II director and member of our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, has decided not to seek re-election; therefore, his term as director will end at the Annual Meeting. No individual has been nominated for the directorship held by Dr. Vapnek. Accordingly, following the Annual Meeting, our Board will consist of six directors.

Election of the Class II director will require the affirmative vote of a plurality of the shares present and voting at the Annual Meeting in person or by proxy.

Biographical Information

Biographical information concerning the Class II director nominee and the Class II director not seeking reelection as of the date of this Proxy Statement is set forth below.

Name	Served as Director Since	Age	Principal Business Experience
Yuichi Iwaki, M.D., Ph.D.	2000	59	<i>Yuichi Iwaki, M.D., Ph.D.</i> is our founder and served as the chairman of the Board of Directors from our inception in September 2000 to March 2007, becoming Executive Chairman in July 2005, Acting Chief Executive Officer as of September 2005 and President and Chief Executive Officer as of March 2006. From September 2001 until January 2007, Dr. Iwaki also served as our consultant in connection with financing transactions and business development activities. He holds three professorships at the University of Southern California

Name	Served as Director Since	Age	Principal Business Experience
			<p>has been Director of the Transplantation Immunology and Immunogenetic Laboratory since 1992. Dr. Iwaki is also a visiting professor at the Nihon University School of Medicine and Kyushu University. Prior to joining the faculty at the University of Southern California School of Medicine, Dr. Iwaki held professorships at the University of Pittsburgh School of Medicine in the Departments of Surgery and Pathology from 1989 through 1991. Dr. Iwaki received both his M.D. and Ph.D. degrees from Sapporo Medical School in Sapporo, Japan. Dr. Iwaki is the author of more than 200 peer-reviewed publications and more than 40 book chapters. Dr. Iwaki has been advising pharmaceutical companies and venture capital funds regarding research and investment strategies for over 25 years and serves on the board of directors of several biotechnology companies.</p>
Daniel Vapnek, Ph.D.	2004	70	<p><i>Daniel Vapnek, Ph.D.</i> has served as a director since September 2004. Dr. Vapnek is currently an adjunct professor at the University of California, Santa Barbara. From 1981 through 1999, Dr. Vapnek held various senior research positions at Amgen Inc., a biopharmaceutical company, including Senior Vice President, Research from 1988 to 1996 and Senior Consultant from 1996 to 1999. From February 1994 to May 2001, Dr. Vapnek was a member of the board of directors of CIPHERGEN Biosystems, Inc., a Nasdaq-listed biotechnology company. From October 2000 to November 2004, Dr. Vapnek served on the board of directors of Protein Pathways Inc., a privately held biotechnology company, and served as chairman of the board and Chief Executive Officer from January 2002 to November 2004. From March 2001 to August 2008, Dr. Vapnek served on the board of directors of BioArray Solutions, Inc., a privately held molecular diagnostics company which Dr. Vapnek co-founded in 1996. From February 2002 to April 2007, Dr. Vapnek served on the board of directors of Avigen, Inc. and as a member of Avigen's governance and compensation committees. Dr. Vapnek received a Ph.D. in Microbiology and a B.S. in Zoology from the University of Miami.</p>

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Biographical information concerning each of the Class III directors as of the date of this Proxy Statement, who will serve until the 2010 Annual Meeting of Stockholders, is set forth below.

Name	Served as Director Since	Age	Principal Business Experience
Arlene Morris	2006	57	<p><i>Arlene Morris</i> has served as a director since May 2006. Ms. Morris brings significant expertise in the establishment of strategic partnerships, marketing and operations to us. Ms. Morris was appointed President and Chief Executive Officer of Affymax, Inc., a Nasdaq-listed biotechnology company, in June 2003. From 2001 to 2003, she served as the President and Chief Executive Officer of Clearview Projects, Inc. Prior to that, Ms. Morris served from 1996 to 2001 as the Senior Vice President, Business Development for Coulter Pharmaceutical Inc. Previously, she was the Vice President of Business Development at Scios, Inc. from 1993 to 1996, where she completed several high profile transactions, including one of the first biotech profit-sharing deals for a late-stage product. From 1977 through 1993, Ms. Morris held various management and executive positions at Johnson & Johnson in sales, marketing, new product development and business development, holding the position of Vice President of Business Development for McNeil Pharmaceutical from 1988 to 1993. She received her B.A. degree in Biology and Chemistry from Carlow College and studied marketing at Western New England College. Ms. Morris also serves on the board of directors of BIO, the Biotechnology Industry Organization, Phenomix Corporation and Affymax, Inc.</p>
John K.A. Prendergast, Ph.D.	2004	55	<p><i>John K.A. Prendergast, Ph.D.</i> has served as a director since September 2004. Since 1993, Dr. Prendergast has served as President of SummerCloud Bay Inc., an independent consulting firm providing services to the biotechnology industry. Dr. Prendergast is a co-founder and director of Avigen, Inc., a Nasdaq-listed company, where currently he is chairman of the audit, governance and compensation committees. He is a co-founder and currently serves as chairman of the board of directors of Palatin Technologies, Inc., an NYSE Amex-listed biopharmaceutical company. He is also currently serving as chairman of the board of directors of AVAX Technologies, Inc., an over-the-counter traded biotechnology company, and as the executive chairman of the board of directors and chief executive officer of Antyra, Inc., a privately held biopharmaceutical company. Dr. Prendergast received B.Sc., M.Sc. and Ph.D. degrees from the University of New South Wales, Sydney, Australia and a C.S.S. in Administration and Management from Harvard University.</p>

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Biographical information concerning each of the Class I directors as of the date of this Proxy Statement, who will serve until the 2011 Annual Meeting of Stockholders, is set forth below.

Name	Served as Director Since	Age	Principal Business Experience
Alan W. Dunton, M.D.	2006	54	<p><i>Alan W. Dunton, M.D.</i> has served as a director since May 2006. Dr. Dunton is a recognized expert in prescription drug development and clinical research. His twenty years of experience are marked by the development and approval of the prescription drugs Levaquin[®] (antibiotic), TOPAMAX[®] (epilepsy), Reminyl[®] (Alzheimer's disease), Regrane[®] (diabetic foot ulcers), Risperdal[®] (antipsychotic) as well as the successful over-the-counter product Aleve[®] (arthritis). Dr. Dunton became Chief Executive Officer of Panacos Pharmaceuticals, Inc. in January 2007, and also serves as Director. Since January 2006, he has been a consulting principal at Danerius, LLC. Prior to that time, Dr. Dunton was President and Chief Executive Officer of Metaphore Pharmaceuticals, Inc. from February 2003 until Metaphore Pharmaceuticals merged with ActivBiotics Inc. in December 2005. In 2002, Dr. Dunton served as president, chief operating officer and a director of Emisphere Technologies, Inc., a biopharmaceutical company. Before joining Emisphere, Dr. Dunton was the President and Managing Director of the Janssen Research Foundation, a Johnson & Johnson company. In this capacity, he was responsible for the research and development of new prescription drug products marketed by the Johnson & Johnson family of companies worldwide. He was a member of the Group Operating Committee of the J&J Pharmaceutical Group, a member of the Board of Janssen Pharmaceutica, N.V. and Chairman of Janssen-Cilag, International. His experiences also included positions with F. Hoffman-La Roche, Ltd., or Roche, Ciba-Geigy Ltd. (now Novartis AG) and Laboratorios Syntex SA (now Roche). Dr. Dunton also developed and implemented an Ethical Code for the Conduct of Clinical Research and was a recipient of the prestigious Nellie Westerman Prize from the American Federation of Clinical Research for his work in medical ethics. He is also a director of Targacept, Inc., a Nasdaq-listed biopharmaceutical company. Dr. Dunton received his M.D. degree from New York University School of Medicine and completed his post-graduate training in Internal Medicine at the New York University Medical Center/Bellevue Hospital VA Medical Center and in Clinical Pharmacology at Cornell University Medical College/New York Hospital.</p>

Name	Served as Director Since	Age	Principal Business Experience
Jeff Himawan, Ph.D.	2006	44	<i>Jeff Himawan, Ph.D.</i> has served as a director since January 2006 and became Chairman of the Board of Directors in March 2007. Dr. Himawan is a Managing Director of Essex Woodlands Health Ventures, L.P., which he joined in 2001. Essex Woodlands Health Ventures and its affiliates own approximately 10% of our outstanding Common Stock. Prior to joining Essex Woodlands Health Ventures, Dr. Himawan was Managing Director and Co-founder of Seed-One Ventures, LLC. Prior to Seed-One Ventures, he was a scientist in academic and industrial settings. Dr. Himawan holds a B.S. in biology from the Massachusetts Institute of Technology and a Ph.D. in biological chemistry and molecular pharmacology from Harvard University.
Hideki Nagao	2004	52	<i>Hideki Nagao</i> has served as a director since September 2004. Since 1980, Mr. Nagao has been employed by the Development Bank of Japan. Mr. Nagao is currently Senior Advisor, Department of Corporate Finance, Division 3, at the Development Bank of Japan. Mr. Nagao has a degree from the Faculty of Law of Tokyo University.

The Board recommends a vote FOR election of Dr. Iwaki as a Class II Director.

CORPORATE GOVERNANCE

Director Independence

The Board believes that a majority of the Board members should consist of independent directors. The Board also believes that it is useful and appropriate to have one or more members of management, including the President and Chief Executive Officer, serve as directors. The Board has determined that each of Dr. Dunton, Ms. Morris, Mr. Nagao and Dr. Prendergast is an independent director as defined by the Nasdaq Marketplace Rule 4200. The Board has also determined that each of the members of our Audit Committee is independent for purposes of Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and Nasdaq Marketplace Rule 4350(d).

