

Raptor Pharmaceutical Corp  
Form 10-Q  
April 09, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended February 29, 2012

or

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

For the transition period from            to

Commission File Number: 000-25571

**Raptor Pharmaceutical Corp.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)  
**86-0883978**  
(I.R.S. Employer  
Identification No.)  
**9 Commercial Blvd., Suite 200, Novato, CA 94949**  
(Address of principal executive offices) (Zip Code)

**(415) 382-8111**

**(Registrant's telephone number, including area code)**

**(Former name, former address and former fiscal year, if changed since last report)**

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 48,857,663 shares of the registrant's common stock, par value \$0.001, outstanding as of March 29, 2012.

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**RAPTOR PHARMACEUTICAL CORP.**

**FORM 10-Q FOR THE QUARTER ENDED FEBRUARY 29, 2012**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****Raptor Pharmaceutical Corp.****(A Development Stage Company)****Condensed Consolidated Balance Sheets**

	<b>February 29, 2012 (unaudited)</b>	<b>August 31, 2011 (1)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 19,689,438	\$ 15,172,086
Restricted cash	163,461	114,468
Short-term investments	30,241,134	
Prepaid expenses and other	2,339,667	415,944
<b>Total current assets</b>	<b>52,433,700</b>	<b>15,702,498</b>
Intangible assets, net	3,177,917	3,250,917
Goodwill	3,275,403	3,275,403
Fixed assets, net	223,446	76,997
Deposits	104,906	104,906
Deferred offering costs		151,783
<b>Total assets</b>	<b>\$ 59,215,372</b>	<b>\$ 22,562,504</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Liabilities		
Current liabilities:		
Accounts payable	\$ 1,087,186	\$ 847,137
Accrued liabilities	2,375,832	2,249,254
Common stock warrant liability	26,568,922	23,575,294
Deferred rent	25,561	24,136
Capital lease liability - current	4,069	3,953
<b>Total current liabilities</b>	<b>30,061,570</b>	<b>26,699,774</b>
Capital lease liability - long-term	7,714	9,778
<b>Total liabilities</b>	<b>30,069,284</b>	<b>26,709,552</b>
Commitments and contingencies		
Stockholders' equity (deficit):		
Preferred stock, \$0.001 par value, 15,000,000 shares authorized, zero shares issued and outstanding		
Common stock, \$0.001 par value, 150,000,000 shares authorized 48,854,168 and 35,569,188 shares issued and outstanding as at February 29, 2012, and August 31, 2011, respectively	48,854	35,569
Additional paid-in capital	132,528,834	73,817,083
Accumulated other comprehensive income (loss)	(4,979)	1,904
Deficit accumulated during development stage	(103,426,621)	(78,001,604)
<b>Total stockholders' equity (deficit)</b>	<b>29,146,088</b>	<b>(4,147,048)</b>

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Total liabilities and stockholders' equity (deficit)	\$ 59,215,372	\$ 22,562,504
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- (1) Derived from the Company's audited consolidated financial statements as of August 31, 2011.  
The accompanying notes are an integral part of these condensed consolidated financial statements.

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**Table of Contents****Raptor Pharmaceutical Corp.****(A Development Stage Company)****Condensed Consolidated Statements of Comprehensive Loss****(Unaudited)**

	<b>For the three months ended</b>	
	<b>February 29, 2012</b>	<b>February 28, 2011</b>
Revenues:	\$	\$
Operating expenses:		
General and administrative	2,452,418	1,126,512
Research and development	3,971,471	3,669,246
<b>Total operating expenses</b>	<b>6,423,889</b>	<b>4,795,758</b>
Loss from operations	(6,423,889)	(4,795,758)
Interest income	107,423	11,756
Interest expense	(212)	(356)
Foreign currency transaction gain (loss)	18,186	(159)
Unrealized gain on short-term investments	120,469	
Adjustment to fair value of common stock warrants	(7,814,136)	1,810,223
Net loss	(13,992,159)	(2,974,294)
Other comprehensive income (loss)		
Foreign currency translation adjustment	(1,589)	2,038
<b>Comprehensive loss</b>	<b>\$ (13,993,748)</b>	<b>\$ (2,972,256)</b>
Net loss per share:		
Basic and diluted	\$ (0.29)	\$ (0.09)
Weighted average shares outstanding used to compute:		
Basic and diluted	47,967,393	31,778,911

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents****Raptor Pharmaceutical Corp.****(A Development Stage Company)****Condensed Consolidated Statements of Comprehensive Loss****(Unaudited)**

	<b>For the six months ended</b>		<b>For the period from September 8, 2005 (inception) to February 29, 2012</b>
	<b>February 29, 2012</b>	<b>February 28, 2011</b>	<b>February 29, 2012</b>
Revenues:	\$	\$	\$
Operating expenses:			
General and administrative	4,788,706	2,832,612	21,642,729
Research and development	8,987,650	6,364,375	48,224,940
Total operating expenses	13,776,356	9,196,987	69,867,669
Loss from operations	(13,776,356)	(9,196,987)	(69,867,669)
Interest income	171,592	19,232	544,032
Interest expense	(717)	(998)	(116,847)
Foreign currency transaction gain	77,685	89	106,547
Unrealized gain on short-term investments	85,160		85,160
Adjustment to fair value of common stock warrants	(11,982,381)	(3,916,407)	(34,177,844)
Net loss	(25,425,017)	(13,095,071)	(103,426,621)
Other comprehensive income (loss)			
Foreign currency translation adjustment	(6,883)	5,549	(4,979)
Comprehensive loss	\$ (25,431,900)	\$ (13,089,522)	\$ (103,431,600)
Net loss per share:			
Basic and diluted	\$ (0.54)	\$ (0.42)	
Weighted average shares outstanding used to compute:			
Basic and diluted	46,795,022	30,999,253	

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents****Raptor Pharmaceutical Corp.****(A Development Stage Company)****Condensed Consolidated Statement of Stockholders Equity (Deficit)****For the six months ended February 29, 2012****(Unaudited)**

	Common stock		Additional paid-	Accumulated other comprehensive income (loss)	Deficit accumulated during development stage	Total
	Shares	Amount	in capital			
Balance at August 31, 2011	35,569,188	\$ 35,569	\$ 73,817,083	\$ 1,904	\$ (78,001,604)	\$ (4,147,048)
Exercise of common stock warrants	1,741,367	1,741	4,775,108			4,776,849
Exercise of common stock options	43,613	44	106,149			106,193
Employee stock-based compensation expense			2,021,039			2,021,039
Reclassification of the fair value of warrant liabilities upon exercise			8,988,753			8,988,753
Issuance of common stock in a follow-on public offering at \$4.00 per share purchase price, net of fundraising costs totaling \$3,166,146	11,500,000	11,500	42,820,702			42,832,202
Foreign currency translation loss				(6,883)		(6,883)
Net loss					(25,425,017)	(25,425,017)
Balance at February 29, 2012	48,854,168	\$ 48,854	\$ 132,528,834	\$ (4,979)	\$ (103,426,621)	\$ 29,146,088

The accompanying notes are an integral part of these condensed consolidated financial statements.



**Table of Contents****Raptor Pharmaceutical Corp.****(A Development Stage Company)****Condensed Consolidated Statements of Cash Flows****(unaudited)**

	<b>For the six months ended</b>		<b>For the</b>
	<b>February 29,</b>	<b>February 28,</b>	<b>cumulative period</b>
	<b>2012</b>	<b>2011</b>	<b>from September 8,</b>
			<b>2005 (inception)</b>
			<b>to February 29,</b>
			<b>2012</b>
<b>Cash flows from operating activities:</b>			
Net loss	\$ (25,425,017)	\$ (13,095,071)	\$ (103,426,621)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>			
Employee stock-based compensation exp.	2,021,039	1,179,562	5,372,401
Consultant stock-based compensation exp.		37,010	683,322
Fair value adjustment of common stock warrants	11,982,381	3,916,407	34,177,844
Amortization of intangible assets	73,000	76,750	623,958
Depreciation of fixed assets	17,964	39,441	518,737
Unrealized gain on short-term investments	(85,160)		(85,160)
Write-off of intangible assets and other intellectual property			348,750
Amortization of capitalized finder's fee			102,000
Capitalized acquisition costs previously expensed			38,000
<b>Changes in assets and liabilities:</b>			
Prepaid expenses and other	(1,923,723)	123,191	(2,240,230)
Intangible assets			(150,000)
Deposits		(2,000)	(104,907)
Accounts payable	240,049	77,325	1,087,186
Accrued liabilities	126,578	(16,028)	1,695,106
Deferred rent	1,425	20,172	25,456
<b>Net cash used in operating activities</b>	<b>(12,971,464)</b>	<b>(7,643,241)</b>	<b>(61,334,158)</b>
<b>Cash flows from investing activities:</b>			
Purchase of fixed assets	(164,413)	(25,000)	(710,939)
Cash acquired in 2009 Merger			581,391
Increase in restricted cash	(48,993)	(113,748)	(163,461)
Purchase of short-term investments	(30,155,974)		(30,155,974)
<b>Net cash used in investing activities</b>	<b>(30,369,380)</b>	<b>(138,748)</b>	<b>(30,448,983)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from the sale of common stock	46,000,000		85,941,278
Proceeds from the sale of common stock under an equity line		6,747,778	11,639,568
Proceeds from the exercise of common stock warrants	4,776,849	556,956	20,674,348
Proceeds from the exercise of common stock options	106,193	8,828	274,802
Fundraising costs	(3,016,015)	(8,186)	(7,342,979)
Proceeds from the sale of common stock to initial investors			310,000
Proceeds from bridge loan			200,000
Repayment of bridge loan			(200,000)
Principal payments on capital lease	(1,948)	(1,862)	(19,459)
<b>Net cash provided by financing activities</b>	<b>47,865,079</b>	<b>7,303,514</b>	<b>111,477,558</b>
Foreign currency translation gain (loss)	(6,883)	5,549	(4,979)

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Net increase (decrease) in cash and cash equivalents	4,517,352	(472,926)	19,689,438
Cash and cash equivalents, beginning of period	15,172,086	16,953,524	
Cash and cash equivalents, end of period	\$ 19,689,438	\$ 16,480,598	\$ 19,689,438
Supplemental disclosure of non-cash financing activities:			
Warrants issued in connection with financing	\$	\$	\$ 16,310,414
Common stock issued as fee for equity line	\$	\$	\$ 208,660
Common stock and warrants issued in connection with reverse merger	\$	\$	\$ 4,417,046
Common stock issued as fee for equity line	\$	\$ 352,500	\$ 827,637
Fair value of warrant liability reclassified to equity upon exercise	\$ 8,988,753	\$	\$ 10,474,396
Acquisition of equipment in exchange for capital lease	\$	\$	\$ 35,134
Notes receivable issued in exchange for common stock	\$	\$	\$ 110,000
Common stock issued for a finder's fee	\$	\$	\$ 102,000
Common stock issued in asset purchase	\$	\$	\$ 2,898,624

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**RAPTOR PHARMACEUTICAL CORP.**

**(A Development Stage Company)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(1) NATURE OF OPERATIONS AND BUSINESS RISKS**

The accompanying condensed consolidated financial statements reflect the results of operations of Raptor Pharmaceutical Corp. (the Company or Raptor ) and have been prepared in accordance with the accounting principles generally accepted in the United States of America. The Company's fiscal year end is August 31.

On July 28, 2009, the Company and ECP Acquisition, Inc., a Delaware corporation, the Company's then wholly-owned subsidiary ( merger sub ), entered into an Agreement and Plan of Merger and Reorganization (the 2009 Merger Agreement ), with Raptor Pharmaceuticals Corp., a Delaware corporation ( RPC ). On September 29, 2009, on the terms and subject to the conditions set forth in the 2009 Merger Agreement, pursuant to a stock-for-stock reverse triangular merger (the 2009 Merger ), merger sub was merged with and into RPC and RPC survived the 2009 Merger as a wholly-owned subsidiary of the Company. Immediately prior to the 2009 Merger and in connection therewith, the Company effected a 1-for-17 reverse stock split of its common stock and changed its corporate name from TorreyPines Therapeutics, Inc. to Raptor Pharmaceutical Corp.

As a result of the 2009 Merger and in accordance with the 2009 Merger Agreement, each share of RPC's common stock outstanding immediately prior to the effective time of the 2009 Merger was converted into the right to receive 0.2331234 shares of the Company's common stock, on a post 1-for-17 reverse-split basis. Each option and warrant to purchase RPC's common stock outstanding immediately prior to the effective time of the 2009 Merger was assumed by the Company at the effective time of the 2009 Merger, with each share of such common stock underlying such options and warrants being converted into the right to receive 0.2331234 shares of the Company's common stock, on a post 1-for-17 reverse split basis, rounded down to the nearest whole share of the Company's common stock. Following the 2009 Merger, each such option or warrant has an exercise price per share of the Company's common stock equal to the quotient obtained by dividing the per share exercise price of such common stock subject to such option or warrant by 0.2331234, rounded up to the nearest whole cent.

Immediately following the effective time of the 2009 Merger, RPC's stockholders (as of immediately prior to the 2009 Merger) owned approximately 95% of the Company's outstanding common stock and the Company's stockholders (as of immediately prior to the 2009 Merger) owned approximately 5% of the Company's outstanding common stock.