Nominations for Directors

The Board has as an objective that its membership be composed of experienced and dedicated individuals with diversity of backgrounds, perspectives and skills. The Nominating and Corporate Governance Committee has the responsibility to identify, evaluate, recruit and recommend qualified candidates to the Board for nomination or election. The Nominating and Corporate Governance Committee will select candidates for election as director based on their character, judgment, diversity of experience, business acumen and ability to act on behalf of all stockholders. The Nominating and Corporate Governance Committee believes that nominees for director should have relevant experience, such as experience in management or accounting and finance or industry and technology knowledge that may be useful to us and the Board, high personal and professional ethics and the willingness and ability to devote sufficient time to effectively carry out his or her duties as a director. The Nominating and Corporate Governance Committee believes it appropriate for a majority of the members of the Board to meet the definition of independent director under the Nasdaq Marketplace Rules. The Nominating and Corporate Governance Committee also believes it appropriate for our President and Chief Executive Officer to serve as a member of the Board.

Prior to each annual meeting of stockholders, the Nominating and Corporate Governance Committee identifies nominees for director by first evaluating the current directors whose term will expire at the annual meeting and who are willing to continue in service. These candidates are evaluated based on the criteria described above, including as demonstrated by the candidate's prior service as a director, and the needs of the Board with respect to the particular talents and experience of its directors. In the event that a director does not wish to continue in service, the Nominating and Corporate Governance Committee determines not to re-nominate a director, or a vacancy is created on the Board as a result of a resignation, an increase in the size of the Board or other event, the Nominating and Corporate Governance Committee will consider various candidates for Board membership, including those suggested by the Nominating and Corporate Governance Committee members, other Board members, members of management, any executive search firm engaged by the Nominating and Corporate Governance Committee and stockholders. Once a slate of candidates is chosen by the Nominating and Corporate Governance Committee, the Nominating and Corporate Governance Committee recommends the candidates to the entire Board, and the Board then determines whether to designate the slate to be elected at the annual meeting of stockholders.

The Nominating and Corporate Governance Committee evaluates any nominees recommended by stockholders in the same manner that potential nominees suggested by Board members, management or other parties are evaluated. A stockholder who wishes to suggest a prospective nominee for the Board should notify any member of the Nominating and Corporate Governance Committee in writing with any supporting material the stockholder considers appropriate, which should be sent to our corporate headquarters at 4350 La Jolla Village Drive, Suite 950, San Diego, California 92122.

In addition, our Amended and Restated Bylaws, or the Bylaws, contain provisions that address the process by which a stockholder may nominate an individual to stand for election to the Board at the annual meeting of

stockholders. In order to be considered, a recommendation for a candidate by a stockholder must be timely delivered in writing to us and otherwise comply with the provisions of the Bylaws. The recommendation must include the following written information: the name, contact information and share ownership information for the candidate and the stockholder making the nomination and the citizenship information of the nominee and other information about the nominee that must be disclosed proxy solicitations under Section 14 of the Exchange Act and the related rules and regulations under that section. The Nominating and Corporate Governance Committee may also require any proposed nominee to furnish such other information as may reasonably be required by the Nominating and Corporate Governance Committee to determine the eligibility of such proposed nominee to serve as director. The recommendation should be sent to: Nominating and Corporate Governance Committee, MediciNova, Inc., 4350 La Jolla Village Drive, Suite 950, San Diego, California 92122. You can obtain a copy of the Bylaws by writing to us at this address.

Stockholder Communications

If you wish to communicate with the Board, you may send your communication in writing to: Chairman of the Board of Directors, MediciNova, Inc., 4350 La Jolla Village Drive, Suite 950, San Diego, California 92122, who will forward all material communications received from stockholders to the appropriate director or directors or committee of the Board based on the subject matter. You must include your name and address in the written communication and indicate whether you are a stockholder of us.

Code of Ethics and Code of Business Conduct

We have adopted a Code of Ethics for Senior Officers for the Chief Executive Officer, President, Chief Financial Officer and key management employees (including other senior financial officers) who have been identified by the Board. We also have adopted a Code of Business Conduct that applies to employees, consultants, representatives, officers and directors. Each of the Code of Ethics for Senior Officers and Code of Business Conduct may be found under the Investor Relations-Corporate Governance section of our website at www.medicinova.com. We will post on our website (i) any waiver, if and when granted, to any provision of the Code of Ethics for Senior Officers or Code of Business Conduct (for executive officers or directors) and (ii) any amendment to the Code of Ethics for Senior Officers or Code of Business Conduct.

MEETINGS AND COMMITTEES OF THE BOARD

Board Meetings and Committees

The Board held five meetings during the year ended December 31, 2008. All of our directors attended at least 75% of the aggregate number of meetings of the Board and of the committees on which such directors serve. We encourage, but do not require, our directors to attend the annual meetings of stockholders. In 2008, Dr. Iwaki was the only director then serving on the Board to attend the annual meeting.

Independent Directors and Audit Committee

The members of the Audit Committee of the Board each meet the independence standards established by the U.S. Securities and Exchange Commission, or the SEC, and Nasdaq for audit committees. Although each member of the Audit Committee has been selected by the Board based on its determination that the Audit Committee members are fully qualified to monitor the performance of management, the public disclosures by us of our financial condition and results of operations, our internal control over financial reporting and the performance of our independent registered public accounting firm, as well as to analyze and evaluate our financial statements, the Board has determined that none of the members of the Audit Committee qualifies as an audit committee financial expert as such term is defined in the rules and regulations of the SEC. The Board has determined that it is appropriate for the Audit Committee not to have an audit committee financial expert at this time because our financial statements are not overly complex given the current stage of its development and

we do not currently have any revenue. However, the Board believes that Dr. Prendergast, Chairman of the Audit Committee, does fulfill the requirements of Nasdaq's Marketplace Rule 4350(d), which requires at least one Audit Committee member have past employment experience in finance or accounting that results in the individual's financial sophistication.

Board Committees and Charters

The Board has three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. The Nominating Committee determines the composition of these committees. Each member of these committees is an independent director in accordance with the rules and regulations of the SEC and the Nasdaq Marketplace Rules. Each committee is governed by a written charter approved by the Board. A copy of each charter can be found under the Investor Relations-Corporate Governance section of our website at www.medicinova.com. The number of members, names of members, number of meetings held during the last fiscal year and functions of each committee are set forth below:

Audit Committee

<i>Number of Members:</i>	Four
<i>Members:</i>	Dr. Prendergast (Chairman) Dr. Dunton Mr. Nagao Dr. Vapnek
<i>Number of Meetings:</i>	Nine
<i>Functions:</i>	The Audit Committee assists the Board in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by approving the services performed by our independent registered public accounting firm and reviewing its reports regarding our consolidated financial statements and system of internal accounting control over financial reporting. The Audit Committee is responsible for the appointment, compensation, retention and oversight of our independent registered public accounting firm and for ensuring that such firm is independent of management.

Compensation Committee

<i>Number of Members:</i>	Four
<i>Members:</i>	Dr. Prendergast (Chairman) Ms. Morris Mr. Nagao Dr. Vapnek
<i>Number of Meetings:</i>	Six
<i>Functions:</i>	The Compensation Committee determines our general compensation policies and practices. The Compensation Committee also reviews and approves compensation packages for our officers and, based upon such review, recommends overall compensation packages for the officers to the Board. In addition, the Compensation Committee reviews and determines equity-based compensation for our directors, officers, employees and consultants and administers our stock option and employee stock purchase plans.

Nominating and Corporate Governance Committee

Number of Members: Five

Members: Dr. Prendergast (Chairman)

Dr. Dunton

Ms. Morris

Mr. Nagao

Dr. Vapnek

Number of Meetings: Three

Functions: The Nominating and Corporate Governance Committee is responsible for making recommendations to the Board regarding candidates for directorships and the size and composition of the Board and for overseeing our corporate governance guidelines and reporting and making recommendations to the Board concerning corporate governance matters.

Compensation Committee Interlocks and Insider Participation

Drs. Prendergast and Vapnek and Mr. Nagao have served as members of the Compensation Committee since such committee was formed in September 2004 in anticipation of our initial public offering, or IPO. Ms. Morris has served as a member of the Compensation Committee since her election to the Board in 2006. No member of the Compensation Committee at any time has been one of our officers or employees. No interlocking relationship exists, or has existed in the past, between the Board or Compensation Committee and the board of directors or compensation committee of any other entity.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We have entered into indemnification agreements with each of our executive officers and directors. In addition, our executive officers and directors are indemnified under the Delaware General Corporation Law and the Bylaws to the fullest extent permitted under Delaware law. We also have a directors and officers liability insurance policy that insures our directors and officers against the cost of defense, settlement or payment of a judgment under certain circumstances.

Our Audit Committee is charged with the responsibility of reviewing certain issues involving potential conflicts of interest, and reviewing and approving all related party transactions, including those required to be disclosed as a related party transaction under applicable federal securities laws. Our Audit Committee has not adopted any specific procedures for conducting such reviews and considers each transaction in light of the specific facts and circumstances presented. In 2008, no transaction requiring disclosure under applicable federal securities laws was submitted to the Audit Committee for approval as a related party transaction.

PROPOSAL TWO:**RATIFICATION OF APPOINTMENT OF****INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Upon the recommendation of the Audit Committee, the Board has selected Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2009. Ernst & Young LLP has audited our financial statements since our inception. A representative of Ernst & Young LLP is expected to be present at the Annual Meeting to respond to questions and will have the opportunity to make a statement if he or she desires to do so. Although stockholder ratification of our independent registered public accounting firm is not required by the Bylaws or otherwise, we are submitting the selection of Ernst & Young LLP to the stockholders for ratification to permit stockholders to participate in this important corporate decision.

Principal Accountant Fees and Services

The following table presents fees for professional audit services paid by us for professional services rendered by Ernst & Young LLP for the fiscal years ended December 31, 2008 and 2007.