RPC, the Company's wholly-owned subsidiary, was the accounting acquirer, and for accounting purposes, the Company was deemed as having been acquired in the 2009 Merger. The Board of Directors and officers that managed and operated RPC immediately prior to the effective time of the 2009 Merger became the Company's Board of Directors and officers. Additionally, following the effective time of the 2009 Merger, the business conducted by RPC immediately prior to the effective time of the 2009 Merger became primarily the business conducted by the Company. In December 2011, RPC merged into Raptor Pharmaceutical Corp.

The following reflects the Company's current, post-2009 Merger corporate structure (jurisdiction of incorporation):

Raptor Pharmaceutical Corp., formerly TorreyPines Therapeutics, Inc. (Delaware)

| |

Raptor Therapeutics Inc. (Delaware) Raptor Discoveries Inc. (Delaware)

| |

| Raptor European Products, LLC (Delaware)

| |

RPTP European Holdings C.V. (Netherlands)

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Raptor Pharmaceuticals Europe B.V. (Netherlands)

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**RAPTOR PHARMACEUTICAL CORP.**

**(A Development Stage Company)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Raptor, a publicly-traded biotechnology company, seeks to research, manufacture, and commercialize medicines that improve life for patients with severe, rare disorders. Raptor currently has product candidates in clinical development designed to potentially treat nephropathic cystinosis, Non-alcoholic Steatohepatitis ( NASH ), Huntington's Disease ( HD ), aldehyde dehydrogenase deficiency ( ALDH2 ), and thrombotic disorder. Raptor's preclinical programs are based upon bioengineered novel drug candidates and drug-targeting platforms derived from the human receptor-associated protein and related proteins that are designed to target cancer and infectious diseases.

The Company is subject to a number of risks, including: the need to raise capital through equity and/or debt financings; the uncertainty whether the Company's research and development efforts will result in successful commercial products; competition from larger organizations; reliance on licensing the proprietary technology of others; dependence on key personnel; uncertain patent protection; and dependence on corporate partners and collaborators. See the section titled "Factors That May Affect Future Results" included elsewhere in this Quarterly Report on Form 10-Q.

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*(a) Basis of Presentation*

The Company's condensed consolidated financial statements include the accounts of the Company's direct and indirect wholly owned subsidiaries, Raptor Discoveries Inc., Raptor Therapeutics Inc. and Raptor European Products, LLC, such subsidiaries incorporated in Delaware on September 8, 2005 (date of inception), August 1, 2007, and February 14, 2012, respectively, and Raptor Pharmaceuticals Europe B.V. and RPTP European Holdings C.V., incorporated/registered in the Netherlands on December 15, 2009 and February 16, 2012, respectively. All inter-company accounts have been eliminated. The Company's condensed 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. Through February 29, 2012, the Company had accumulated losses of approximately \$103.4 million. Management expects to incur further losses for the foreseeable future. Management believes that the Company's cash, cash equivalents and short term investments as of February 29, 2012 of approximately \$49.9 million will be sufficient to meet the Company's obligations through the first calendar quarter of 2013. Until the Company can generate sufficient levels of cash from its operations, the Company expects to continue to finance future cash needs primarily through proceeds from equity or debt financings, loans and collaborative agreements with corporate partners or through a business combination with a company that has such financing in order to be able to sustain its operations until the Company can achieve profitability and positive cash flows, if ever. The Company cannot assure that such financing or transaction will be available on acceptable terms, or at all. The uncertainty of this situation raises substantial doubt about the Company's ability to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments that might result from the failure to continue as a going concern.

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**RAPTOR PHARMACEUTICAL CORP.**

**(A Development Stage Company)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The Company's independent registered public accounting firm has audited the Company's consolidated financial statements for the years ended August 31, 2011 and 2010 and for the period from September 8, 2005 (inception) to August 31, 2011. The November 14, 2011 audit opinion included a paragraph indicating substantial doubt as to the Company's ability to continue as a going concern due to the fact that the Company is in the development stage and has not generated any revenue or sustained operating profits to date.

*(b) Use of Estimates*

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the dates of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*(c) Functional Currency*

The Company's consolidated functional currency is the U.S. dollar. Raptor Pharmaceuticals Europe B.V. ( "BV" ), the Company's European subsidiary, uses the European Euro as its functional currency. At each quarter end, BV's balance sheet is translated into U.S. dollars based upon the quarter-end exchange rate, while its statement of operations is translated into U.S. dollars based upon an average of the Euro's value between the beginning and end date of the reporting period. BV's equity is adjusted for any translation gain or loss.

*(d) Fair Value of Financial Instruments*

The carrying amounts of certain of the Company's financial instruments including cash and cash equivalents, restricted cash, prepaid expenses, accounts payable, accrued liabilities and capital lease liability approximate fair value due either to length of maturity or interest rates that approximate prevailing market rates unless otherwise disclosed in these condensed consolidated financial statements. The warrant liability is carried at fair value which is determined using the Black-Scholes option valuation model at the end of each reporting period.

**Table of Contents****RAPTOR PHARMACEUTICAL CORP.****(A Development Stage Company)****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(e) Cash and Cash Equivalents*

The Company considers all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents. The Company maintains cash and cash equivalents, which consist principally of money market funds with high credit quality financial institutions. Such amounts exceed Federal Deposit Insurance Corporation insurance limits. Restricted cash represents compensating balances required by the Company's U.S. and European banks as collateral for credit cards.

*(f) Short-term Investments*

The Company invests in short-term investments in high credit-quality funds in order to obtain higher yields on its idle cash. Short-term investments consisted of:

	February 29, 2012	August 31, 2011
Adjustable-rate government fund	\$ 15,126,444	\$
Ultra short-term income fund	15,114,690	
<b>Total short-term investments</b>	<b>\$ 30,241,134</b>	<b>\$</b>

Such investments are not insured by the Federal Deposit Insurance Corporation. The Company completed an evaluation of its investments and determined that it did not have any other-than-temporary impairments as of February 29, 2012. The investments are placed in financial institutions with strong credit ratings and management expects full recovery of the carrying amounts.

*(g) Deferred Offering Costs*

Deferred offering costs represent expenses incurred to raise equity capital related to financing transactions which have not yet been completed as of the balance sheet dates.

*(h) Intangible Assets*

Intangible assets include the intellectual property and other rights relating to DR Cysteamine (currently developed as RP103 and RP104), to an out-license acquired in the 2009 Merger and the rights to tezampanel and NGX 426 (oral tezampanel) also acquired in the 2009 Merger (tezampanel and oral tezampanel are referred to as tezampanel hereafter). The intangible assets related to RP103/RP104 are amortized using the straight-line method over the estimated useful life of 20 years, which is the life of the intellectual property patents. The 20-year estimated useful life is also based upon the typical development, approval, marketing and life cycle management timelines of pharmaceutical drug products. The intangible assets related to the out-license will be amortized using the straight-line method over the estimated useful life of 16 years, which is the life of the intellectual property patents. The intangible assets related to tezampanel, which has been classified as in-process research and development, will not be amortized until development is completed, but will be tested annually for impairment.

*(i) Goodwill*

Goodwill represents the excess of the value of the purchase consideration over the identifiable assets acquired in the 2009 Merger. Goodwill is reviewed annually, or when an indication of impairment exists. An impairment analysis is performed, and if necessary, a resulting write-down in valuation is recorded.

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### *(j) Fixed Assets*

Fixed assets, which mainly consist of leasehold improvements, lab equipment, computer hardware and software and capital lease equipment, are stated at cost. Depreciation is computed using the straight-line method over the related estimated useful lives, except for leasehold improvements and capital lease equipment, which are depreciated over the shorter of the useful life of the asset or the lease term. Significant additions and improvements that have useful lives estimated at greater than one year are capitalized, while repairs and maintenance are charged to expense as incurred.

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**RAPTOR PHARMACEUTICAL CORP.**

**(A Development Stage Company)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(k) Impairment of Long-Lived Assets*

The Company evaluates its long-lived assets for indicators of possible impairment by comparison of the carrying amounts to future net undiscounted cash flows expected to be generated by such assets when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Should an impairment exist, the impairment loss would be measured based on the excess carrying value of the asset over the asset's fair value or discounted estimates of future cash flows. The Company has not identified any such impairment losses to date.

*(l) Common Stock Warrant Liabilities*

The warrants issued by the Company in the 2010 private placement contain a cash-out provision which may be triggered upon request by the warrant holders if the Company is acquired or upon the occurrence of certain other fundamental transactions involving the Company. This provision requires these warrants to be classified as liabilities and to be marked to market at each period-end commencing on August 31, 2010. The warrants issued by the Company in its December 2009 equity financing contain a conditional obligation that may require the Company to transfer assets to repurchase the warrants upon the occurrence of potential future events. Under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 480, *Distinguishing Liabilities from Equity* (ASC 480), a financial instrument that may require the issuer to settle the obligation by transferring assets is classified as a liability. Therefore, the Company has classified the warrants as liabilities and will mark them to fair value at each period-end. The common stock warrants are re-measured at the end of every reporting period with the change in value reported in the Company's condensed consolidated statements of comprehensive loss. Warrants which are recorded as liabilities that are exercised are re-measured and marked to market the day prior to exercise. Upon exercise of such warrants, the fair value of such warrants is reclassified to equity.

*(m) Income Taxes*

Income taxes are recorded under the liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

*(n) Research and Development*

The Company is a development stage biotechnology company. Research and development costs are charged to expense as incurred. Research and development expenses include medical, clinical, regulatory and scientists' salaries and benefits, lab collaborations, preclinical studies, clinical trials, clinical trial materials, commercial drug manufactured prior to obtaining marketing approval, regulatory and clinical consultants, lab supplies, lab services, lab equipment maintenance and small equipment purchased to support the research laboratory, amortization of intangible assets and allocated executive, human resources and facilities expenses. Research and development expenses are offset by contra-expenses, which are reimbursements of research and development expenses received either from research collaborators or from government grants or tax rebates.

**Table of Contents****RAPTOR PHARMACEUTICAL CORP.****(A Development Stage Company)****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***(o) In-Process Research and Development*

Prior to September 1, 2009, the Company recorded in-process research and development expense for a product candidate acquisition where there is not more than one potential product or usage for the assets being acquired. Upon the adoption of the revised guidance on business combinations, effective September 1, 2009, the fair value of acquired in-process research and development is capitalized and tested for impairment at least annually. Upon completion of the research and development activities, the intangible asset is amortized into earnings over the related product's useful life. In-process research and development that is amortized or expensed is recorded as part of research and development expenses on the Company's condensed consolidated statements of comprehensive loss. The Company reviews each product candidate acquisition to determine the existence of in-process research and development.

*(p) Net Loss per Share*

Net loss per share is calculated by dividing net loss by the weighted average shares of common stock outstanding during the period. Diluted net income per share is calculated by dividing net income by the weighted average shares of common stock outstanding and potential shares of common stock during the period. For all periods presented, potentially dilutive securities are excluded from the computation of fully diluted net loss per share as their effect is anti-dilutive. Potentially dilutive securities include:

	<b>February 29, 2012</b>	<b>February 28, 2011</b>
Warrants to purchase common stock	5,277,483	10,137,255
Options to purchase common stock	5,841,848	3,265,307
<b>Total potentially dilutive securities</b>	<b>11,119,331</b>	<b>13,402,562</b>

Net loss per share, basic and diluted, was \$(0.29) and \$(0.09) for the three month periods ended February 29, 2012 and February 28, 2011, respectively. Net loss per share, basic and diluted, was \$(0.54) and \$(0.42) for the six month periods ended February 29, 2012 and February 28, 2011, respectively.

Loss per share from operations, basic and diluted, was \$(0.13) and \$(0.15) for the three month periods ended February 29, 2012 and February 28, 2011, respectively. Loss per share from operations, basic and diluted, was \$(0.29) and \$(0.30) for the six month periods ended February 29, 2012 and February 28, 2011, respectively.

*(q) Comprehensive Loss*

Components of comprehensive loss are reported in the Company's condensed consolidated statements of comprehensive loss in the period in which they are recognized. The components of comprehensive loss include net loss and foreign currency translation adjustments.

*(r) Stock Option Plan*

Effective September 1, 2006, the Company adopted the provisions of FASB ASC Topic 718, *Accounting for Compensation Arrangements*, (ASC 718) (previously listed as Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment*) in accounting for its stock option plans. Under ASC 718, compensation cost is measured at the grant date based on the fair value of the equity instruments awarded and is recognized over the period during which an employee is required to provide service in exchange for the award, or the requisite service period, which is usually the vesting period. The fair value of the equity award granted is estimated on the date of the grant. The Company accounts for stock options issued to third parties, including consultants, in accordance with the provisions of the FASB ASC Topic 505-50, *Equity-Based Payments to Non-Employees*, (ASC 505-50) (previously listed as Emerging Issues Task Force Consensus No. 96-18,

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*Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services).*  
See Note 7, Stock Option Plans, for further discussion of employee stock-based compensation.

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**RAPTOR PHARMACEUTICAL CORP.**

**(A Development Stage Company)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

*(s) Recent Accounting Pronouncements*

In December 2010, the FASB issued Accounting Standards Update ( ASU ) 2010-28, *Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* ( ASU 2010-28 ). ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts and requires the company to perform Step 2 if it is more likely than not that a goodwill impairment may exist. ASU 2010-28 is effective for fiscal years and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Company adopted these standards on September 1, 2011 and has determined that ASU 2010-28 had no material impact on its condensed consolidated financial statements for the three and six month periods ended February 29, 2012, because there was no requirement to perform Step 2 due to the Company's positive carrying amount.

In December 2010, the FASB issued ASU 2010-29, *Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations* ( ASU 2010-29 ). ASU 2010-29 is an update that addresses diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations if the entity presents comparative financial statements and expands the required disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This standard is effective prospectively for business combinations for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company adopted these standards on September 1, 2011, however since there were no business combinations during the three and six month periods ended February 29, 2012, ASU 2010-29 had no material impact on the Company's financial disclosure, however, the provision will impact the financial disclosures of any business combinations in the future.

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ( ASU 2011-04 ). ASU 2011-04 is intended to result in convergence between U.S. GAAP and International Financial Reporting Standards ( IFRS ) requirements for measurement of and disclosures about fair value. The amendments are not expected to have a significant impact on companies applying U.S. GAAP. Key provisions of the amendment include: a prohibition on grouping financial instruments for purposes of determining fair value, except when an entity manages market and credit risks on the basis of the entity's net exposure to the group; an extension of the prohibition against the use of a blockage factor to all fair value measurements (that prohibition currently applies only to financial instruments with quoted prices in active markets); and a requirement that for recurring Level 3 fair value measurements, entities disclose quantitative information about unobservable inputs, a description of the valuation process used and qualitative details about the sensitivity of the measurements. In addition, for items not carried at fair value but for which fair value is disclosed, entities will be required to disclose the level within the fair value hierarchy that applies to the fair value measurement disclosed. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Company will adopt these standards on March 1, 2012 and is currently assessing the impact on its condensed consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ( ASU 2011-05 ). ASU 2011-05 will require companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. It eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The standard does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified to net income. This standard is effective for interim and annual periods beginning after December 15, 2011. The Company early adopted these standards as of August 31, 2011. Because ASU 2011-05 impacts presentation only, it had no effect on the Company's condensed consolidated financial statements or on its financial condition for the three and six month periods ended February 29, 2012.

In September 2011, the FASB issued ASU 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment* ( ASU 2011-08 ), which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. Because the Company has only one reporting unit, which has a fair value higher than its carrying amount, adoption of ASU 2011-08 did not have a material impact on the Company's condensed consolidated financial statements for the three and six month periods ended February 29, 2012.



**Table of Contents****RAPTOR PHARMACEUTICAL CORP.****(A Development Stage Company)****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(3) INTANGIBLE ASSETS AND GOODWILL**

On December 14, 2007, the Company acquired the intellectual property and other rights to develop RP103/RP104 to treat various clinical indications from the University of California at San Diego ( UCSD ) by way of a merger with Encode Pharmaceuticals, Inc., a privately held development stage company ( Encode ), which held the intellectual property license with UCSD. The intangible assets acquired in the merger with Encode were recorded at approximately \$2.6 million, primarily based on the value of the Company's common stock and warrants issued to the Encode stockholders.

Intangible assets recorded as a result of the 2009 Merger were approximately \$1.1 million as discussed in Note 8 below.

Summary of intangibles acquired as discussed above:

	February 29, 2012	August 31, 2011
Intangible asset (IP license for RP103/RP104) related to the Encode merger	\$ 2,620,000	\$ 2,620,000
Intangible assets (out-license) related to the 2009 Merger	240,000	240,000
In-process research and development (IP license for tezampanel) related to the 2009 Merger	900,000	900,000
Total intangible assets	3,760,000	3,760,000
Less accumulated amortization	(582,083)	(509,083)
Intangible assets, net	\$ 3,177,917	\$ 3,250,917

The intangible assets related to RP103/RP104 are being amortized monthly over 20 years, which are the life of the intellectual property patents and the estimated useful life. The 20 year estimated useful life is also based upon the typical development, approval, marketing and life cycle management timelines of pharmaceutical drug products. The intangible assets related to the out-license will be amortized using the straight-line method over the estimated useful life of 16 years, which is the life of the intellectual property patents. The intangible assets related to tezampanel, which has been classified as in-process research and development, will not be amortized until the product is developed. During the three month periods ended February 29, 2012 and February 28, 2011, the Company amortized \$36,500 and \$38,375, respectively, of intangible assets to research and development expense. During the six month periods ended February 29, 2012 and February 28, 2011 and the cumulative period from September 8, 2005 (inception) to February 29, 2012, the Company amortized \$73,000, \$76,750 and \$623,958 (included \$41,875 related to NeuroTrans which was written off as of August 31, 2011), respectively, of intangible assets to research and development expense.

**Table of Contents****RAPTOR PHARMACEUTICAL CORP.****(A Development Stage Company)****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The following table summarizes the actual and estimated amortization expense for intangible assets for the periods indicated:

<b>Amortization period</b>	<b>Amortization expense</b>
Fiscal year ending August 31, 2012 estimate	146,000
Fiscal year ending August 31, 2013 estimate	146,000
Fiscal year ending August 31, 2014 estimate	146,000
Fiscal year ending August 31, 2015 estimate	146,000
Fiscal year ending August 31, 2016 estimate	146,000

Goodwill of \$3,275,403 represents the excess of total consideration recorded for the 2009 Merger over the value of the assets assumed. The Company tested the carrying value of goodwill for impairment as of its fiscal year ended August 31, 2011 and determined that there was no impairment. Intangibles are tested for impairment whenever events indicate that their carrying values may not be recoverable. During the year ended August 31, 2011 the NeuroTrans asset was written off with a carrying value of \$108,250 due to the termination of a collaboration agreement.

**(4) FIXED ASSETS**

Fixed assets consisted of:

<b>Category</b>	<b>February 29, 2012</b>	<b>August 31, 2011</b>	<b>Estimated useful lives</b>
Leasehold improvements	\$ 129,762	\$ 124,763	Shorter of life of asset or lease term
Office furniture	3,188	3,188	7 years
Laboratory equipment	423,472	285,346	5 years
Computer hardware and software	152,517	131,229	3 years
Capital lease equipment	13,730	13,730	Shorter of life of asset or lease term
Total at cost	722,669	558,256	
Less: accumulated depreciation	(499,223)	(481,259)	
Total fixed assets, net	\$ 223,446	\$ 76,997	

Depreciation expense for the three month periods ended February 29, 2012 and February 28, 2011 was \$9,295 and \$19,756, respectively. Depreciation expense for the six month periods ended February 29, 2012 and February 28, 2011 and the cumulative period from September 8, 2005 (inception) to February 29, 2012 was \$17,964, \$39,441 and \$518,737, respectively. Accumulated depreciation on capital lease equipment was \$2,112 and zero as of February 29, 2012 and August 31, 2011, respectively.

**Table of Contents****RAPTOR PHARMACEUTICAL CORP.****(A Development Stage Company)****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(5) FAIR VALUE MEASUREMENT**

The Company uses a fair-value approach to value certain assets and liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The Company uses a fair value hierarchy, which distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

Level one Quoted market prices in active markets for identical assets or liabilities;

Level two Inputs other than level one inputs that are either directly or indirectly observable; and

Level three Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter. Assets and liabilities measured at fair value on a recurring basis at February 29, 2012 and August 31, 2011 are summarized as follows:

Assets	Level 1	Level 2	Level 3	February 29, 2012
Fair value of cash equivalents	\$ 19,215,313	\$	\$	\$ 19,215,313
Restricted cash		163,461		163,461
Short-term investments	30,241,134			30,241,134
Total	\$ 49,456,447	\$ 163,461	\$	\$ 49,619,908
Liabilities				
Fair value of common stock warrants	\$	\$	\$ 26,568,922	\$ 26,568,922
Total	\$	\$	\$ 26,568,922	\$ 26,568,922
Assets	Level 1	Level 2	Level 3	August 31, 2011
Fair value of cash equivalents	\$ 13,855,813	\$	\$	\$ 13,855,813
Restricted cash		114,468		114,468
Total	\$ 13,855,813	\$ 114,468	\$	\$ 13,970,281



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### Liabilities

Fair value of common stock warrants	\$	\$	\$ 23,575,294	\$ 23,575,294
Total	\$	\$	\$ 23,575,294	\$ 23,575,294

Cash equivalents and short-term investments represent the fair value of the Company's investment in four money markets and two short-term bond funds, respectively, as of February 29, 2012 and two money market accounts as of August 31, 2011. As of February 29, 2012, the fair value of the Company's common stock warrant liability increased resulting primarily from an increase in the Company's common stock price compared to the stock price as of August 31, 2011.

**Table of Contents****RAPTOR PHARMACEUTICAL CORP.****(A Development Stage Company)****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***Marked-to-Market*

The common stock warrants issued in the Company's August 2010 private placement and the Company's December 2009 equity financing are classified as liabilities under ASC 480 and are, therefore, re-measured using the Black-Scholes option valuation model at the end of every reporting period with the change in value reported in the Company's condensed consolidated statements of comprehensive loss.

For the three and six months ended February 29, 2012 and for the cumulative period from September 8, 2005 (inception) to February 29, 2012, as a result of the marking-to-market of the warrant liability at quarter-end and the day prior to the exercise of warrants subject to warrant liability accounting, the Company recorded losses of \$7.8 million, \$12.0 million and \$34.2 million, respectively, in the line item adjustment to fair value of common stock warrants in its consolidated statements of comprehensive loss. See Note 9 for further discussion on the calculation of the fair value of the warrant liability. Below is the activity of the warrant liabilities (in millions):

	<b>Six month periods ended</b>	
	<b>February 29, 2012</b>	<b>February 28, 2011</b>
Fair value of December 2009 direct offering warrants (including placement agent warrants) at beginning of the fiscal years	\$ 5.9	\$ 5.8
December 2009 direct offering warrants exercised during the six month periods ended February 29, 2012 and February 28, 2011	(3.3)	2.3
Adjustment to mark to market common stock warrants for the six month periods ended February 29, 2012 and February 28, 2011	2.2	(1.0)
December 2009 direct offering common stock warrant liability at fair value at February 29, 2012 and February 28, 2011	4.8	7.1
Fair value of August 2010 private placement warrants (including broker warrants) at beginning of the fiscal years	17.7	9.9
August 2010 private placement warrants exercised during the six month periods ended February 29, 2012 and February 28, 2011	(3.8)	3.5
Adjustment to mark to market common stock warrants for the six month periods ended February 29, 2012 and February 28, 2011	7.9	(0.8)
August 2010 private placement common stock warrant liability at fair value at February 29, 2012 and February 28, 2011	21.8	12.6
Total warrant liability at February 29, 2012 and February 28, 2011	\$ 26.6	\$ 19.7

**(6) ACCRUED LIABILITIES**

Accrued liabilities consisted of:

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	\$1,658,386 February 29, 2012	\$1,658,386 August 31, 2011
Clinical trial costs	\$ 1,320,554	\$ 1,177,859
Accrued vacation and employee benefits	293,586	142,678
Accrued bonuses	239,310	478,619
Salaries and wages	175,101	125,069
Legal fees	148,763	164,761
Consulting general and administrative	79,534	18,085
Patent costs	34,197	2,969
Clinical trial materials		125,256
Other	84,787	13,958
 Total accrued liabilities	 \$ 2,375,832	 \$ 2,249,254

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**Table of Contents****RAPTOR PHARMACEUTICAL CORP.****(A Development Stage Company)****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(7) STOCK OPTION PLANS**

Effective September 1, 2006, the Company began recording compensation expense associated with stock options and other forms of equity compensation in accordance with ASC 718. Prior to September 1, 2006, the Company accounted for stock options according to the provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations, and therefore no related compensation expense was recorded for awards granted with no intrinsic value. The Company adopted the modified prospective transition method provided for under ASC 718, and consequently has not retroactively adjusted results from prior periods. Under this transition method, compensation cost associated with stock options now includes: (i) quarterly amortization related to the remaining unvested portion of all stock option awards granted prior to September 1, 2006, based on the grant date value estimated in accordance with the original provisions of ASC 718; and (ii) quarterly amortization related to all stock option awards granted subsequent to September 1, 2006, based on the grant date fair value estimated in accordance with the provisions of ASC 718. In addition, the Company records consulting expense over the vesting period of stock options granted to consultants. The compensation expense for stock-based compensation awards includes an estimate for forfeitures and is recognized over the requisite service period of the options, which is typically the period over which the options vest, using the straight-line method. Employee stock-based compensation expense for the three month periods ended February 29, 2012 and February 28, 2011 was \$1,104,301 and \$305,888, respectively. Employee stock-based compensation expense for the six month periods ended February 29, 2012, February 28, 2011 and for the cumulative period from September 8, 2005 (inception) to February 29, 2012 was \$2,021,039, \$1,179,562 and \$5,372,401, respectively, of which cumulatively \$4,311,183 was included in general and administrative expense and \$1,061,218 was included in research and development expense. No employee stock compensation costs were recognized for the period from September 8, 2005 (inception) to August 31, 2006, which was prior to the Company's adoption of ASC 718.