	Fiscal Year Ended December 31,	
	2008	2007
Audit Fees (1)	\$ 212,992	\$ 237,856
Tax Fees (2)	30,357	4,390
Other Fees (3)	10,000	136,810
Total	\$ 253,349	\$ 379,056

- (1) Audit fees consisted of fees paid for professional services for the audit of our financial statements and internal controls and services normally provided by independent registered public accounting firms in connection with statutory and regulatory filings or engagements.
- (2) Tax fees consisted of fees paid for professional services for federal, state and international tax compliance.
- (3) Other fees consisted of fees paid for professional services related to registration statements and other miscellaneous services.

Determination of Independence

The Audit Committee has considered whether the provision of non-audit related services is compatible with maintaining the independence of Ernst & Young LLP and has determined that the provision of such services is compatible with maintaining the independence of our auditors.

Pre-Approval Policy and Procedures

It is our policy that all audit and non-audit services to be performed by our independent registered public accounting firm be approved in advance by the Audit Committee. The Audit Committee will not approve the engagement of our independent registered public accounting firm to perform any service that such firm would be prohibited from providing under the rules and regulations of the SEC and the applicable Nasdaq Marketplace Rules. In assessing whether to approve use of our independent registered public accounting firm for permitted non-audit services, the Audit Committee tries to minimize relationships that could impair the objectivity of such firm. The Audit Committee will approve permitted non-audit services by our independent registered public accounting firm only when it will be more effective or economical to have such services provided by such firm and where the nature of the services will not impair such firm's independence. During the fiscal years ended December 31, 2008 and 2007, all audit and non-audit services performed by our independent registered public accounting firm were approved in advance by the Audit Committee or the Board.

Required Vote

Ratification will require the affirmative vote of a majority of the shares present and voting at the Annual Meeting in person or by proxy. In the event ratification is not obtained, the Audit Committee will review its future selection of our independent registered public accounting firm but will not be required to select a different independent registered public accounting firm for us.

*The Board recommends a vote **FOR** ratification of appointment of Ernst & Young LLP as our independent registered public accounting firm.*

EXECUTIVE OFFICERS

The following table sets forth certain information, as of the date of this Proxy Statement, regarding each of our executive officers who is not also currently serving as a director or being nominated to serve as a director.

Name	Position	Age	Principal Business Experience
Shintaro Asako, CPA	Chief Financial Officer	34	<i>Shintaro Asako</i> was appointed as our Chief Financial Officer in November 2006. Mr. Asako served as our Vice President, Accounting and Administration from November 2005 to November 2006. He served as our Vice President, Accounting and Financial Reporting from July 2005 to October 2005. From October 2004 to July 2005, Mr. Asako was an audit senior manager at KPMG LLP, where he provided a variety of audit and business consulting services to multinational clients and industries including pharmaceutical, manufacturing, distribution and freight-forwarding and transportation. Mr. Asako was also responsible for the development and expansion of KPMG's Japanese practice in the Orange County and San Diego areas. Prior to becoming audit senior manager, he held the positions of supervisory senior auditor from June 2002 to March 2003 and audit manager from April 2003 to September 2004. Before joining KPMG, he spent four years with Arthur Andersen LLP providing audit and tax advisory services. Mr. Asako is a graduate of the Leventhal School of Accounting at the University of Southern California. Mr. Asako is a certified public accountant of the state of California and a member of the American Institute of Certified Public Accountants.
Richard E. Gammans, Ph.D.	Chief Development Officer	59	<i>Richard E. Gammans, Ph.D.</i> has served as our Chief Development Officer since May 2005. Dr. Gammans joined us as Executive Vice President, Clinical Research, in June 2004. Dr. Gammans was, from May 2000 to January 2003, Senior Vice President, Antioxidant Therapies and, from January 2003 to June 2004, Executive Vice President, Research and Development at Incara Pharmaceuticals Corporation (now Aeolus Pharmaceuticals, Inc.), where he was the executive officer responsible for research, development and regulatory affairs, a member of the corporate controls committee and the executive financing and business development team. From March 1994 to May 2000, Dr. Gammans was Senior Vice President, Clinical Research at Interneuron Pharmaceuticals, Inc. (now Indevus Pharmaceuticals Inc.), where he directed the company's clinical development programs in stroke and anxiety disorders. Prior to joining Interneuron Pharmaceuticals, Dr. Gammans spent 14 years at Bristol-Myers Squibb Company, where he began as a Senior Scientist and

Name	Position	Age	Principal Business Experience
Michael Kalafer, M.D.	Chief Medical Officer	63	<p>progressed through a series of increasingly more senior positions in toxicology, clinical pharmacology and clinical research and responsibility, including as Global Project Director for the anti-depressant, Serzone. Dr. Gammans received M.S. and Ph.D. degrees from the University of Georgia School of Pharmacy and holds an M.S. in Management from Purdue University.</p> <p><i>Michael Kalafer, M.D.</i> joined MediciNova in November 2006 and was appointed Chief Medical Officer effective in July 2008. Before joining MediciNova, Dr. Kalafer spent more than 25 years practicing clinical medicine and is Board Certified in Pulmonary Medicine, Critical Care Medicine and Internal Medicine. Dr. Kalafer has held an Associate Clinical Professorship of Medicine at University of California at San Diego School of Medicine since 1985. Earlier in his career, Dr. Kalafer held a position with the Centers for Disease Control of the U.S. Public Health Service in the Tuberculosis Division. He has also served as a Principal Investigator for the International Early Lung Cancer Action Project. Dr. Kalafer holds a B.S. degree in Biochemistry from Cornell University and an M.D. degree from SUNY, Upstate Medical University. He did further post-graduate medical training at Mt. Sinai School of Medicine and the University of California at San Diego, School of Medicine.</p>
Masatsune Okajima	Vice President and Head of Japanese Office	41	<p><i>Masatsune Okajima</i> was appointed as our Vice President and Head of Japanese Office in September 2006. Prior to joining us he served as Deputy General Manager at Daiwa Securities SMBC Co., Ltd. since 2002. From 1999 through 2002, Mr. Okajima served as Manager, Daiwa Securities SB Capital Markets Co., Ltd. (now Daiwa Securities SMBC Co., Ltd.). From 1996 to 1999, Mr. Okajima served as Manager, Sumitomo Capital Securities Co., Ltd. and between 1991 and 1996 Mr. Okajima served in various positions at Sumitomo Bank, Ltd. (now Mitsui Sumitomo Bank). Mr. Okajima received a B.S. degree from the Department of Science and Technology, Tokyo Science University.</p>

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program

Our compensation program is designed to reward the achievement of corporate and individual objectives. These objectives focus on building a sustainable business that develops differentiated drugs to improve the health and quality of life of patients and creates value for our stockholders. This Compensation Discussion and Analysis provides a narrative overview of our executive compensation philosophy, programs and policies. It is intended to highlight significant information relating to our executive compensation programs and includes analysis of the compensation earned by our executive officers, all of which is qualified by the terms of the employment agreements and other compensation plans and arrangements that we have filed with the SEC. For the 2008 fiscal year, our executive officers were: Yuichi Iwaki, M.D., Ph.D., President and Chief Executive Officer; Shintaro Asako, CPA, Chief Financial Officer; Richard Gammans, Ph.D., Chief Development Officer; Michael Kalafer, M.D., Chief Medical Officer; and Masatsune Okajima, Vice President and Head of Japanese Office.

The Compensation Committee presently consists of four independent directors. The Compensation Committee is responsible for developing and monitoring compensation arrangements for our executive officers, administering our stock award plans and other compensation plans and performing other activities and functions related to executive compensation as may be assigned from time to time by the Board.

Our compensation program is designed to attract, retain and reward executive officers and other key employees who contribute to our long-term success and to motivate those individuals to enhance long-term stockholder value. It is intended to reward the achievement of specific operating goals from year to year and of strategic goals over several years, and it rewards responses to our business challenges and opportunities which will increase the value of our stock over the long term. The evaluation of whether and to what extent the performance criteria are met by each of the executive officers in any given year is ultimately determined solely by the Compensation Committee.

Compensation Philosophy and Objectives

The Compensation Committee believes that compensation of our executive officers should encourage creation of stockholder value and achievement of strategic corporate objectives. It is the Compensation Committee's philosophy to align the interests of our stockholders and management by integrating compensation with our annual and long-term corporate strategic and financial objectives. Consequently, a significant portion of executive officer compensation is at risk and depends upon our corporate performance as well as each individual executive's performance against performance criteria established annually. In addition, to further enhance stockholder value and promote alignment with stockholder interests, our compensation program includes a significant equity-based component. In order to attract and retain the most qualified personnel, we intend to offer a total compensation package competitive with companies in the biotechnology and pharmaceutical industries, taking into account relative company size, performance and geographic location as well as individual responsibilities and performance. We target base salary and overall compensation at the 25th to 75th percentile of companies in our peer group, although individual variances may occur depending on an executive officer's experience, responsibilities and performance. We believe our compensation is competitive with that paid by companies in our peer group.

We generally intend to qualify executive compensation for deductibility without limitation under Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code. Section 162(m) provides that, for purposes of the regular income tax and the alternative minimum tax, the otherwise allowable deduction for compensation paid or accrued with respect to a covered employee of a publicly-held corporation (other than certain exempt performance-based compensation) is limited to no more than \$1.0 million per year. We do not expect that the non-exempt compensation to be paid to any of its executive officers for fiscal 2009 as calculated for purposes of Section 162(m) will exceed the \$1.0 million annual limit.

Use of Compensation Consultants

In 2007 and 2008, the Compensation Committee engaged Compensia, Inc., or Compensia, to provide third-party data to assist the Compensation Committee in its formulation of compensation strategy for executive officers. Compensia provided reports to the Compensation Committee in 2007 and 2008, each of which outlined data compiled by Compensia from the Radford Global Life Sciences Compensation Survey, the Biotech Employee Development Coalition Survey and Compensia-identified peer company proxy filings. For purposes of our 2008 compensation determinations, our peer company group consisted of 12 biotechnology companies with clinical development programs in at least Phase II development. The data included comparable base cash compensation, incentive cash compensation and equity awards. While the Compensation Committee did not base its compensation decisions on such report, its 2008 compensation determinations were informed by the data presented by Compensia. The Compensation Committee has the sole authority to establish the nature and scope of engagement of any compensation consultant, to approve the payment of fees to any such consultant and to terminate any consultant's engagement.

Roles of Executives in Establishing Compensation

The Compensation Committee meets regularly to consider all major elements of compensation, including the design and implementation of compensation and benefits programs. Dr. Iwaki and Mr. Asako generally attend Compensation Committee meetings by invitation but are excused for executive sessions. At the Compensation Committee's request, Dr. Iwaki makes recommendations to the Compensation Committee concerning the salary, bonus and equity compensation to be granted to our other executive officers. The Compensation Committee may approve, modify or disapprove any of the recommendations made by Dr. Iwaki. The Compensation Committee determines the compensation (including bonus and option grants, if any) of Dr. Iwaki using the same criteria as for the other executive officers.

Elements of Executive Compensation and Employment Agreements

The elements of compensation for executive officers are base salary, annual cash incentives, long-term equity incentives and additional benefits, some of which are available to most other employees, including a 401(k) plan, health and welfare insurance, and life insurance, some of which allocate payments generally based on an individual's level of annual cash compensation. In the case of Mr. Okajima, we pay a benefits adjustment of approximately \$15,000 each year, equally divided monthly and contribute 50% of the premium costs for certain insurance, unemployment, pension and welfare programs, as required by Japanese law. Executive officers have substantial portions of their compensation at risk for annual and long-term performance, with the largest portion at risk for the most senior executive officers. In 2008, we did not provide any material perquisites or personal benefits to our executive officers.

Each of our executive officers is party to an employment agreement that provides for an initial base salary that is subject to annual adjustment by an amount mutually agreed by the Board and the executive officer. Each of these agreements also provides that the executive officer may receive incentive bonuses at the discretion of the Board. Pursuant to these agreements, each executive officer is required to devote his entire business time, attention, energies, skills, learning and best efforts to further our interests and may not engage in any outside activities that compete in any way with our business. Following termination of employment of an executive officer, other than Mr. Okajima, with us, we also have the option to engage such executive officer as a consultant on a quarterly basis. Compensation for each quarter of consulting services would be equal to 15% of the executive officer's annual base salary.

Executive Officer Base Salary

The Compensation Committee reviews salaries recommended by the Chief Executive Officer for executive officers other than the Chief Executive Officer and, based upon such review, approves salaries and bonus

payments for such executive officers. The Compensation Committee sets the salary level of each executive officer on a case-by-case basis, taking into account both the individual's level of responsibilities and performance as well as our performance as a whole. The Compensation Committee also considers market information and the base salaries and other incentive compensation paid to executive officers of other similarly sized companies within the drug development sector.

The employment agreement with each executive officer sets an initial annual base salary, which was competitive in our industry given the executive's experience and qualifications at the time we entered into the agreement. The Compensation Committee annually reviews each executive officer's base salary and takes into consideration during this annual review a variety of factors, including:

individual and corporate performance;

levels of responsibility;

prior experience;

breadth of knowledge of the industry;

inflation and increases in cost of living; and

competitive pay practices.

Based upon this analysis undertaken in January 2009, the Compensation Committee determined to increase the salaries of our executive officers, effective January 1, 2009, as follows:

Dr. Iwaki's 2009 base salary is \$473,488, a 2.0% increase from his 2008 base salary.

Mr. Asako's 2009 base salary is \$243,296, a 3.0% increase from his 2008 base salary.

Dr. Gammans' 2009 base salary is \$389,685, a 2.0% increase from his 2008 base salary.

Dr. Kalafer's 2009 base salary is \$267,800, a 3.0% increase from his annualized 2008 base salary.

Mr. Okajima's 2009 base salary is \$248,585, a 3.0% increase from his 2008 base salary.

These 2009 increases were based primarily on increased levels of responsibility, inflation and increases in cost of living and were within the range of increases granted to executive officers at similarly situated biotechnology companies based on the west coast.

Executive Officer Bonuses

The Compensation Committee believes that a portion of each executive officer's compensation should be contingent upon (i) our performance in meeting corporate and financial objectives and (ii) the individual's contribution to our performance. Bonuses paid related to 2008 performance and were determined on a case-by-case basis. For officers other than the Chief Executive Officer, the Compensation Committee evaluated each executive officer with the Chief Executive Officer to determine the bonus for the fiscal year, which was based on individual and corporate performance, taking into account economic and industry conditions. The Compensation Committee approved the executive officer bonuses in

each instance.

In January 2008, the Compensation Committee set the target bonus awards for our individual officers as a percentage of annual base salary. For Dr. Iwaki, the maximum bonus was set at 50% of base salary; for Mr. Asako, the maximum bonus was set at 35% of base salary; for Dr. Gammans, the maximum bonus was set at 40% of base salary; and for Mr. Okajima, the maximum bonus was set at 35% of base salary. At the time of his appointment as Chief Medical Officer, Dr. Kalafer's maximum bonus was set at 35% of his annualized base salary. Company objectives for the 2008 fiscal year were as follows:

successfully meeting financial and budgetary goals;

successfully completing clinical trials for the Company's two prioritized product candidates;

entering into a strategic collaboration for MN-166; and

expanding MediciNova's investor base.

These goals were stretch goals set above our corporate expectations for the 2008 fiscal year and accordingly challenging to meet. The goals were not weighted equally with approximately 30% of the total weight being attributed to meeting financial and budgetary goals, entering into a strategic collaboration for MN-166 and expansion of our investor base and approximately 70% of the total weight being attributed to the completion of clinical trials. Our Compensation Committee concluded that we satisfied 60% of our Company objectives in 2008.

Dr. Iwaki's individual objectives for fiscal 2008 were the same as the Company objectives. In the case of Mr. Asako and Dr. Gammans, the Company objectives had 70% weight and their individual objectives had 30% weight in determining bonuses for fiscal 2008. The weighting was 50% for Company objectives and 50% for individual objectives for each of Dr. Kalafer and Mr. Okajima. The individual objectives for each executive officer generally are related to integral job functions associated with each executive position, and we believe they are critical to implementation of our strategic goals.

Based upon this analysis undertaken in January 2009, the Compensation Committee determined to award cash bonuses in the following amounts:

Dr. Iwaki was awarded a bonus of \$139,261, all of which was awarded for 60% satisfaction of Company objectives.

Mr. Asako was awarded a bonus of \$50,224, representing \$34,723 for 60% satisfaction of Company objectives and \$15,501 for satisfaction of approximately 63% of individual objectives.

Dr. Gammans was awarded a bonus of \$80,802, representing \$64,184 for 60% satisfaction of Company objectives and \$16,618 for satisfaction of approximately 36% of individual objectives.

Dr. Kalafer was awarded a bonus of \$51,756, representing \$27,300 for 60% satisfaction of Company objectives and \$24,456 for satisfaction of approximately 54% of individual objectives.

Mr. Okajima was awarded a bonus of \$45,755, representing \$25,341 for 60% satisfaction of Company objectives and \$20,414 for satisfaction of approximately 48% of individual objectives.

Our corporate objectives for fiscal 2009 include entering into a strategic collaboration for MN-166 and monetizing our non-prioritized product candidates, successfully meeting financial, cash and budgetary goals and expediting enrollment of subjects in the ongoing Phase II clinical trial for MN-221 for the treatment of acute exacerbations of asthma. Dr. Iwaki's individual objectives for fiscal 2009 are the same as our corporate objectives. In the case of Mr. Asako and Dr. Gammans, our corporate objectives have 70% weight and their individual objectives have 30% weight in determining bonus eligibility for fiscal 2009. The weighting is 50% for Company objectives and 50% for individual objectives for each of Dr. Kalafer and Mr. Okajima. The Compensation Committee will evaluate corporate and individual achievement of the objectives during fiscal 2009 in early 2010 and will determine bonus amounts, if any, based upon such evaluation.

Stock Awards

The Compensation Committee administers our Amended and Restated 2004 Stock Incentive Plan, or the 2004 Plan, for executive officers, employees, consultants and non-employee directors, under which it grants stock awards. The Compensation Committee believes that providing executive officers who have responsibility for our management and growth with an opportunity to increase their ownership of our stock better aligns the interests of our executive officers with those of our stockholders and promotes retention of key personnel, which is also in the best interest of our stockholders. Accordingly, the Compensation Committee, when reviewing

executive officer compensation, also considers stock awards as appropriate. At its discretion, the Compensation Committee may also grant stock awards based on individual and corporate achievements from time to time. Grants made to the Chief Executive Officer and other executive officers are approved by the Compensation Committee and then, in certain cases, recommended for approval by the Compensation Committee to the entire Board. The Compensation Committee determines the number of shares of our Common Stock underlying each stock award based upon the executive officer's and our corporate performance, the executive officer's role and responsibilities, the executive officer's base salary and comparisons with comparable awards to and target equity participation for individuals in similar positions in the industry, the executive officer's prior stock awards and exercise price of outstanding awards, if any, and the overall level of outstanding stock awards as a percentage of total shares outstanding. No restricted stock or stock unit awards were made to our executive officers in 2008.

Stock Options

The Compensation Committee believes that total executive compensation should include a mix of short-term and long-term incentives. Stock options granted in fiscal year 2008 vest monthly over a 48-month period commencing on the date of grant. In general, vested stock options may be exercised within ten years from the date the stock options were granted.

Upon a participant's termination of employment with MediciNova, stock option awards remain exercisable only in accordance with the following provisions:

Upon termination by reason of death or disability, any vested stock options remain exercisable for twelve months after the date of termination; and

Upon termination for any reason other than death or disability, any vested stock options remain exercisable for three months after the date of termination.