Stock-based compensation expense was based on the Black-Scholes option-pricing model assuming the following:

<b>Period*</b>	<b>170 to 240 Risk-free interest rate</b>	<b>170 to 240 Expected life of stock option</b>	<b>170 to 240 Annual volatility</b>
September 8, 2005 (inception) to August 31, 2006**	5%	10 years	100%
Year ended August 31, 2007	4 to 5%	8 years	100%
Year ended August 31, 2008	2 to 3.75%	8 years	109 to 128%
Year ended August 31, 2009	1.5 to 3.2%	7 years	170 to 240%
Year ended August 31, 2010	2.1 to 3.1%	6 to 7 years	55 to 245%
Year ended August 31, 2011	1.6 to 2.4%	6 years	88 to 116%
Three months ended November 30, 2011	1.2%	6 years	121%
Three months ended February 29, 2012	1.12%	5 years	122%

\* Dividend rate is 0% for all periods presented.

\*\* Stock-based compensation expense was recorded on the condensed consolidated statements of operations and statements of comprehensive loss commencing on the effective date of ASC 718, September 1, 2006. Prior to September 1, 2006, stock based compensation was reflected only in the footnotes to the condensed consolidated statements of operations, with no effect on the condensed consolidated statements of operations, per the guidelines of APB Opinion No. 25. Consultant stock-based compensation expense has been recorded on the condensed consolidated statements of operations and statements of comprehensive loss since inception.

**Table of Contents****RAPTOR PHARMACEUTICAL CORP.****(A Development Stage Company)****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

If factors change and different assumptions are employed in the application of ASC 718, the compensation expense recorded in future periods may differ significantly from what was recorded in the current period.

The Company recognizes as an expense the fair value of options granted to persons who are neither employees nor directors. The fair value of expensed options was based on the Black-Scholes option-pricing model assuming the same factors shown in the stock-based compensation expense table above. Stock-based compensation expense for consultants for the three and six month periods ended February 29, 2012 and February 28, 2011 and for the cumulative period from September 8, 2005 (inception) to February 29, 2012 was zero, zero, \$32,737, \$37,010 and \$683,322, respectively, of which cumulatively \$147,295 was included in general and administrative expense and \$536,027 was included in research and development expense.

A summary of the activity in the 2010 Equity Incentive Plan, the 2006 Equity Compensation Plan, as amended and the Company's other stock option plans, is as follows:

	Option shares	Weighted-average exercise price	Exercisable	Weighted-average fair value of options granted
Outstanding at September 8, 2005		\$		\$
Granted	580,108	\$ 2.64		\$ 2.47
Exercised		\$		\$
Canceled		\$		\$
Outstanding at August 31, 2006	580,108	\$ 2.64	4,010	\$ 2.47
Granted	107,452	\$ 2.56		\$ 2.31
Exercised	(3,381)	\$ 2.57		\$ 2.40
Canceled				\$
Outstanding at August 31, 2007	684,179	\$ 2.63	273,236	\$ 2.45
Granted	223,439	\$ 2.27		\$ 2.21
Exercised		\$		\$
Canceled		\$		\$
Outstanding at August 31, 2008	907,618	\$ 2.54	600,837	\$ 2.39
Granted	81,595	\$ 1.13		\$ 1.04
Exercised		\$		\$
Canceled		\$		\$
Outstanding at August 31, 2009	989,213	\$ 2.42	826,303	\$ 2.40
Granted	302,772	\$ 2.29	160,605	\$ 1.24
Assumed in the 2009 Merger	161,044	\$ 114.12	158,475	\$ 2.63
Exercised	(37,881)	\$ 1.69		\$ 1.49
Canceled	(23,860)	\$ 142.42		\$ 2.00
Outstanding at August 31, 2010	1,391,288	\$ 14.25	1,089,248	\$ 1.87
Granted	2,231,790	\$ 3.39	834,624	\$ 2.54
Exercised	(39,302)	\$ 2.44		\$ 2.02

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Canceled	(3,221)	\$ 1,088.33		\$
Outstanding at August 31, 2011	3,580,555	\$ 6.64	1,881,349	\$ 2.30
Granted	2,119,905	\$ 5.13		\$ 4.45
Exercised	(17,485)	\$ 2.27		\$ 1.97
Canceled	(477)	\$ 15.81		\$ 0.05
Outstanding at November 30, 2011	5,682,498	\$ 6.09	2,051,680	\$ 3.14
Granted	190,000	\$ 6.87		\$ 5.73
Exercised	(26,128)	\$ 2.55		\$ 1.96
Canceled	(4,522)	\$ 429.54		\$
Outstanding at February 29, 2012	5,841,848	\$ 5.80	2,222,773	\$ 3.25

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**Table of Contents****RAPTOR PHARMACEUTICAL CORP.****(A Development Stage Company)****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The weighted average intrinsic values of stock options outstanding and expected to vest and stock options exercisable as of February 29, 2012 and February 28, 2011 were approximately \$20.4 million, \$9.6 million, \$1.6 million and \$1.0 million, respectively (representing 5.8 million, 2.2 million, 3.3 million and 1.5 million shares, respectively).

There were 1,563,508 options available for grant as of February 29, 2012 under the 2010 Equity Incentive Plan, as amended (the Plan), which was approved by the Company's Board of Directors as of February 2, 2010 and approved by its stockholders on March 9, 2010. On April 7, 2011, the Company's stockholders passed amendments to the Plan which allow for an increase of the grant pool based upon 5% of the Company's common stock outstanding as of April 7, 2011, August 31, 2011 and August 31, 2012 up to an aggregate maximum increase of 6,000,000 shares. The April 7 and August 31, 2011, replenishments added 1,629,516 and 1,778,459 shares, respectively, available for grant under the Plan. The amendments also allow for 50% accelerated vesting of unvested stock options upon a change of control as defined in the Plan. In September 2011, the Company's Board of Directors approved an amended and restated form of award agreement under the Plan, which will be used for awards granted on or after September 22, 2011. The amended and restated award agreement, subject to the terms of any applicable employment agreement, extends the termination date of the awards granted under the Plan that are vested as of such termination date due to (a) an employee's or a non-employee director's retirement at age 62 or older which employee or non-employee director has at least five (5) years of continuous service with us prior to such retirement, (b) the termination of a non-employee director's board membership for reasons other than for cause or retirement and (c) an employee's or a non-employee director's death (during his or her continuous service with us or within 90 days of such continuous service with us) or permanent disability, to eighteen (18) months from the date of termination of continuous service with the Company. No further grants will be made under any previous or assumed stock option plans. As of February 29, 2012, the options outstanding under all of the Company's stock option plans consisted of the following:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of options outstanding and expected to vest (#)	Weighted-average remaining contractual life (yrs.)	Weighted-average exercise price (\$)	Number of options exercisable (#)	Weighted-average exercise price (\$)
	1,537,404	1,537,404	1,537,404	1,537,404	1,537,404
\$0 to \$1.00	34,969	7.13	0.85	24,769	0.85
\$1.01 to \$2.00	84,427	7.26	1.74	68,752	1.74
\$2.01 to \$3.00	1,514,129	6.52	2.65	1,077,807	2.65
\$3.01 to \$4.00	1,766,957	8.77	3.50	880,193	3.50
\$4.01 to \$5.00	87,674	7.46	4.70	86,215	4.70
\$5.01 to \$6.00	2,119,905	9.57	5.13	41,250	5.13
\$6.01 to \$7.00	120,000	8.03	6.36	0	4.71
\$7.01 to \$8.00	70,000	9.88	7.75	0	7.75
\$8.01 to \$964.24	43,787	3.54	249.94	43,787	249.94
	5,841,848	8.41	5.80	2,222,773	7.92

At February 29, 2012, the total unrecognized compensation cost was approximately \$11.8 million. The weighted-average period over which it is expected to be recognized is 3.25 years.

**(8) ISSUANCE OF COMMON STOCK**

As of February 29, 2012, there were 48,854,168 shares of the Company's common stock outstanding.

**ISSUANCE OF COMMON STOCK PURSUANT TO COMMON STOCK WARRANT EXERCISES AND STOCK OPTION EXERCISES**

During the three and six month periods ended February 29, 2012, the Company received approximately \$2.8 million and \$4.8 million from the exercise of warrants in exchange for the issuance of 1.1 million and 1.7 million shares of the Company's common stock respectively. During the cumulative period from September 8, 2005 (inception) through February 29, 2012, the Company received approximately \$20.7 million from the exercise of warrants in exchange for the issuance of an aggregate of 8.8 million shares.

During the three and six month periods ended February 29, 2012, the Company received \$0.07 million and \$0.1 million from the exercise of stock options in exchange for the issuance of 26,128 and 43,613 shares of the Company's common stock, respectively. For the cumulative period from September 8, 2005 (inception) through February 29, 2012, the Company received approximately \$0.3 million from the exercise of stock options resulting in the issuance of 124,176 shares of common stock.



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**RAPTOR PHARMACEUTICAL CORP.**

**(A Development Stage Company)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**ISSUANCE OF COMMON STOCK PURSUANT TO AN ASSET PURCHASE AGREEMENT WITH CONVIVIA, INC.**

On October 18, 2007, the Company purchased certain assets of Convivia, including intellectual property, know-how and research reports related to a product candidate targeting liver ALDH2 deficiency, a genetic metabolic disorder. The Company hired Convivia's chief executive officer and founder, Thomas E. (Ted) Daley, as President of clinical development. In exchange for the assets related to the ALDH2 deficiency program, the Company issued to Convivia 46,625 shares of its restricted, unregistered common stock, an additional 46,625 shares of its restricted, unregistered common stock to a third party in settlement of a convertible loan between the third party and Convivia, and another 8,742 shares of restricted, unregistered common stock in settlement of other obligations of Convivia. Mr. Daley, as the former sole stockholder of Convivia (now dissolved), may earn additional shares of the Company based on certain triggering events or milestones related to the development of Convivia assets. In addition, Mr. Daley may earn cash bonuses based on the same triggering events pursuant to his employment agreement. In January 2008, Mr. Daley earned a \$30,000 cash bonus pursuant to his employment agreement for executing the Patheon formulation agreement for manufacturing Convivia. In March 2008, Mr. Daley earned a \$10,000 cash bonus pursuant to his employment agreement and was issued 23,312 shares of common stock valued at \$56,000 based on the execution of an agreement to supply the Company with the active pharmaceutical ingredient for Convivia pursuant to the asset purchase agreement.

In October 2008, Mr. Daley was issued 23,312 shares of restricted common stock valued at \$27,000 and earned a \$30,000 cash bonus (pursuant to Mr. Daley's employment agreement) pursuant to the fulfillment of a clinical milestone. In July 2010, the Company issued 11,656 shares of its restricted common stock valued at \$35,551 and paid a \$10,000 cash bonus to Mr. Daley as a result of the execution of the license agreement with Uni Pharma for the development of Convivia in Taiwan. As discussed above, in aggregate, the Company has issued to Mr. Daley, 58,280 shares of Raptor's common stock valued at \$118,551 and paid \$70,000 in cash bonuses related to Convivia milestones along with another \$20,000 in cash bonuses related to employment milestones pursuant to Mr. Daley's employment agreement. Pursuant to ASC 730, the accounting guidelines for expensing research and development costs, the Company has expensed the value of the stock issued in connection with this asset purchase (except for milestone bonuses, which are expensed as compensation expense) as in-process research and development expense under research and development expenses in the amount of \$240,625 on its consolidated statement of operations for the year ended August 31, 2008.

**MERGER OF RAPTOR THERAPEUTICS INC. AND ENCODE PHARMACEUTICALS, INC.**

On December 14, 2007, the Company entered into a Merger Agreement (the "Encode Merger Agreement"), dated as of the same date, by and between the Company, its subsidiary, Raptor Therapeutics Inc. and Encode. Pursuant to the Encode Merger Agreement, a certificate of merger was filed with the Secretary of State of the State of Delaware and Encode was merged with and into Raptor Therapeutics Inc. The existence of Encode ceased as of the date of the Encode Merger Agreement. Pursuant to the Encode Merger Agreement and the certificate of merger, Raptor Therapeutics Inc., as the surviving corporation, continued as a wholly-owned subsidiary of the Company. Under the terms of and subject to the conditions set forth in the Encode Merger Agreement, the Company issued 802,946 shares of restricted, unregistered shares of the Company's common stock, par value \$.001 per share (the "Common Stock") to the stockholders of Encode (the "Encode Stockholders"), options ("Company Options") to purchase 83,325 shares of Common Stock to the optionholders of Encode (the "Encode Optionholders"), and warrants ("Company Warrants") to purchase 256,034 restricted, unregistered shares of Common Stock to the warrantholders of Encode (the "Encode Warrantholders"), and together with the Encode Stockholders and Encode Optionholders, the "Encode Securityholders"), as of the date of the Encode Merger Agreement. Such Common Stock, Company Options to purchase Common Stock, and Company Warrants to purchase Common Stock combine for an aggregate amount of 1,142,305 shares of Common Stock issuable to the Encode Securityholders as of the closing of the merger with Encode. The purchase price was valued at \$2.6 million, which is reflected as intangible assets on the Company's consolidated balance sheet as of August 31, 2008, primarily based on the value of the Company's common stock and warrants issued to Encode stockholders. The Encode Securityholders are eligible to receive up to an additional 559,496 shares of Common Stock, Company Options and Company Warrants to purchase Common Stock in the aggregate based on certain triggering events related to regulatory approval of RP103/RP104, an Encode product program described below, if completed within the five year anniversary date of the Encode Merger Agreement. The Company recorded this transaction as an asset purchase rather than a business combination, as Encode had not commenced planned principal operations at the time of the merger, such as generating revenues from its drug product candidate.