The Compensation Committee awarded stock options to our executive officers in January 2008 in the following amounts: Dr. Iwaki: an option to purchase 130,000 shares of Common Stock; Mr. Asako: an option to purchase 74,000 shares of Common Stock; Dr. Gammans: an option to purchase 96,000 shares of Common Stock; and Mr. Okajima: an option to purchase 48,000 shares of Common Stock. Dr. Kalafer was awarded options to purchase 70,300 shares of Common Stock in 2008, consisting of a stock option for 55,300 shares granted in January 2008 and a stock option for 15,000 shares granted in connection with his appointment as our Chief Medical Officer in July 2008. The total value of stock options granted to each executive officer was based on our Chief Executive Officer's recommendations and the Compensation Committee's own assessment of each individual's performance and experience. None of our executive officers exercised any stock options in 2008.

Severance Protection Agreements

In June 2007, the Compensation Committee, in an effort to retain key executive officers notwithstanding a change of control of us, recommended to the Board consideration of severance protection agreements, whereby the executive officers would be paid specified amounts and receive continued benefits if they were to be terminated following a change of control transaction or were to have their responsibilities and authority materially diminished following a change of control. The form of the severance protection agreement, or the Severance Protection Agreement, was approved by the Board of Directors in September 2007, and its material terms are described in this Proxy Statement under the caption Summary of Potential Payments Upon Termination or Change of Control. Each of our executive officers is a party to a Severance Protection Agreement.

The Compensation Committee did not consider the existence of the Severance Protection Agreements in determining salary or bonus or equity awards for fiscal 2008.

SUMMARY COMPENSATION TABLE

The following table summarizes all compensation for all services rendered in all capacities to us during each of the fiscal years ended December 31, 2008, December 31, 2007 and December 31, 2006 earned by our executive officers.

Name and Position	Year	Salary (\$)	Bonus (\$)	Option Awards \$(1)	Non-Equity Incentive Plan Compensation (\$)	All Other Compensation (\$)	Total (\$)
Yuichi Iwaki, M.D., Ph.D. (2) President and Chief	2008	464,205		309,400	139,261	13,800(3)	926,666
	2007	452,000	90,400			54,467(4)	596,867
Executive Officer	2006	350,000(5)	150,000	2,590,882			3,090,882
Shintaro Asako, CPA (6) Chief Financial Officer	2008	236,210		176,120	50,224	13,800(7)	476,354
	2007	230,000	40,250			32,943(8)	303,193
	2006	173,333(9)	73,000	911,283		31,783(10)	1,189,399
Richard Gammans, Ph.D. (11) Chief Development Officer	2008	382,045		228,480	80,802	13,800(12)	705,127
	2007	297,000	52,080			113,368(13)	462,718
	2006	280,000	84,000	1,367,044		102,118(14)	1,833,162
Michael Kalafer, M.D. (15) Chief Medical Officer	2008	260,000		168,514	51,756	13,800(16)	494,070
	2007	241,345	32,900	114,240	45,755	17,040(18)	418,380
Masatsune Okajima (17) Vice President and Head of Japanese Office	2008	235,000				19,676(18)	287,576
	2006	73,333(19)	60,000	1,068,783		5,000	1,207,116

- (1) Amounts in the Option Awards column represents the compensation cost recognized by us during the 2008 and 2006 fiscal years related to option grants in accordance with SFAS No. 123R. See Note 1, The Company, Basis of Presentation and Summary of Significant Accounting Policies Stock Based Compensation, in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for the relevant assumptions used to determine the valuation of awards. There were no stock option grants to executive officers in the 2007 fiscal year.
- (2) Dr. Iwaki is being paid salary at an annual rate of \$473,488 in 2009.
- (3) Includes 401(k) employer matching contributions (\$13,800). Excludes long-term disability insurance and health insurance premiums, both of which are generally available to all employees on a non-discriminatory basis.
- (4) Includes long-term disability (\$1,176), 401(k) employer matching contributions (\$13,500), health insurance premiums (\$27,847) and a car allowance (\$11,944, gross-up).
- (5) Represents amount paid pursuant to a consulting agreement.
- (6) Mr. Asako is being paid salary at an annual rate of \$243,296 in 2009.
- (7) Includes 401(k) employer matching contributions (\$13,800). Excludes long-term disability insurance and health insurance premiums, both of which are generally available to all employees on a non-discriminatory basis.
- (8) Includes long-term disability paid (\$1,176), health insurance premiums (\$18,267) and 401(k) employer matching contributions (\$13,500).
- (9) In November 2006, Mr. Asako was appointed Chief Financial Officer with a base salary of \$225,000. Prior to his promotion, Mr. Asako was Vice President, Accounting & Administration with a base salary of \$160,000.
- (10) Includes long-term disability paid (\$931), health insurance premiums (\$15,374), 401(k) employer matching contributions (\$6,193) and a housing allowance (\$9,285, gross-up).
- (11) Dr. Gammans is being paid salary at an annual rate of \$389,685 in 2009.
- (12) Includes 401(k) employer matching contributions (\$13,800). Excludes long-term disability insurance and health insurance premiums, both of which are generally available to all employees on a non-discriminatory basis.
- (13) Includes long-term disability (\$1,176), 401(k) employer matching contributions (\$13,500), health insurance premiums (\$23,962) and a housing allowance (\$75,000, gross-up).
- (14) Includes long-term disability (\$1,176), 401(k) employer matching contributions (\$13,263), health insurance premiums (\$21,695) and a housing allowance (\$65,984, gross-up).
- (15) Dr. Kalafer was promoted to Chief Medical Officer effective July 3, 2008. Dr. Kalafer is being paid salary at an annual rate of \$267,800 in 2009.
- (16) Includes 401(k) employer matching contributions (\$13,800). Excludes long-term disability insurance and health insurance premiums, both of which are generally available to all employees on a non-discriminatory basis.
- (17) Mr. Okajima is being paid salary at an annual rate of \$248,585 in 2009.
- (18) Includes a Japanese benefits adjustment as stipulated in Mr. Okajima's employment agreement.
- (19) Employment began on September 1, 2006 with base salary of \$220,000. The amount set forth in the table is prorated.

GRANTS OF PLAN BASED AWARDS

Name and Position	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plans Awards			All Other Option Awards: Number of Securities Underlying Options #	Exercise or Base Price of Option Awards \$/Sh. (1)	Grant Date Fair Value of Option Awards (2) (\$)
		Threshold \$	Target \$	Maximum \$			
Yuichi Iwaki, M.D., Ph.D.	1/7/2008				130,000	4.42	309,400
				232,103			
Shintaro Asako, CPA	1/7/2008				74,000	4.42	176,120
				82,674			
Richard E. Gammans, Ph.D.	1/7/2008				96,000	4.42	228,480
				152,818			
Michael Kalafer, M.D.	1/7/2008				53,300	4.42	131,614
	6/19/2008				15,000	4.53	36,900
				91,000			
Masatsune Okajima	1/7/2008				48,000	4.42	114,240
				84,471			

- (1) The exercise price of the stock option awards is either equal to or greater than the grant date's closing price, or the prior day's closing price if the grant date fell over the weekend, as reported by Nasdaq.
- (2) Refer to Note 1, "The Company, Basis of Presentation and Summary of Significant Accounting Policies - Stock Based Compensation," in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for the relevant assumptions used to determine the valuation of awards.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

The following table discloses outstanding stock awards classified as exercisable and unexercisable as of December 31, 2008 for each of our executive officers. There were no unvested stock awards as of December 31, 2008.

	Option Awards			
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price (\$/Sh.) (1)	Option Expiration Date
Yuichi Iwaki, M.D., Ph.D.	29,167	10,833	11.60	1/4/2016 (2)
	1,000		13.40	5/11/2016 (3)
	15,625	4,375	11.50	7/9/2016 (2)
	173,700	159,803	9.73	11/12/2016 (2)
	29,791	100,209	4.42	1/6/2018 (2)
Shintaro Asako, CPA			13.80	
			23.40	
			33.10	12/12/2015 (5)
	10,000		33.10	11/12/2015 (2)
	11,563	3,437		11/12/2015 (2)
	19,271	5,729	11.60	
	10,938	4,062		1/4/2016 (2)
	65,138	59,926	9.73	11/12/2016 (2)
	16,958	57,042	4.42	1/6/2018 (2)
Richard Gammans, Ph.D.			10.00	
			13.80	
			23.40	
	16,000			6/14/2014 (4)
	20,000		33.10	12/12/2015 (5)
	23,126	6,874		12/12/2015 (2)
	38,542	11,458	11.60	12/12/2015 (2)
	29,167	10,833		1/4/2016 (2)
	86,850	79,902	9.73	11/12/2016 (2)
	22,000	74,000	4.42	1/6/2018 (2)
Michael Kalafer, M.D.	8,625	9,375	13.25	1/7/2017 (2)
	12,673	42,627	4.42	1/6/2018 (2)
	1,875	13,125	4.53	6/18/2018 (2)
Masatsune Okajima	10,000	6,562	11.30	8/1/2016 (6)
		10,937		9/1/2016 (2)
	8,438	59,926	22.60	9/1/2016 (2)
				11/12/2016 (2)

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	14,063	37,000	34.10	1/6/2018 (2)
	65,138	8	9.73	
	11,000		4.42	

- (1) See Note 1, "The Company, Basis of Presentation and Summary of Significant Accounting Policies - Stock Based Compensation," in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 for the relevant assumptions used to determine the valuation of these stock option awards. The exercise price of the stock option awards is either equal to or greater than the grant date's closing price, or the prior day's closing price if the grant date fell over the weekend, as reported by the Hercules Market of the Osaka Securities Exchange, converted to U.S. dollars based on the respective dates exchange rate per www.Oanda.com or Nasdaq.
- (2) These grants vest in equal monthly installments over four years from the vesting commencement date, which was the date of grant.
- (3) This grant fully vests after six months from the vesting commencement date, which was the date of grant.
- (4) These grants vest 25% after the first year of service from grant date, with the remaining shares vesting in equal monthly installments over the subsequent 36 months of service.
- (5) These grants vested immediately upon date of grant.
- (6) This grant vests in equal monthly installments over six months from the vesting commencement date, which was the date of grant.

SUMMARY OF POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

Severance Protection Agreements

Our Severance Protection Agreements were established to provide our executive officers with certain payments upon a change of control. The following summary of the material provisions of the Severance Protection Agreements is qualified in its entirety by reference to the actual agreements. Our Severance Protection Agreements are structured on a double-trigger basis meaning that in order for an executive officer to receive a change in control payment, there must be a change in control and within 365 days after the change in control the executive officer's employment must be terminated without cause or the executive officer must resign for good reason. If these events occur, then, pursuant to the Severance Protection Agreement, the executive is entitled to receive the following benefits:

a lump sum severance payment equal to two times the sum of the executive officer's base salary amount and applicable bonus amount;

a pro rata bonus computed based on certain prior bonus payments;

continued life insurance and medical coverage for a period of up to 24 months and outplacement services for a period of up to 12 months; and

acceleration of vesting and other benefits regarding options to purchase our Common Stock or other equity compensation awards provided to the executive officer in any plans or agreements.

The Severance Protection Agreements define change in control as:

an acquisition of 40% or more of our voting securities by any person;

a change in a majority of the members of the Board;

a merger, substantial asset sale or similar transaction resulting in current stockholders owning 50% or less of the common stock and voting securities of the corporation or entity resulting from such transaction; or

approval by our stockholders of our complete liquidation or dissolution.

Employment Agreements

Under the terms of the employment agreements with our executive officers (other than Mr. Okajima), either party may terminate the agreement at any time upon three months' notice. In lieu of three months' notice, we may instead (at our election) provide the executive officer with a lump sum payment equal to 75% of his annual base compensation, in the case of Drs. Iwaki and Gammans, and 50% of his annual base compensation, in the case of Mr. Asako and Dr. Kalafer. Under Japanese law, we must provide Mr. Okajima at least 30 days' prior dismissal notice or 30 days' pay in lieu thereof or a combination of such notice and pay requirements. In the event of termination of Mr. Okajima's at-will employment by us (other than for cause), we will provide six months of severance to Mr. Okajima.

The employment agreements provide that the executive officers may not disclose our confidential and proprietary information and must assign to us any inventions or other proprietary information discovered during their employment with us.

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The following table reflects potential benefits or change in control payments to our executive officers if they were terminated on December 31, 2008. If the amount of these payments would cause an executive to become subject to the golden parachute excise tax imposed under Section 4999 of the Code, the change in control payments will be reduced so that the executive is not subject to an excise tax.

Name	Termination for Cause (1)	Change in Control and Involuntary Termination or Voluntary Termination for Good Reason (2)	Voluntary Termination and Election by MediciNova, Inc. to Waive Required Notice Period
Yuichi Iwaki, M.D., Ph.D.			
Severance Pay		\$ 1,109,210(3)	\$ 348,154(4)
Pro Rata Bonus		\$ 90,400	
Medical and Outplacement Benefits (7)		\$ 72,730	
Acceleration of Equity Awards (8)			
Shintaro Asako, CPA			
Severance Pay		\$ 552,920(3)	\$ 118,105(5)
Pro Rata Bonus		\$ 40,250	
Medical and Outplacement Benefits (7)		\$ 50,849	
Acceleration of Equity Awards (8)			
Richard Gammans, Ph.D.			
Severance Pay		\$ 868,250(3)	\$ 286,534(4)
Pro Rata Bonus		\$ 52,080	
Medical and Outplacement Benefits (7)		\$ 61,714	
Acceleration of Equity Awards (8)			
Michael Kalafer, M.D.			
Severance Pay		\$ 590,000(3)	\$ 130,000(5)
Pro Rata Bonus		\$ 35,000	
Medical and Outplacement Benefits (7)		\$ 43,760	
Acceleration of Equity Awards (8)			
Masatsune Okajima			
Severance Pay		\$ 548,490(3)	\$ 120,673(6)
Pro Rata Bonus		\$ 32,900	
Medical and Outplacement Benefits (9)		\$ 30,000	
Acceleration of Equity Awards (8)			

- (1) Under the Severance Protection Agreements, "cause" is defined to include: the executive officer's conviction of a felony or any crime involving fraud, embezzlement or theft; willful engagement in illegal conduct or gross misconduct that is significantly injurious to us; or failure to perform his duties in a reasonably satisfactory manner after receipt of a notice from us detailing such failure.
- (2) Under the Severance Protection Agreements, "good reason" is defined to include: a material adverse change in status, position, responsibilities, including reporting responsibilities, or in base salary; a relocation of the place of principal employment by more than 50 miles; or any material breach by us of any provision of any agreement to which we and the applicable executive officer are parties.
- (3) Equals two times the executive officer's annual base salary and applicable bonus amount.
- (4) This severance pay is payable, at our election, if we decide to waive the three-month notice provision required for termination under the employment agreement and shall equal 75% of the executive officer's base salary.
- (5) This severance pay is payable, at our election, if we decide to waive the three-month notice provision required for termination under the employment agreements and shall equal 50% of the executive officer's annual base salary.
- (6) This severance pay is payable, at our election, if we decide to terminate Mr. Okajima's employment other than for cause and shall equal six months of his annual base salary.

- (7) The value of medical benefits is estimated based on the premium each executive officer would be required to pay for 24 months of continuing medical coverage under the provisions of our medical plan required by the Consolidated Omnibus Budget Reconciliation Act (COBRA).
- (8) The closing price of our common stock on December 31, 2008 was \$1.59, which is below the exercise price of all of our outstanding stock option awards.
- (9) Equals two times Mr. Okajima's annual Japanese benefits adjustment.

DIRECTOR COMPENSATION

We compensate non-employee directors for their service on the Board. Each non-employee director is eligible to receive the following fees related to their service on the Board:

an initial fee of \$20,000 upon first becoming a member of the Board; and

annual cash compensation of \$40,000, payable in equal quarterly installments in arrears.

We pay the Chairman of the Audit Committee of the Board further annual cash compensation of \$20,000. In addition, we reimburse our directors for reasonable expenses incurred in connection with attendance at Board and committee meetings.

Our non-employee directors receive nondiscretionary, automatic grants of nonstatutory stock options. A non-employee director is automatically granted an initial option to purchase 1,000 shares of Common Stock upon first becoming a member of the Board. The initial stock option is fully vested at the time of grant. Immediately after each of our regularly scheduled annual meetings of stockholders, each non-employee director is automatically granted a nonstatutory stock option to purchase 1,000 shares of Common Stock, provided the director has served on the Board for at least six months. Each annual stock option vests and becomes fully exercisable on the date which is six months after the date of the grant. The stock options granted to non-employee directors have a per share exercise price equal to 100% of the fair market value of the underlying shares on the date of grant and become fully vested if we are subject to a change of control.

In January 2006, each non-employee, non-consultant director was granted a one-time stock option to purchase 20,000 shares of our Common Stock at 100% of the fair market value of the underlying shares on the date of grant. These stock options were immediately vested as to 10,000 shares, and the remaining 10,000 shares will vest quarterly over the subsequent four years.

The following table sets forth compensation information with respect to all of our non-employee directors for amounts earned during the year ended December 31, 2008.

Name (1)	Fees Paid in Cash (\$)	Option Awards (\$ (2))	Total (\$)
Alan W. Dunton, M.D.	\$ 40,000	\$ 2,460	\$ 42,460
Jeff Himawan, Ph.D.	\$	(3) \$ 2,460	\$ 2,460
Arlene Morris	\$ 40,000	\$ 2,460	\$ 42,460
Hideki Nagao	\$ 40,000	\$ 2,460	\$ 42,460

John Prendergast, Ph.D. our ability to attract key personnel;

our ability to operate profitably;

deterioration in general or regional economic conditions;

adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;

changes in U.S. GAAP or in the legal, regulatory and legislative environments in the markets in which we operate;

the inability of management to effectively implement our strategies and business plan;

inability to achieve future sales levels or other operating results;

the unavailability of funds for capital expenditures;

other risks and uncertainties detailed in this report;

As well as other statements regarding our future operations, financial condition and prospects, and business strategies. These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Quarterly Report on Form 10-Q, and in particular, the risks discussed under the heading “Risk Factors” in Part II, Item 1A and those discussed in other documents we file with the Securities and Exchange Commission. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

References in the following discussion and throughout this quarterly report to “we”, “our”, “us”, “Giggles”, “the Company” similar terms refer to Giggles N’ Hugs, Inc. unless otherwise expressly stated or the context otherwise requires.

The Company adopted a 52/53 week fiscal year ending on the Sunday closest to December 31st for financial reporting purposes. For the years 2016 and 2017 consists of a year ending January 1, 2017 and December 31, 2017.

Overview

Giggles N Hugs is a unique restaurant concept that brings together high-end, organic food with the play elements and entertainment for children. Giggles N Hugs offers an upscale, family-friendly atmosphere with a play area dedicated to children ages 10 and younger. The restaurant has a high-quality menu made from fresh, organic foods that are enjoyed by both children and adults. With nightly entertainment, such as magic shows, concerts, puppet shows, as well as activities and games which include face painting, dance parties, karaoke, and arts and crafts, Giggles N Hugs has become a premier destination for families seeking healthy food in a casual and fun atmosphere. Parents get to eat and relax while the kids play.

In addition to its family-friendly vibe, Giggles N Hugs is also known for its own creation called “Mom’s Tricky Treat Sauce,” which hides pureed vegetables in kids’ favorite meals such as pizza, pastas and macaroni and cheese.

Originally, Giggles N’ Hugs owned and operated one restaurant in the Westfield Mall in Century City, California; a second restaurant in the Westfield Mall in Topanga, California; and a third restaurant in the Glendale Galleria in Glendale, California through June 26, 2016.