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As a result of the merger with Encode, the Company received the exclusive worldwide license to RP103/RP104 (the License Agreement), developed by clinical scientists at the UCSD, School of Medicine. RP103/RP104 is a proprietary enterically coated formulation of cysteamine bitartrate, a cystine depleting agent currently approved by the U.S. Food and Drug Administration (FDA). Cysteamine bitartrate is prescribed for the management of the genetic disorder known as nephropathic cystinosis (cystinosis), a lysosomal storage disease. The active ingredient in RP103/RP104 has also demonstrated potential in studies as a treatment for other metabolic and neurodegenerative diseases, such as Huntington's Disease and NASH.

In consideration of the grant of the license, the Company will be obligated to pay an annual maintenance fee until it begins commercial sales of any products developed pursuant to the License Agreement. In addition to the maintenance fee, the Company will be obligated to pay during the life of the License Agreement: milestone payments ranging from \$20,000 to \$750,000 for orphan indications and from \$80,000 to \$1,500,000 for non-orphan indications upon the occurrence of certain events, if ever; royalties on commercial net sales from products developed pursuant to the License Agreement ranging from 1.75% to 5.5%; a percentage of sublicense fees ranging from 25% to 50%; a percentage of sublicense royalties; and a minimum annual royalty commencing the year the Company begins commercially selling any products pursuant to the License Agreement, if ever. Under the License Agreement, the Company is obligated to fulfill predetermined milestones within a specified number of years ranging from 0.75 to 6 years from the effective date of the License Agreement, depending on the indication. To the extent that the Company fails to perform any of the obligations, UCSD may terminate the license or otherwise cause the license to become non-exclusive. Cumulatively, Raptor has expensed \$680,000 in milestone payments to UCSD based upon the initiation of clinical trials in cystinosis, Huntington's Disease and NASH.

**ISSUANCES OF COMMON STOCK AND WARRANTS IN CONNECTION WITH THE SALE OF UNITS IN A PRIVATE PLACEMENT**

During the period from May 21, 2008 through June 27, 2008, Raptor entered into a Securities Purchase Agreement, as amended (the 2008 Private Placement Purchase Agreement), with 11 investors for the private placement of units of the Company, each unit comprised of one share of Raptor's Common Stock and one warrant to purchase one half of one share of Raptor's Common Stock, at a purchase price of \$2.14 per unit. Pursuant to the 2008 Private Placement Purchase Agreement, the Company sold an aggregate of 4,662,468 shares of Common Stock for aggregate gross proceeds of \$10.0 million and issued to the investors warrants, exercisable for two years from the initial closing, which entitle the investors to purchase up to an aggregate of 2,331,234 shares of Common Stock of the Company and have an exercise price of either \$3.22 or \$3.86 per share, depending on when such warrants are exercised, if at all, and were valued at approximately \$3.0 million (using the following Black-Scholes pricing model assumptions: risk-free interest rate 2%; expected term 2 years and annual volatility 121.45%).

In connection with the May / June 2008 private placement, the Company issued warrants and a cash fee to placement agents to compensate them for placing investors into the financing. Placement agents were issued warrants exercisable for 7% of Common Stock issued and issuable under the warrants issued to investors as part of the financing units and a cash fee based upon the proceeds of the sale of the units of the private placement. In connection with the sale of units, the Company issued placement agent warrants to purchase 489,559 shares of Raptor's Common Stock at an exercise price of \$2.36 per share for a five year term (valued at approximately \$960,000 using the following Black-Scholes pricing model assumptions: risk-free interest rate 2%; expected term 5 years and annual volatility 121.45%) and cash fees to placement agents totaling \$700,000. Of the placement agents compensated, Limetree Capital was issued warrants to purchase 438,890 shares of Raptor's Common Stock and cash commission of \$627,550. One of the Company's Board members served on the board of Limetree Capital.

On April 29, 2009, in order to reflect current market prices, Raptor notified the holders of warrants purchased in the May/June 2008 private placement that the Company was offering, in exchange for such warrants, new warrants to purchase its common stock at an exercise price of \$1.29 per share, but only to the extent such exchange of the original warrants and exercise of the new warrants, including the delivery of the exercise price, occurred on or prior to July 17, 2009. The new warrants were valued at approximately \$2.3 million based on the following Black-Scholes pricing model assumptions: risk-free interest rate 0.55%; expected term 1 year and annual volatility 231.97%. The warrants that were not exchanged prior to or on July 17, 2009 retained their original exercise prices of \$3.86 per share and original expiration date of May 21, 2010. The Company received \$2,614,500 of proceeds from warrant exercises that resulted in the issuance of 2,031,670 shares of Raptor's common stock pursuant to the exchange described above.



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On August 21, 2009, Raptor entered into a securities purchase agreement with four investors for the private placement of units of the Company at a purchase price of \$1.37 per unit, each unit comprised of one share of Raptor's common stock, par value \$0.001 per share and one warrant to purchase one half of one share of Raptor's common stock. Pursuant to the securities purchase agreement, the Company sold an aggregate of 1,738,226 units to the investors for aggregate gross proceeds of \$2,386,000. The 1,738,226 units are comprised of an aggregate of 1,738,226 shares of common stock and warrants to purchase up to 869,113 shares of Raptor's common stock valued at \$1.0 million (using the following Black-Scholes pricing model assumptions: risk-free interest rate 1.11%; expected term 2 years and annual volatility 240.29%). The warrants, exercisable for two years from the closing, entitle the investors to purchase, in the aggregate, up to 869,113 shares of Raptor's common stock and have an exercise price of either \$2.57 until the first anniversary of issuance or \$3.22 per share after the first anniversary of issuance.

In connection with the August 2009 private placement, the Company issued warrants and a cash fee to Limetree Capital as its sole placement agent to compensate it for placing investors into the financing. Limetree Capital was issued warrants exercisable for 7% of common stock issued and issuable under the warrants issued to investors as part of the financing units and a 3.5% cash fee based upon the proceeds of the sale of the units of the August 2009 private placement. Limetree Capital was issued a five-year warrant to purchase 129,733 shares of Raptor's Common Stock at an exercise price of \$1.50 per share (valued at approximately \$171,000 using the following Black-Scholes pricing model assumptions: risk-free interest rate 2.58%; expected term 5 years and annual volatility 240.29%) and cash commission of \$59,360.

**2009 MERGER AND NASDAQ LISTING**

On September 29, 2009, the Company, formerly known as TorreyPines Therapeutics, Inc. ( TorreyPines ) and RPC completed a reverse merger. The Company changed its name to Raptor Pharmaceutical Corp. and commenced trading on September 30, 2009 on the NASDAQ Capital Market under the ticker symbol RPTP.

In connection with the exchange of shares in the merger, immediately after the effective time of such merger, RPC and the Company's stockholders owned 95% and 5% of the outstanding shares of the combined company, respectively. RPC stockholders received (as of immediately prior to such merger) 17,881,300 shares of the combined company's common stock in exchange for the 76,703,147 shares of RPC's common stock outstanding immediately prior to the closing of the merger. On September 29, 2009, immediately prior to the effective time of such merger, the Company's Board of Directors, with the consent of RPC's Board of Directors, acted to effect a reverse stock split of the issued and outstanding shares of the Company's common stock such that every 17 shares of the Company's common stock outstanding immediately prior to the effective time of the merger would represent one share of the Company's common stock. Due to the reverse stock split implemented by the Company, the 15,999,058 shares of the Company's common stock outstanding immediately prior to the closing of the merger became 940,863 shares of the combined company's common stock.

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In connection with the merger and subject to the same conversion factor as the RPC common stock (.2331234), the combined company assumed all of RPC's stock options and warrants outstanding at the time of the merger. The combined company also retained the Company's stock options and warrants outstanding at the merger, subject to the same adjustment factor as described above to give effect to the 1 for 17 reverse split.

The combined company is headquartered in Novato, California and is managed by Christopher M. Starr, Ph.D., as Chief Executive Officer and director, Todd C. Zankel, Ph.D., as Chief Scientific Officer, Kim R. Tsuchimoto as Chief Financial Officer, Ted Daley, as President of clinical development and Patrice P. Rioux, M.D., Ph.D., as Chief Medical Officer of clinical development.

There were a number of factors on which RPC's Board of Directors relied in approving the 2009 Merger. The primary reason for RPC's Board of Directors' decision to merge with TorreyPines was the benefit anticipated from the additional liquidity expected from having a NASDAQ trading market on which the combined company's common stock could be listed, in addition to having access to an expanded pipeline of product candidates across a wider spectrum of diseases and markets.

The liquidity benefit is the primary factor behind the goodwill recognized in the transaction (see below). The goodwill is expected to be fully deductible for tax purposes. Below is a breakdown of the assets acquired and liabilities assumed in the merger described herein (in millions, except for %):

	(millions) Value (millions)	(millions) %
Asset Allocation		
Cash and equivalents	\$ 0.58	13
Other current assets	0.10	2
Accrued liabilities	(0.68)	(15)
Intangible assets:		
In-process research & development	0.90	20
Licenses	0.24	6
<b>Total identifiable assets</b>	<b>1.14</b>	<b>26</b>
Plus goodwill	3.28	74
<b>Total net assets acquired</b>	<b>\$ 4.42</b>	<b>100</b>

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**ISSUANCES OF COMMON STOCK AND WARRANTS IN CONNECTION WITH THE SALE OF UNITS IN A REGISTERED DIRECT OFFERING**

On December 17, 2009, the Company entered into a Placement Agent Agreement with Ladenburg Thalmann & Co. Inc. as placement agent (the 2009 Placement Agent ), relating to the issuance and sale to the Direct Offering Investors (as defined below) pursuant to a registered direct offering (the Direct Offering ) of up to 3,747,558 units (the Units ), consisting of (i) 3,747,558 shares of the Company's common stock, (ii) warrants to purchase an aggregate of up to 1,873,779 shares of the Company's common stock (and the shares of common stock issuable from time to time upon exercise of such warrants) (the Series A Warrants ), and (iii) warrants to purchase an aggregate of up to 1,873,779 shares of the Company's common stock (and the shares of common stock issuable from time to time upon exercise of such warrants) (the Series B Warrants, and collectively with the Series A Warrants, the Investor Warrants ).

The 2009 Placement Agent received a placement fee equal to 6.5% of the gross cash proceeds to the Company from the Direct Offering of the Units or \$487,183 (excluding any consideration that may be paid in the future upon exercise of the Warrants), a warrant to purchase up to an aggregate of 74,951 shares of the Company's common stock at \$2.50 per share (valued at approximately \$52,000 using the following Black-Scholes pricing model assumptions: risk-free interest rate 2.23%; expected term 5 years and annual volatility 49.28%) and \$25,000 in out-of-pocket accountable expenses. The warrant issued to Ladenburg has the same terms and conditions as the Investor Warrants except that the exercise price is 125% of the public offering price per share or \$2.50 per share, and the expiration date is five years from the effective date of the Registration Statement.

In connection with the Direct Offering, following execution of the Placement Agent Agreement, the Company also entered into a definitive securities purchase agreement (the Direct Offering Purchase Agreement ), dated as of December 17, 2009, with 33 investors set forth on the signature pages thereto (collectively, the Direct Offering Investors ) with respect to the Direct Offering of the Units, whereby, on an aggregate basis, the Direct Offering Investors agreed to purchase 3,747,558 Units for a negotiated purchase price of \$2.00 per Unit, amounting to gross proceeds of approximately \$7.5 million and net proceeds after commissions and expenses of approximately \$6.2 million. Each Unit consists of one share of the Company's common stock, one Series A Warrant exercisable for 0.5 of a share of the Company's common stock and one Series B Warrant exercisable for 0.5 of a share of the Company's common stock. The shares of the Company's common stock and the Warrants were issued separately. The Series A Warrants were exercisable during the period beginning one hundred eighty (180) days after the date of issue and ending on the fifth (5th) anniversary of the date of issue. The Series B Warrants were exercisable during the period beginning one hundred eighty (180) days after the date of issue and ending on the eighteen (18) month anniversary of the date of issue. The Investor Warrants have a per share exercise price of \$2.45. At closing of the financing, the Series A Warrants were valued at \$1.3 million (using the following Black-Scholes pricing model assumptions: risk-free interest rate 2.23%; expected term 5 years and annual volatility 49.28%) and the Series B Warrants were valued at \$0.5 million (using the following Black-Scholes pricing model assumptions: risk-free interest rate 0.56%; expected term 18 months and annual volatility 49.28%). Based on the underlying terms of the Investor Warrants and Placement Agent Warrants, the Investor Warrants and the Placement Agent Warrants are classified as a liability, as discussed further below in Note 9.