On May 13, 2016, Giggles N’ Hugs, Inc. entered into a Termination of Lease Agreement with Century City Mall, LLC (“landlord”), accelerating the termination date of the Lease dated January 13, 2010 for its store located in Westfield Century City, Los Angeles, California. Pursuant to the agreement, the lease terminated June 30, 2016 and the landlord agreed to a monetary reimbursement of \$350,000 which was received by June 26, 2016.

The Company continues to operate its restaurants in Topanga and in the Glendale Galleria Mall.

RESULTS OF OPERATIONS*Results of Operations for the Thirteen Weeks Ended July 2, 2017 and June 26, 2016:***COSTS AND OPERATING EXPENSES**

	For Thirteen Weeks Ended July 2, 2017	For Thirteen Weeks Ended June 26, 2016	Increase (Decrease)	
			\$	%
Revenue:				
Net sales	\$575,824	\$831,464	\$(255,640)	-30.7 %
Costs and operating expenses:				
Cost of operations	429,164	734,151	(304,987)	-41.5 %
General and administrative expenses	249,822	319,926	(70,104)	-21.9 %
Depreciation and amortization	64,068	88,741	(24,673)	-27.8 %
Total operating expenses	743,054	1,142,818	(399,764)	-35.0 %
Loss from Operations	(167,230)	(311,354)	144,124	-46.3 %
Other income (expenses):				
Finance and interest expenses	(14,772)	(84,378)	69,606	-82.5 %
Loss on extinguishment of debt	(186,818)	-	(186,818)	*
Gain on sale of asset	-	5,971	(5,971)	-100.0%
Gain on lease termination	-	214,111	(214,111)	-100.0%
Loss before provision for income taxes	(368,820)	(175,650)	(193,170)	110.0 %
Provision for/benefit from income taxes	(2,650)	616	(3,266)	-530.2%
Net loss	\$(371,470)	\$(175,034)	\$(189,904)	108.5 %

Notes to Costs and Operating Expenses Table:

Net sales. Net sales for the thirteen weeks ended July 2, 2017 and June 26, 2016 were \$575,824 and \$831,464 respectively. The decrease of \$255,640 (-30.7%) was mostly attributable to the closing of the Century City store at the end of the 2nd quarter, 2016. However, the two remaining store operations in Topanga and Glendale reported an increase of \$25,516 (or 4.6%), for the thirteen weeks ended July 2, 2017 versus the comparable period in 2016.

Cost of operations. Costs of operations of \$429,164 and \$734,151 for the thirteen weeks ended July 2, 2017 and June 26, 2016, respectively, reflecting a decline of \$304,987 (-41.5%). Of that decline \$65,955 was realized in Topanga and Glendale stores with the remaining decrease of \$239,032 was result of the closing of the Century City store.

General and administrative expenses. General and administrative expenses for the thirteen weeks ended July 2, 2017 and June 26, 2016 were \$249,823 and \$319,926, respectively. This decline of \$70,103 (-21.9%) was mainly attributable to lower professional fees.

Depreciation and amortization. The depreciation and amortization was \$64,069 compared to the \$88,741 for the thirteen weeks ended July 2, 2017 and June 26, 2016, respectively. This reduction of \$24,672 or -27.8% is primarily due to the closing and sell off the fixed assets related to the closing of the Century City store at the end of the second quarter of 2016.

Finance and interest expense. The total finance and interest expenses of \$14,772 for the thirteen weeks ended July 2, 2017 decreased by \$69,606, from the \$84,378 for the thirteen weeks ended June 26, 2016, and was due to lower debt.

Net Loss. The overall net losses of \$371,470 and \$175,034 for the thirteen weeks ended July 2, 2017 and June 26, 2016, respectively, reflects an increased loss of \$189,904, which almost entirely a result of the extinguishment of a promissory note.

*Results of Operations for the Twenty-Six Weeks Ended July 2, 2017 and June 26, 2016:***COSTS AND OPERATING EXPENSES**

	For Twenty-Six Weeks Ended July 2, 2017	For Twenty-Six Weeks Ended June 26, 2016	Increase (Decrease)	
			\$	%
Revenue:				
Net sales	\$ 1,237,527	\$ 1,710,398	(472,871.00)	-27.6 %
Costs and operating expenses:				
Cost of operations	932,955	1,504,669	(571,714)	-38.0 %
General and administrative expenses	1,185,556	644,118	541,438	84.1 %
Depreciation and amortization	128,137	177,882	(49,745)	-28.0 %
Total operating expenses	2,246,648	2,326,669	(80,021)	-3.4 %
Loss from Operations	(1,009,121)	(616,271)	(392,850)	63.7 %
Other income (expenses):				
Finance and interest expenses	(64,042)	(173,331)	109,289	-63.1 %
Change in fair value of derivatives	(50,629)	-	(50,629)	*
Gain on extinguishment of derivatives	185,604	-	185,604	*
Loss on extinguishment of debt	(186,818)	-	(186,818)	*
Gain on Sale of Asset	-	5,971	(5,971)	-100.0 %
Gain on Lease Termination	-	214,111	(214,111)	-100.0 %
Loss before provision for income taxes	(1,125,006)	(569,520)	(555,486)	97.5 %
Provision for income taxes	(2,650)	(184)	(2,466)	1340.2 %
Net loss	\$(1,127,656)	\$(569,704)	\$(557,952)	97.9 %

Notes to Costs and Operating Expenses Table:

The net sales for the twenty-six weeks ended July 2, 2017 and June 26, 2016 were \$1,237,527 and \$1,710,398, respectively. The 27.6% decrease was mostly attributable to the closing of the Century City store at the end of the 2nd quarter, 2016. Despite the total decrease, the remaining operational stores in Topanga and Glendale reported an increase of \$111,810 (or 9.9%).

Cost of operations. Cost of operations of \$932,955 and \$1,504,787 for the twenty-six weeks ended July 2, 2017 and June 26, 2016, respectively. The decrease of \$571,714 (-38.0%) was mostly attributable to the closing of the Century City store at the end of the 2nd quarter, 2016. Of the total decrease the remaining operational stores in Topanga and Glendale had decreased their cost of operations by \$79,682 (or 7.9%).

General and administrative expenses. General and administrative expenses for the twenty-six weeks ended July 2, 2017 and July 26, 2016 were \$1,185,556 and \$644,118, respectively. The substantial increase of 84.1% was mostly due to the fair value of \$531,000 for warrants granted for services rendered and a \$109,096 charge relating to settlement of an outstanding payable.

Depreciation and amortization. The depreciation and amortization was \$49,745 less than the same period in the previous year. The decline was mostly due to the closing of the Century City store at the end of the second quarter of 2016.

Finance and interest expense. The total finance and operating expenses of \$64,043 and \$173,33 for the twenty-six weeks ended July 2, 2017 and June 26, 2016, respectively. The decrease of \$109,288 (-63.1%) mostly attributable to a lower debt.

Net Loss. The overall net loss of \$1,127,656 and \$569,704 for the twenty weeks ended July 2, 2017 and June 26, 2016, respectively, reflects an increase in the net loss of 97.9%. The increase in the operating loss is mostly attributable to the fair value of \$531,000 for warrants granted for services rendered and a \$109,096 charge to settlement of an outstanding payable.

LIQUIDITY AND CAPITAL RESOURCES

As of July 2, 2017, the Company has \$154,288 in cash and cash equivalents, \$25,616 in inventory, and \$16,516 in prepaid expenses and other. The following table provides detailed information about our net cash flows for all financial statement periods presented in this report.

The following table sets forth a summary of our cash flows for the thirteen weeks ended July 2, 2017 and June 26, 2016:

	For Twenty-Six Weeks Ended July 2, 2017	For Twenty-Six Weeks Ended June 26, 2016
Net cash used in operating activities	\$ (53,689)	\$ (581,386)
Net cash provided by investing activities	-	360,500
Net cash provided by financing activities	63,457	-
Net increase (decrease) in Cash	9,768	(220,886)
Cash, beginning of period	144,520	334,191
Cash, end of period	\$ 154,288	\$ 113,305

Operating activities

Net cash used in operating activities was \$53,689 for the twenty-six weeks ended July 2, 2017 compared to \$581,386 used in operating activities for the twenty-six weeks ended June 26, 2016. The significant change was mostly attributable to the promissory note settlement.

Investing activities

The cash provided by investing activities for the twenty-six weeks ended June 26, 2016 was \$360,500 which consisted of cash received for the closure of the Century City store under the lease termination agreement with Westfield and the sales of remaining fixed assets. There were no investing activities or the twenty-six weeks ended July 2, 2017.

Financing activities

Net cash provided for the twenty-six weeks ended July 2, 2017 was \$63,457 from cash receipts from investors for future common stock issuable. There were no financing activities or the twenty-six weeks ended June 26, 2016.

The Company is not required to provide a tabular disclosure of contractual obligations, as it is a smaller reporting company as defined under Rule 12b-2 of the Exchange Act.

Going Concern and Liquidity

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying condensed consolidated financial statements, during the twenty-six weeks ended July 2, 2017, the Company incurred a net loss of \$1,127,656, used cash in operations of \$53,689 and had a stockholders' deficit of \$1,604,074 as of that date. These factors raise substantial doubt about the Company's ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent upon the Company's ability to raise additional funds and implement its business plan. The Company's independent registered public accounting firm in its report on the January 1, 2017 financial statements has raised substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

At July 2, 2017, the Company had cash on hand in the amount of \$154,288. Management estimates that the current funds on hand would be sufficient to continue operations through September 2017. Management is currently seeking additional funds through sponsorships and promotions to operate our business. No assurance can be given that any future financing will be available or, if available, that it will be on terms that are satisfactory to the Company. Even if the Company is able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing or cause substantial dilution for our stock holders, in case or equity financing.

Notes Payable

On February 12, 2013, the Company entered into a \$700,000 Promissory Note Payable Agreement with GGP Limited Partnership ("Lender") to be used by the Company for a portion of the construction work to be performed by the Company under the lease by and between the Company and Glendale II Mall Associates, LLC. The Note Payable accrued interest at a rate of 10% through October 15, 2015, 12% through October 31, 2017, and 15% through October 31, 2023 and matures on October 31, 2023.

On March 1, 2015, the Company and the lender renegotiated the terms of the Promissory Note and agreed to a new note with a principal balance due of \$683,316. As part of the new agreement, the Lender waived principal and interest payments for two years beginning March 1, 2015.

On August 12, 2016, the Company entered into a third amendment on its lease at The Glendale Galleria. The amendment covered several areas, including adjustment to percentage rent payable, reduced the minimum rent payable, along with the payment and principal of Promissory Note. The Promissory Note was adjusted to a balance due of \$763,261.57 from \$683,316, with zero percent interest, payable in equal monthly instalments of \$5,300 through

maturity of Note on May 31, 2028. The Company imputed interest using a discount rate of 10% to determine a fair value of the note of \$443,521, resulting in a valuation discount of \$319,740. As of July 2, 2017, the balance of note payable was \$711,869, and unamortized note discount was \$283,377, with a net balance due of \$428,492.

The lender under the Note is GGP Limited Partnership (GGP). GGP is an affiliate of Glendale II Mall Associates, the lessor of the Company's Glendale Mall restaurant location. In accordance with the note agreement, an event of default would occur if the Borrower defaults under the lease between the Company and Glendale II Mall Associates. Upon the occurrence of an event of default, the entire balance of the Note payable and accrued interest would become due and payable, and the balance due becomes subject to a default interest rate (which is 5% higher than the defined interest rate).

Convertible Notes Payable

J&N Invest LLC - On August 24, 2015, the Company entered into an unsecured Note Payable Agreement with an investor for which the Company issued a \$50,000 Convertible Note Payable, which accrues interest at a rate of 5% per annum and matures on August 31, 2016. The Lender may also convert all or a portion of the Note Payable at any time into shares of common stock at a price of \$0.10 per share.

Promissory Note

On December 18, 2015, the Company issued a six month unsecured promissory note in the principal sum of \$265,000 in favor of St. George Investments, LLC, pursuant to the terms of a securities purchase agreement of the same date. The Note went into default when the Company failed to make payment on the due date. Consequently, on July 8, 2016, the Company entered into an Exchange Agreement with St. George Investments, LLC, to replace the original Promissory Note with a new Convertible Promissory Note ("Note"). The Note carries a Conversion clause that allows the Holder to have a cashless conversion into shares of Common Stock for all or part of the principal, at a price equal to the average market price for 20 days prior to the conversion. The company determined that since the conversion floor had no limit to the conversion price, that the company could no longer determine if it had enough authorized shares to fulfil the conversion obligation. As such, the Company determined that the conversion feature created a derivative at the date of the modification.

During the period, the Holder converted \$48,914 of debt into 15,660,611 shares of Common Stock. In addition, the Company paid \$7,517 of the principal balance. On March 23, 2017, St. George Investments, LLC ("St. George") served an arbitration demand and summons claiming that the Company had breached its obligations under a convertible note by preventing St. George from converting the remaining balance of the note to common stock. The parties disagreed as to the conversion price set in the note agreement due to execution by the parties of different versions of the document. St. George claimed for additional damages. The Company believed these claims lacked merit and the Company retained counsel to vigorously defend this action. Effective May 3, 2017, the Company counter-sued for full damages for breaching the contract, claiming mistakes, rescission, breach of the covenant of good faith and fair dealing and unjust enrichment.

On August 14, 2017, the Company and St. George entered into a settlement agreement whereby the Company agreed to deliver 7,900,000 unrestricted free-trading shares to SGI Immediately upon signing a final settlement agreement and St. George agreed to purchase an additional 1,100,000 shares of the companies restricted common stock for a purchase price of \$110,000 at \$0.10 per share. These shares shall be delivered pursuant to a conversion under the existing outstanding note. The shares had a fair value of \$.07 per share as of the settlement date, or \$553,000 in the aggregate. At the time of the settlement, the outstanding balance under the note was \$132,928 and accrued interest of \$10,818.

The company considered the settlement as a debt extinguishment as the consideration to be issued was greater than 10% of the debt at the date of the modification. As such the Company recorded the fair value of the shares to be issued, and recognized a loss on the extinguishment of the aggregate face value of the note and accrued interest of \$143,740, and the remaining value of the derivative liability of \$222,436, resulting in a loss on extinguishment of \$186,818. The Company determined that it was appropriate to record this loss as of July 2, 2017) as it related to outstanding claims that were due at that time, with the ultimate settlement becoming known prior to filing of the 10Q.

Recent Accounting Pronouncements

See Note 3 of the consolidated financial statements for discussion of recent accounting pronouncements.

Critical Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Note 1 to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Estimates are used for, but not limited to, impairment analyses, accounting for contingencies and equity instruments issued for services. Actual results could differ materially from those estimates. The following critical accounting policies are impacted significantly by judgments, assumptions, and estimates used in the preparation of the Consolidated Financial Statements.

Long-Lived Assets

Our management regularly reviews property, equipment and other long-lived assets, including identifiable amortizing intangibles, for possible impairment. This review occurs quarterly or more frequently if events or changes in circumstances indicate the carrying amount of the asset may not be recoverable. If there is indication of impairment of property and equipment or amortizable intangible assets, then management prepares an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows are less than the carrying amount of the asset, an impairment loss is recognized to write down the asset to its estimated fair value. The fair value is estimated at the present value of the future cash flows discounted at a rate commensurate with management's estimates of the business risks. Quarterly, or earlier, if there is indication of impairment of identified intangible assets not subject to amortization, management compares the estimated fair value with the carrying amount of the asset. An impairment loss is recognized to write down the intangible asset to its fair value if it is less than the carrying amount. Preparation of estimated expected future cash flows is inherently subjective and is based on management's best estimate of assumptions concerning expected future conditions.

Management believes that the accounting estimate related to impairment of our long lived assets, including our trademark license and trademarks, is a “critical accounting estimate” because: (1) it is highly susceptible to change from period to period because it requires management to estimate fair value, which is based on assumptions about cash flows and discount rates; and (2) the impact that recognizing an impairment would have on the assets reported on our balance sheet, as well as net income, could be material. Management’s assumptions about cash flows and discount rates require significant judgment because actual revenues and expenses have fluctuated in the past and we expect they will continue to do so.

Stock-Based Compensation

The Company periodically issues stock options and warrants to employees and non-employees in non-capital raising transactions for services and for financing costs. The Company accounts for stock option and warrant grants issued and vesting to employees based on the authoritative guidance provided by the Financial Accounting Standards Board whereas the value of the award is measured on the date of grant and recognized over the vesting period. The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with the authoritative guidance of the Financial Accounting Standards Board whereas the value of the stock compensation is based upon the measurement date as determined at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

The fair value of the Company's common stock option grants is estimated using the Black-Scholes Option Pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life of the common stock options, and future dividends. Compensation expense is recorded based upon the value derived from the Black-Scholes Option Pricing model, and based on actual experience. The assumptions used in the Black-Scholes Option Pricing model could materially affect compensation expense recorded in future periods.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Without sufficient cash flow from operations we will require additional cash resources, including the sale of equity or debt securities, to meet our planned capital expenditures and working capital requirements for the next 12 months. We will require additional cash resources due to changed business conditions to implement of our strategy to successfully expand our operations. If our own financial resources and then-current cash-flows from operations are insufficient to satisfy our capital requirements, we may seek to sell additional equity or debt securities or obtain additional credit facilities. The sale of additional equity securities will result in dilution to our existing stockholders. The incurrence of indebtedness will result in increased debt service obligations and could require us to agree to operating and financial covenants that could restrict our operations or modify our plans to grow the business. Financing may not be available in amounts or on terms acceptable to us, if at all. Any failure by us to raise additional funds on terms favorable to us, or at all, will limit our ability to expand our business operations and could harm our overall business prospects.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Smaller reporting companies are not required to provide the information under this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Principal Executive Officer and Principal Financial Officer, Joey Parsi, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Report. Based on his evaluation, he concluded that our disclosure controls and procedures are not designed at a reasonable assurance level and are not effective to provide reasonable assurance that information we are required to disclose 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 that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the quarterly period ended July 2, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II—OTHER INFORMATION

ITEM 1. Legal Proceedings.

The Company entered into an agreement settling all claims with St. George on August 14, 2017 pursuant to a confidential settlement agreement. Subject to the execution of documents memorializing the settlement terms, the Company agreed to convert the outstanding balance of St. George's note into 7,900,000 shares of common stock (see Note 7) and St. George agreed to purchase an additional 1,100,000 shares for a purchase price of \$110,000 at \$0.10 per share.

ITEM 1A. Risk Factors

Our significant business risks are described in Item 1A to Form 10-K for the year ended January 1, 2017, which is incorporated herein by this reference.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the period covered by the report, the Company issued the following unregistered securities:

10,170,000 shares of restricted common stock to employees; and

500,000 shares of restricted common stock to a consultant.

The Company issued these securities in reliance on the exemption from registration afforded by Section 4(a)(2) of Securities on the basis the transactions did not involve public offerings.

Issuer Purchases of Equity Securities

None

ITEM 3. Defaults Upon Senior Securities.

None.

ITEM 4. Mine Safety Disclosures.

Not applicable.

ITEM 5. Other Information.

None.

ITEM 6. Exhibits.

Exhibit No.	Description
31.1*	Certification of Principal Executive Officer & Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certifications of Principal Executive Officer & Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase
101.DEF**	XBRL Taxonomy Extension Definition Linkbase
101.LAB**	XBRL Taxonomy Extension Label Linkbase
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURE

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.

GIGGLES N' HUGS, INC.

Date August 21, 2017 By: */s/ Joey Parsi*

Joey Parsi

Chief Executive Officer

(Principal Executive Officer and duly authorized signatory)