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**RAPTOR PHARMACEUTICAL CORP.**

**(A Development Stage Company)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**ISSUANCES OF COMMON STOCK IN CONNECTION WITH AN EQUITY LINE**

On April 16, 2010, the Company signed a purchase agreement with Lincoln Park Capital Fund, LLC ( LPC ), together with a registration rights agreement, whereby LPC agreed to purchase up to \$15.0 million of the Company's common stock over a 25 month period. Under the registration rights agreement, the Company agreed to file a registration statement related to the transaction with the U.S. Securities and Exchange Commission ( SEC ) covering the shares that have been issued or may be issued to LPC under the purchase agreement. Such registration statement was declared effective by the SEC on May 7, 2010. Post-effective amendments to such registration statement were filed on November 23, 2010 and December 1, 2010, which amended registration statement was declared effective by the SEC on December 1, 2010. Post-effective amendments to such amended registration statement were filed on October 11, 2011 and October 14, 2011 on Form S-3, which amended registration statement was declared effective by the SEC on October 21, 2011. After May 7, 2010, the Company had the right over a 25-month period to sell its shares of common stock to LPC in amounts of \$100,000 to up to \$1 million per sale, depending on certain conditions as set forth in the purchase agreement, up to the aggregate amount of \$15.0 million. The purchase agreement may be terminated by the Company at any time at its discretion without any cost to the Company.

The purchase price of the shares issued to LPC under the purchase agreement is based on the prevailing market prices of the Company's shares at the time of sale without any fixed discount. The Company controlled the timing and amount of any sales of shares to LPC. LPC did not have the right or the obligation to purchase any shares of the Company's common stock on any business day that the purchase price of the Company's common stock is below \$1.50 per share.

In consideration for entering into the purchase agreement (the LPC Purchase Agreement ), the Company issued to LPC 145,033 shares of common stock valued at \$246,556 (recorded as deferred offering costs on the Company's balance sheet and amortized over the usage of the equity line) as a commitment fee and is required to issue up to an additional 217,549 shares of its common stock pro rata as LPC purchases the \$15.0 million of the Company's common stock over the 25-month period. Since inception, the Company sold 4,186,038 shares to LPC at a weighted average price of \$2.78 and paid commitment fees to LPC in the form of 168,929 shares (in addition to the 145,033 shares issued as the initial commitment fee), valued at \$581,081. The Company issued an aggregate of 4,500,000 shares (including shares issued to LPC as commitment fees) to LPC pursuant to the LPC Purchase Agreement and does not plan to issue or register additional shares under such agreement.

**2010 PRIVATE PLACEMENT**

On August 9, 2010, the Company entered into a securities purchase agreement with 23 investors set forth on the signature pages thereto (the U.S. Investors ) and a separate securities purchase agreement with a certain Canadian investor (the Canadian Investor ) and together with the U.S. Investors, the 2010 Private Placement Investors ) set forth on the signature pages thereto (collectively, the 2010 Private Placement Purchase Agreements ), for the private placement (the 2010 Private Placement ) of the Company's common stock and warrants to purchase its common stock, at a purchase price of \$3.075 per unit, with each unit comprised of one share of common stock and a warrant to purchase one share of common stock. JMP Securities LLC (the 2010 Placement Agent ) served as the Company's placement agent in the 2010 Private Placement.

The closing of this private placement occurred on August 12, 2010. The Company issued and sold an aggregate of 4,897,614 units, comprised of 4,897,614 shares of common stock and warrants to purchase up to 4,897,614 shares of its common stock for gross proceeds of approximately \$15.1 million. Each warrant, exercisable for 5 years from August 12, 2010, has an exercise price of \$3.075 per share. At closing of the 2010 Private Placement, the warrants issued to investors were valued at approximately \$7.8 million (using the following Black-Scholes pricing model assumptions: risk-free interest rate 1.74%; expected term 5 years and annual volatility 85.14%). As the placement agent for the 2010 Private Placement, the 2010 Placement Agent was issued one warrant to purchase 97,952 shares of the Company's common stock (valued at approximately \$0.2 million, based upon the same Black-Scholes inputs as the investor warrants), paid a cash commission of \$978,911 and reimbursed for certain of its expenses incurred in connection with the 2010 Private Placement.





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In connection with the 2010 Private Placement, on August 12, 2010, the Company entered into a registration rights agreement with the 2010 Private Placement Investors, pursuant to which the Company filed with the SEC a registration statement related to the 2010 Private Placement covering the resale of the common stock issued to the 2010 Private Placement Investors under the 2010 Private Placement Purchase Agreements and the shares of common stock that will be issued to the 2010 Private Placement Investors upon exercise of the warrants, including the warrant issued to the 2010 Placement Agent. Such registration statement was declared effective on August 31, 2010. Post-effective amendments to such registration statement were filed on November 23, 2010 and December 1, 2010, which amended registration statement was declared effective by the SEC on December 1, 2010. A post-effective amendment to such amended registration statement was filed on October 11, 2011 on Form S-3, which amended registration statement was declared effective by the SEC on October 21, 2011.

**2011 FOLLOW-ON PUBLIC OFFERING**

On September 13, 2011, the Company closed an underwritten public offering of shares of the Company's common stock at a price to the public of \$4.00 per share. The shares sold in the offering included 10.0 million shares of common stock plus an additional 1.5 million shares of common stock pursuant to the exercise by the underwriters of the over-allotment option the Company granted to them. Total gross proceeds to the Company in the offering (including in connection with the sale of the shares of common stock pursuant to the exercise of the over-allotment option) totaled \$46.0 million, before underwriting discounts and commissions. The offering resulted in net proceeds to the Company of approximately \$42.8 million after deduction of underwriting discounts of 6% and other offering expenses paid by the Company.

The following is a summary of common stock outstanding as of February 29, 2012:

<b>Transaction</b>	<b>Date of Issuance</b>	<b>Common Stock Issued</b>
Founders' shares	Sep. 2005	1,398,742
Seed round	Feb. 2006	466,247
PIPE concurrent with reverse merger	May 2006	1,942,695
Shares issued in connection with reverse merger	May 2006	3,100,541
Warrant exercises	Jan. 2007 - Feb. 2012	6,791,485
Stock option exercises	Mar. 2007 - Feb. 2012	124,176
Loan finder's fee	Sep. 2007	46,625
Convivia asset purchase	Oct. 2007 - Jun. 2010	160,272
Encode merger RP103/RP104 asset purchase	Dec. 2007	802,946
Shares issued pursuant to consulting agreement	May 2008	2,040
2008 private placement	May/June 2008	4,662,468
Warrant exercises from warrant exchange	June/July 2009	2,031,670
2009 private placement	Aug. 2009	1,738,226
Shares issued in connection with reverse merger	Sep. 2009	940,863
2009 registered direct financing	Dec. 2009	3,747,558
Shares issued to equity line investor (incl. fee shares)	Apr. 2010 - Feb. 2011	4,500,000
2010 private placement	Aug. 2010	4,897,614
2011 follow-on public offering	Sep. 2011	11,500,000
<b>Total shares of common stock outstanding</b>		<b>48,854,168</b>

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The table reflects the number of common stock warrants outstanding as of February 29, 2012:

	Number of shares exercisable	Exercise price	Expiration date
Issued in connection with Encode merger	233,309	\$ 2.87	12/13/2015
Issued to placement agents in May / June 2008	432,649	\$ 2.36	5/21/2013
Issued to placement agents in August 2009	65,000	\$ 1.50	8/21/2014
TorreyPines warrants assumed in 2009 Merger	8,140	\$ 80.86*	6/11/2013-9/26/2015
Issued to registered direct investors in Dec. 2009	818,750	\$ 2.45	12/23/2014
Issued to private placement investors in Aug. 2010	3,621,683	\$ 3.075	8/11/2015
Issued to placement agent in Aug. 2010	97,952	\$ 3.075	8/11/2015
 Total warrants outstanding	 5,277,483	 \$ 3.01*	

\* Weighted average exercise price

The warrants issued by the Company in the August 2010 private placement and the December 2009 equity financing contain a conditional obligation that may require the Company to transfer assets to repurchase the warrants upon the occurrence of potential future events. Under ASC 480, a financial instrument that may require the issuer to settle the obligation by transferring assets is classified as a liability. Therefore, the Company has classified the warrants from both financings as liabilities and will mark them to fair value at each period end.

A Black-Scholes option-pricing model was used to obtain the fair value of the warrants issued in the December 2009 and August 2010 equity financings using the following assumptions at February 29, 2012 and August 31, 2011:

	December 2009 equity financing Series A		August 2010 equity financing investors and placement agent	
	February 29, 2012	August 31, 2011	February 29, 2012	August 31, 2011
Fair value (\$ millions)	4.7	5.9	21.8	17.7
Black-Scholes inputs:				
Stock price	\$ 6.98	\$ 4.73	\$ 6.98	\$ 4.73
Exercise price	\$ 2.45	\$ 2.45	\$ 3.075	\$ 3.075
Risk free interest rate	0.43%	0.38%	0.65%	0.70%
Volatility	122.4%	116.4%	122.4%	116.4%
Expected term (years)	2.75	3.25	3.50	4.00
Dividend	0	0	0	0

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For the three and six month periods ended February 29, 2012 and February 28, 2011, and for the cumulative period from September 8, 2005 (inception) to February 29, 2012, as a result of the marking-to-market of the warrant liability at quarter-end and the day prior to the exercise of warrants subject to warrant liability accounting, the Company recorded losses of approximately \$7.8 million, \$12.0 million, a gain of approximately \$1.8 million, a loss of approximately \$3.9 million and losses of approximately \$34.2 million, respectively, in the line item adjustment to fair value of common stock warrants in its condensed consolidated statements of comprehensive loss. See Note 5 for further discussion on the marking-to-market of the warrant liability.

**(10) COMMITMENTS AND CONTINGENCIES**

**CONTRACTUAL OBLIGATIONS WITH BIOMARIN**

Pursuant to the terms of the asset purchase agreement the Company entered into with BioMarin for the purchase of intellectual property related to the Company's receptor-associated protein (RAP) based technology (including NeuroTrans), the Company is obligated to make the following milestone payments to BioMarin upon the achievement of the following events:

\$50,000 (paid by the Company in June 2006) within 30 days after the Company receives total aggregate debt or equity financing of at least \$2,500,000;

\$100,000 (paid by the Company in June 2006) within 30 days after the Company receives total aggregate debt or equity financing of at least \$5,000,000;

\$500,000 upon the Company's filing and acceptance of an investigational new drug application for a drug product candidate based on the NeuroTrans product candidate;

\$2,500,000 upon the Company's successful completion of a Phase 2 human clinical trial for a drug product candidate based on the NeuroTrans product candidate;

\$5,000,000 upon the Company's successful completion of a Phase 3 human clinical trial for a drug product candidate based on the NeuroTrans product candidate;

\$12,000,000 within 90 days of the Company's obtaining marketing approval from the FDA or other similar regulatory agencies for a drug product candidate based on the NeuroTrans product candidate;

\$5,000,000 within 90 days of the Company's obtaining marketing approval from the FDA or other similar regulatory agencies for a second drug product candidate based on the NeuroTrans product candidate;

\$5,000,000 within 60 days after the end of the first calendar year in which the Company's aggregated revenues derived from drug product candidates based on the NeuroTrans product candidate exceed \$100,000,000; and

\$20,000,000 within 60 days after the end of the first calendar year in which the Company's aggregated revenues derived from drug product candidates based on the NeuroTrans product candidate exceed \$500,000,000.

In addition to these milestone payments, the Company is also obligated to pay BioMarin a royalty at a percentage of the Company's aggregated revenues derived from drug product candidates based on the NeuroTrans product candidate. On June 9, 2006, the Company made a milestone payment in the amount of \$150,000 to BioMarin because the Company raised \$5,000,000 in its May 25, 2006 private placement financing. If the Company becomes insolvent or if the Company breaches its asset purchase agreement with BioMarin due to non-payment and the Company does not cure its non-payment within the stated cure period, all of the Company's rights to the RAP technology (including NeuroTrans) will

revert back to BioMarin.

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**RAPTOR PHARMACEUTICAL CORP.**

**(A Development Stage Company)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**CONTRACTUAL OBLIGATIONS WITH THOMAS E. DALEY (ASSIGNEE OF THE DISSOLVED CONVIVIA, INC.)**

Pursuant to the terms of the asset purchase agreement the Company entered into with Convivia, Inc. and Thomas E. Daley for the purchase of intellectual property related to its 4-MP product candidate program (the Asset Purchase Agreement), Mr. Daley will be entitled to receive the following, if at all, in such amounts and only to the extent certain future milestones are accomplished by the Company (or any of its subsidiaries thereof), as set forth below:

23,312 shares of Raptor's restricted, unregistered Common Stock within fifteen (15) days after the Company enters into a manufacturing license or other agreement to produce any product that is predominantly based upon or derived from any assets purchased from Convivia (Purchased Assets) in quantity (Product) if such license agreement is executed within one (1) year of execution of the Asset Purchase Agreement or, if thereafter, 11,656 shares of Raptor's restricted, unregistered Common Stock. Should the Company obtain a second such license or agreement for a Product, Mr. Daley will be entitled to receive 11,656 shares of the Company's restricted, unregistered Common Stock within 30 days of execution of such second license or other agreement. In January 2008, Mr. Daley earned a \$30,000 cash bonus pursuant to his employment agreement for executing the Patheon formulation agreement for manufacturing Convivia. On March 31, 2008, the Company issued 23,312 shares of Raptor's Common Stock valued at \$56,000 to Mr. Daley pursuant to this milestone reflecting the execution of an agreement to supply the active pharmaceutical ingredient for Convivia, combined with the execution of a formulation agreement to produce the oral formulation of Convivia. In July 2010, the Company issued 11,656 shares of its restricted common stock valued at \$35,551 and paid a \$10,000 cash bonus to Mr. Daley as a result of the execution of the license agreement with Uni Pharma for the development of Convivia in Taiwan.

23,312 shares of the Company's restricted, unregistered Common Stock within fifteen (15) days after it receives its first patent allowance on any patents which constitute part of the Purchased Assets in any one of certain predetermined countries (each, a Major Market).

11,656 shares of the Company's restricted, unregistered Common Stock within fifteen (15) days after the Company receives its second patent allowance on any patents which constitute part of the Purchased Assets different from the patent referenced in the immediately preceding paragraph above in a Major Market.

23,312 shares of the Company's restricted, unregistered Common Stock within fifteen (15) days of completing predetermined benchmarks in a Major Market by the Company or its licensee of the first Phase 2 human clinical trial for a Product (Successful Completion) if such Successful Completion occurs within one (1) year of execution of the Asset Purchase Agreement or, if thereafter, 11,656 shares of the Company's restricted, unregistered Common Stock within thirty (30) days of such Successful Completion. In October 2008, the Company issued 23,312 shares of Raptor's Common Stock valued at \$27,000 and a \$30,000 cash bonus (pursuant to Mr. Daley's employment agreement) to Mr. Daley pursuant to the fulfillment of this milestone.

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**RAPTOR PHARMACEUTICAL CORP.**

**(A Development Stage Company)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

11,656 shares of the Company's restricted, unregistered Common Stock within fifteen (15) days of a Successful Completion in a Major Market by the Company or its licensee of the second Phase 2 human clinical trial for a Product (other than the Product for which a distribution is made under the immediately preceding paragraph above).

23,312 shares of the Company's restricted, unregistered Common Stock within fifteen (15) days after the Company or its licensee applies for approval to market and sell a Product in a Major Market for the indications for which approval is sought ( Marketing Approval ).

11,656 shares of the Company's restricted, unregistered Common Stock within fifteen (15) days after the Company or its licensee applies for Marketing Approval in a Major Market (other than the Major Market for which a distribution is made under the immediately preceding paragraph above).

46,625 shares of the Company's restricted, unregistered Common Stock within fifteen (15) days after the Company or its licensee obtains the first Marketing Approval for a Product from the applicable regulatory agency in a Major Market.

23,312 shares of the Company's restricted, unregistered Common Stock within fifteen (15) days after the Company or its licensee obtains Marketing Approval for a Product from the applicable regulatory agency in a Major Market (other than the Major Market for which a distribution is made under the immediately preceding paragraph above).

As discussed above, in aggregate, the Company has issued to Mr. Daley, 58,280 shares of Raptor's common stock valued at \$118,551 and paid \$70,000 in cash bonuses related to Convivia milestones along with another \$20,000 in cash bonuses related to employment milestones pursuant to Mr. Daley's employment agreement.

**CONTRACTUAL OBLIGATIONS WITH FORMER ENCODE STOCKHOLDERS AND UCSD RELATING TO THE ACQUISITION OF THE DR CYSTEAMINE (RP103 AND RP104) LICENSE**

As a result of the merger between Raptor Therapeutics Inc. and Encode, as discussed in Note 8 above, the Encode Securityholders are eligible to receive up to an additional 559,496 shares of Raptor's common stock, Company Options and Company Warrants to purchase Raptor's common stock in the aggregate based on certain triggering events related to regulatory approval of RP103/RP104, an Encode product program, if completed within the five year anniversary date of the merger agreement.

Also as a result of the merger, the Company will be obligated to pay an annual maintenance fee to UCSD for the exclusive license to develop RP103/RP104 for certain indications of \$15,000 until it begins commercial sales of any products developed pursuant to the License Agreement. In addition to the maintenance fee, the Company will be obligated to pay during the life of the License Agreement: milestone payments ranging from \$20,000 to \$750,000 for orphan indications and from \$80,000 to \$1,500,000 for non-orphan indications upon the occurrence of certain events, if ever; royalties on commercial net sales from products developed pursuant to the License Agreement ranging from 1.75% to 5.5%; a percentage of sublicense fees ranging from 25% to 50%; a percentage of sublicense royalties; and a minimum annual royalty commencing the year the Company begins commercially selling any products pursuant to the License Agreement, if ever. Under the License Agreement, the Company is obligated to fulfill predetermined milestones within a specified number of years ranging from 0.75 to 6 years from the effective date of the License Agreement, depending on the indication. In addition, the Company is obligated to, among other things, secure \$1.0 million in funding prior to December 18, 2008 (which the Company has fulfilled by raising \$10.0 million in its May/June 2008 private placement) and annually spend at least \$200,000 for the development of products (which, as of its fiscal years ended August 31, 2011, 2010 and 2009 by spending approximately \$11.3 million, \$6.2 million and \$4.1 million, respectively, on such programs) pursuant to the License Agreement. Cumulatively, the Company has expended \$680,000 in milestone payments to UCSD based upon the initiation of clinical trials in cystinosis, Huntington's Disease and NASH. Subsequent to quarter end, the Company filed its Marketing Authorization Application ( MAA ) with the European Medicines Agency ( EMA ) for RP103 for the potential treatment of cystinosis, a milestone in which the Company will pay \$250,000 to UCSD pursuant to this license.

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To the extent that the Company fails to perform any of its obligations under the License Agreement, then UCSD may terminate the license or otherwise cause the license to become non-exclusive.

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**Table of Contents****RAPTOR PHARMACEUTICAL CORP.****(A Development Stage Company)****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****OFFICE LEASES**

In March 2006, the Company entered into a lease for the Company's executive offices and research laboratory in Novato, California and expanded the lease on January 26, 2007. Base monthly payments were subject to annual rent increase of between 3% to 5%, based on the Consumer Price Index (CPI) and annual adjustments to base operating expenses. In October 2010, the Company executed a lease addendum to the Novato lease for an additional 3,100 square feet (\$5,309 per month) starting in April 2011. In February 2012, the Company executed a second addendum to the Novato lease for an additional 1,636 square feet (\$2,879.47 per month) starting in March 2012. Effective April 1, 2010, the Company's monthly base rent including base operating expenses was \$10,826. Effective April 11, 2011, the Company's monthly base including base operating expenses increased to \$16,135 with an adjustment for CPI and operating expenses in April 2012. Effective March 1, 2012, the monthly base including base operating expenses increased to \$19,014, with an adjustment for CPI. The Novato lease expires in March 2013. In January 2010, the Company entered into a one-year lease for administrative offices in San Mateo, California for \$2,655 per month. The Company anticipates continuing the San Mateo lease on a monthly basis.

During the three month periods ended February 29, 2012 and February 28, 2011, the Company's rent expense was \$60,774 and \$48,790, respectively. During the six month periods ended February 29, 2012 and February 28, 2011 and the cumulative period from September 8, 2005 (inception) to February 29, 2012, the Company's rent expense was \$114,506, \$100,515 and \$841,586, respectively.

The minimum future lease payments under this operating lease assuming a 3% CPI increase per year are as follows:

<b>Period</b>	<b>Amount</b>
March 1, 2012 to August 31, 2012	\$ 116,939
Fiscal year ending August 31, 2013	137,094

**CAPITAL LEASE**

On August 31, 2011, the Company leased a photocopier which is subject to a 39-month lease at \$387 per month. The future lease payments under the capital lease are as follows:

<b>Period</b>	<b>Amount</b>
March 1, 2012 to August 31, 2012	\$ 2,322
Year ending August 31, 2013	4,647
Year ending August 31, 2014	4,647
Year ending August 31, 2015	1,162
<b>Total future capital lease payments</b>	<b>12,778</b>
Less interest	(995)
<b>Total current and long-term capital lease liability</b>	<b>\$ 11,783</b>

Interest rate on the capital lease is 6% based on the lessor's implicit rate of return.

**Table of Contents****RAPTOR PHARMACEUTICAL CORP.****(A Development Stage Company)****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****CONTRACT/CLINICAL RESEARCH AGREEMENTS**

During the three and six months ended February 29, 2012, the Company maintained several contracts with research organizations, clinical organizations and clinical sites, primarily to assist with clinical research for its cystinosis program and its NASH clinical collaboration. The future commitments pursuant to clinical research agreements are estimated as follows:

<b>Period</b>	<b>Amount</b>
March 1, 2012 to August 31, 2012	\$ 3,066,373
Fiscal year ending August 31, 2013	3,507,836
Fiscal year ending August 31, 2014	1,500,000

**STORAGE AND CLINICAL DISTRIBUTION AGREEMENT**

During the three and six months ended February 29, 2012, the Company maintained an agreement with a company that stores and distributes clinical materials for Raptor's cystinosis and Huntington's Disease trials. The future commitments pursuant to this agreement are estimated as follows:

<b>Period</b>	<b>Amount</b>
March 1, 2012 to August 31, 2012	\$ 216,935
Fiscal year ending August 31, 2013	691,900
Fiscal year ending August 31, 2014	207,200

**FORMULATION / MANUFACTURING AGREEMENTS**

In April 2008, the Company executed an agreement with a contract manufacturing organization to formulate and manufacture RP103 for its cystinosis and Huntington's Disease programs and subsequently, for its NASH program. The costs are invoiced to the Company in installments throughout the formulation and manufacturing process. In November 2010, the Company executed a supply agreement with a contract manufacturer for the active pharmaceutical ingredient of RP103. The future commitments pursuant to these contracts related to both clinical and near-term commercial manufacturing are estimated as follows:

<b>Period</b>	<b>Amount</b>
March 1, 2012 to August 31, 2012	\$ 5,461,003
Fiscal year ending August 31, 2013	9,490,100
Fiscal year ending August 31, 2014	10,278,200

**(11) QUALIFYING THERAPEUTIC DISCOVERY PROJECT GRANT**

In October 2010, the Company was awarded a tax grant under the U.S. Government's Qualifying Therapeutic Discovery Project for five of its research programs including its cystinosis, Huntington's Disease and NASH clinical programs and its HepTide and WntTide preclinical cancer research programs. The Company was granted an aggregate of approximately \$1.1 million for all five programs of which, as of August 31, 2011, it had received approximately \$874,000. The Company recorded the \$194,000 and \$680,000 of proceeds as a contra-research and development expense in its preclinical and clinical development division, respectively, during the first two quarters of fiscal 2011. The Company records the contra-expense upon deposit of the grant proceeds. During the three and six months ended February 29, 2012, the Company received approximately \$162,000 pursuant to the government program funding guidelines and the remaining balance of approximately \$36,000 was

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drawn but was returned to the government in March 2012 along with an additional \$28,000 as recapture tax because the Company had not incurred the amount originally estimated as qualified expenses for its WntTide program, which was the basis for the program funding.

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**RAPTOR PHARMACEUTICAL CORP.**

**(A Development Stage Company)**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(12) SUBSEQUENT EVENTS**

On March 26, 2012, the Company announced that the EMA has determined that its MAA for its investigational drug candidate, RP103 for the potential treatment of nephropathic cystinosis, submitted in early March, is valid. Validation of the MAA confirms that the submission is sufficiently complete to begin the formal review process. The Company anticipates a decision from the EMA in the first calendar quarter of 2013.

On March 28, 2012, the Company announced the appointment of Henk Doude van Troostwijk as its General Manager of European Commercial Operations, effective April 15, 2012. Mr. Doude van Troostwijk will be responsible for building and managing the Company's commercial operations in Europe initially focusing on the potential launch and subsequent marketing of RP103 for nephropathic cystinosis in anticipation of the EMA's approval of the Company's MAA. The Company anticipates additional hiring in Europe as well as the U.S. over the next nine months in preparation for the potential commercialization of RP103 for the potential treatment of nephropathic cystinosis in the U.S. and Europe.

On March 30, 2012, the Company announced that it submitted a New Drug Application ( NDA ) to the U.S. Food and Drug Administration ( FDA ) seeking approval to market its investigational drug candidate, Cysteamine Bitartrate Delayed-release Capsules (RP103), for the potential treatment of nephropathic cystinosis. In its application, the Company has requested Priority Review of the NDA, which, if granted, could lead to a decision for marketing approval from the FDA of RP103 for the potential treatment of nephropathic cystinosis in the fourth calendar quarter of 2012. If Priority Review is not granted, the Company anticipates a decision by the FDA in the first calendar quarter of 2013.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**FORWARD-LOOKING STATEMENTS**

In this Quarterly Report on Form 10-Q, in other filings with the Securities and Exchange Commission, or the SEC, and in press releases and other public statements by our officers throughout the year, we make or will make statements that plan for or anticipate the future. These forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, include statements about our future business plans and strategies, as well as other statements that are not historical in nature. These forward-looking statements are based on our current expectations.

In some cases, these statements can be identified by the use of terminology such as believes, expects, anticipates, plans, may, might, will, should, would, projects, anticipates, predicts, intends, continues, estimates, potential, opportunity or the negative of the foregoing or comparable terminology. All such statements, other than statements of historical facts, including our financial condition, future results of operations, projected revenues and expenses, business strategies, operating efficiencies or synergies, competitive positions, growth opportunities for existing intellectual properties, technologies, products, plans, and objectives of management, markets for our securities, and other matters, are about us and our industry that involve substantial risks and uncertainties and constitute forward-looking statements for the purpose of the safe harbor provided by Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Such forward-looking statements, wherever they occur, are necessarily estimates reflecting the best judgment of our senior management on the date on which they were made, or if no date is stated, as of the date of the filing made with the SEC in which such statements were made. You should not place undue reliance on these statements, which only reflect information available as of the date that they were made. Our business actual operations, performance, development and results might differ materially from any forward-looking statement due to various known and unknown risks, uncertainties, assumptions and contingencies, including those described in the section titled Risk Factors That May Affect Future Results in Part II, Item 1A of this Quarterly Report on Form 10-Q and including, but not limited to, the following:

our need for, and our ability to obtain, additional funds;

uncertainties relating to clinical trials and regulatory reviews;

our dependence on a limited number of therapeutic compounds and formulations of these compounds;

the early stage of the products we are developing;

the acceptance of any of our future products by physicians and patients;

competition and dependence on collaborative partners;

loss of key management or scientific personnel;

our ability to obtain adequate intellectual property protection and to enforce these rights;

our ability to avoid infringement of the intellectual property rights of others; and

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the other factors and risks described under the section captioned "Risk Factors That May Affect Future Results" in Part II, Item 1A of this Quarterly Report on Form 10-Q, as well as other factors not identified therein.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, the factors discussed in this Quarterly Report on Form 10-Q, in other filings with the SEC and in press releases and other public statements by our officers throughout the year, could cause actual results or outcomes to differ materially and/or adversely from those expressed in any forward-looking statements made by us or on our behalf, and therefore we cannot guarantee future results, levels of activity, performance or achievements and you should not place undue reliance on any such forward-looking statements. We cannot give you any assurance that such forward-looking statements will prove to be accurate and such forward-looking events may not occur. In light of the significant uncertainties inherent in such forward-looking statements, you should not regard the inclusion of this information as a representation by us or any other person that the results or conditions described in those statements or our objectives and plans will be achieved.

All subsequent forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to herein. Unless required by U.S. federal securities laws and the rules and regulations of the SEC, we do not undertake any obligation and disclaim any intention to update or release publicly any revisions to these forward-looking statements after the filing of this Quarterly Report on Form 10-Q to reflect later events or circumstances or to reflect the occurrence of unanticipated events or any other reason.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

You should read the following discussion in conjunction with our condensed consolidated financial statements as of February 29, 2012, and the notes to such condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. All references to the Company, we, our and us include the activities of Raptor Pharmaceutical Corp. and its wholly-owned subsidiaries, Raptor Pharmaceuticals Corp. (which was merged into us as of December 7, 2011), Raptor Discoveries Inc., or Raptor Discoveries, Raptor Therapeutics Inc., or Raptor Therapeutics, Raptor European Products, LLC, RPTP European Holdings C.V. and Raptor Pharmaceuticals Europe B.V. This Management's Discussion and Analysis of Financial Condition and Results of Operations section contains forward-looking statements. Please see Forward-Looking Statements for a discussion of the uncertainties, risks and assumptions associated with these statements. Our actual results and the timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly under the heading Risk Factors That May Affect Future Results.

**Overview**

Our goal is to research, produce, and deliver medicines that improve life for patients with severe, rare disorders. Our product portfolio includes both candidates from our proprietary drug targeting platforms and in-licensed and acquired product candidates.

Our current pipeline includes three clinical development programs, which we are actively developing. We also have two other clinical-stage product candidates, one of which we are seeking additional product development partners in Asia. In addition, we have three preclinical product candidates for which we are also seeking development partners.

*Clinical Development Programs*

Our three active clinical development programs are based on an existing therapeutic compound that we are reformulating and repurposing for potential improvement in safety and/or efficacy and for potential application in new disease indications. These clinical development programs include the following:

DR Cysteamine, or RP103, for the potential treatment of cystinosis, a rare genetic disorder;

RP103 for the potential treatment of Huntington's Disease, or HD, an inherited neurodegenerative disorder; and

RP103, for the potential treatment of non-alcoholic steatohepatitis, or NASH, a metabolic disorder of the liver.

RP103 is our proprietary delayed-release formulation of cysteamine bitartrate microbeads in capsules, which may require less frequent dosing and reduce gastro-intestinal side effects compared to the current standard of care. Our plan is to eventually develop a delayed-released formulation of cysteamine bitartrate in tablets, referred to as RP104, for NASH.

*Other Clinical-Stage Product Candidates*

Our other clinical-stage product candidates include:

Convivia for the potential management of acetaldehyde toxicity due to alcohol consumption by individuals with aldehyde dehydrogenase, or ALDH2 deficiency, an inherited metabolic disorder; and

Tezampanel, a glutamate receptor antagonist as a potential anti-platelet agent for use in thrombotic disorders.

*Preclinical Product Candidates*

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Our preclinical platforms consist of targeted therapeutics for the potential treatment of multiple indications, including liver diseases, neurodegenerative diseases and breast cancer. We are seeking development partners for these programs. These preclinical programs include the following:

Our receptor-associated protein, or RAP, platform consists of: HepTide for the potential treatment of primary liver cancer and other liver diseases; and NeuroTrans to potentially deliver therapeutics across the blood-brain barrier for treatment of a variety of neurological diseases.

Our mesoderm development protein, or Mesd, platform consists of WntTide for the potential treatment of breast cancer.

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### *Future Activities*

Over the next 12 months, we plan to conduct research and development and general and administrative activities including: commercial preparation and drug supply for the potential launch of RP103 for the potential treatment of cystinosis in the U.S. and Europe; supporting our ongoing extension study of RP103 in cystinosis until patients are converted onto commercial drug; supplying clinical material for the ongoing clinical trial of RP103 in HD; funding the collaboration and supplying clinical material in the Phase 2b clinical trial of RP103 in NASH; funding a potential Phase 1 clinical trial of tezampanel as a potential anti-platelet agent; continuing business development of our preclinical product candidates; and supporting associated facilities and administrative functions. We plan to seek additional business development partners for our Convivia product candidate in Asia. We may also develop new preclinical opportunities, future in-licensed technologies and acquired technologies.

### **Clinical Development Programs**

We develop clinical-stage drug product candidates which are: internally discovered therapeutic candidates based on our novel drug delivery platforms and in-licensed or purchased clinical-stage products which may be new chemical entities in mid-to-late stage clinical development, currently approved drugs with potential efficacy in additional indications, and treatments that we could repurpose or reformulate as potentially more effective or convenient treatments for a drug's currently approved indications.

#### *Lead Clinical Development Program: Development of RP103 for the Potential Treatment of Nephropathic Cystinosis or Cystinosis*

Our RP103 product candidate is a proprietary delayed-release, enteric-coated microbead formulation of cysteamine bitartrate contained in a gelatin capsule. We are investigating RP103 for the potential treatment of cystinosis.

Immediate-release cysteamine bitartrate, a cystine-depleting agent, is currently the only U.S. Food and Drug Administration, or FDA, and the European Medicines Agency, or EMA-approved drug to treat cystinosis, a rare genetic disease. Immediate-release cysteamine has been reported to be effective at preventing or delaying kidney failure and other serious health problems in cystinosis patients. RP103 is designed to pass through the stomach and deliver the drug directly to the small intestine, where it may be more easily absorbed into the bloodstream and may result in fewer gastrointestinal side effects. Studies have shown that patient compliance is challenging due to the requirement for every six-hour dosing and gastrointestinal side effects, especially since it requires a patient to be awakened during sleep to administer the nighttime dose. RP103 for the potential treatment of cystinosis is designed to mitigate these difficulties. It is expected to be dosed twice daily, compared to the current every-six-hour dosing schedule.

In March 2012, we submitted applications for marketing approval of RP103 for the potential treatment of cystinosis with both the FDA and the EMA. We requested Priority Review of our application with the FDA, which, if granted, could lead to an FDA decision by the fourth calendar quarter of 2012. We anticipate a decision from the EMA and the FDA (if Priority Review is not granted by the FDA) in the first calendar quarter of 2013.

In anticipation of drug approval, we have begun building our commercial infrastructure both in the U.S. and in Europe so we may timely launch RP103 for the potential treatment of cystinosis.

In July 2011, we announced that our Phase 3 clinical trial of RP103 for the treatment of cystinosis, met the sole primary endpoint of non-inferiority compared to Cystagon®, immediate-release cysteamine bitartrate. The comparison was based on white blood cell, or WBC, cystine levels, the established efficacy surrogate biomarker and sole primary endpoint in the clinical trial. There were no unexpected serious safety concerns experienced by patients in the trial attributable to RP103.

Our pivotal Phase 3 clinical trial was designed as an outpatient study of the pharmacodynamics, pharmacokinetics, safety and tolerability of RP103 compared to Cystagon® in cystinosis patients. The clinical trial was conducted at eight clinical research centers in the U.S. and Europe.

Of 41 patients who completed the Phase 3 protocol, 38 were included in the evaluable data set, 3 were not fully compliant with the protocol due to the fact that their WBC cystine levels went above 2.0 while on Cystagon® during the trial. The age range of study participants was 6 to 26 years old, with 87% of patients below 16 years old. On average, the peak WBC cystine level measured in patients treated with Cystagon® was  $0.54 \pm 0.05$  nmol 1/2 cystine/mg protein, compared to an average peak value of  $0.62 \pm 0.05$  nmol 1/2 cystine/mg protein for patients treated with RP103. The mean difference was 0.08 nmol 1/2 cystine/mg protein, with a 95.8% confidence interval of 0.00-0.16 (one sided  $p=0.021$ ). As stipulated in our Statistical Analysis Plan, the non-inferiority endpoint of the clinical trial would be achieved when the upper end of the confidence interval around the mean difference of WBC cystine levels did not exceed an absolute value of 0.3. The upper end of the confidence interval in the Phase 3 clinical trial was determined to be 0.16, thus achieving the non-inferiority endpoint.



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Additionally, the endpoint was achieved at a lower average daily dose of RP103, compared to Cystagon®. Patients enrolled in the study were required to be well controlled under the existing Cystagon® therapy. The starting dose of RP103 for patients in the Phase 3 clinical trial was initially set at 70% of their established dose of Cystagon®. The protocol allowed for a single RP103 dose increase of 25%, based on intermediate WBC cystine level results, to reflect the current standard of care in establishing appropriate dosing of Cystagon® in cystinosis patients. Approximately one-third of patients remained at 70% of their starting Cystagon® dose throughout the study. The remaining two-thirds of the patients had their RP103 dose increased. On average, the total daily, steady-state dose of RP103 in patients in the Phase 3 clinical trial was 82% of their established, incoming dose of Cystagon®.

In the course of the study, no unexpected safety issues were experienced. Seven serious adverse events, or SAEs, requiring a visit to the emergency room or hospital, were reported for seven individual patients. Of these seven SAEs, six were determined by the principal investigator to be unrelated to either RP103 or Cystagon®. One SAE, gastric intolerance, was graded as possibly related to RP103 and was subsequently resolved and the patient returned on RP103 treatment. That patient completed the RP103 study and continued on the extension study described below. The most frequently reported non-serious adverse events, or AEs, in the study were gastric intolerance symptoms. Fifty-three AEs were scored as possibly or probably related to either study drug, and forty-three of fifty-three of the drug related AEs were scored as gastric intolerance symptoms. We plan to submit our Phase 3 clinical trial data for publication by the second half of calendar 2012.

We are conducting an ongoing, extension study in which all patients that completed the Phase 3 clinical trial may elect to continue on RP103 treatment and are monitored for WBC cystine levels and safety parameters. The extension study has provided six months of safety data for each patient and was submitted in our New Drug Application, or NDA, filing. Forty out of forty-one patients who completed the Phase 3 clinical trial elected to enroll in the extension study. Thirty-eight of such patients remain in the extension study. Thirty-two patients have been on RP103 in the extension study for at least nine months.

In a related clinical trial, we performed a bioequivalence study between RP103 administered as whole capsules and RP103 administered as capsule contents sprinkled onto applesauce. As a significant number of cystinosis patients are too young to take whole capsules, this result enabled us to expand enrollment in the extension study to patients who are too young to swallow whole capsules and were therefore ineligible for the pivotal Phase 3 clinical trial protocol. We have also expanded our extension study to patients who have undergone kidney transplants, thus ineligible to participate in our Phase 3 clinical trial. Enrollment of these additional patients in the extension study is ongoing. As of March 2012, we have a total of 55 patients in our ongoing extension study.

We hold an exclusive, worldwide license from UCSD to the patent, Enterically Coated Cysteamine, Cystamine and Derivatives Thereof, filed in 2007, which covers enteric delivery of cysteamine in cystinosis and other potential therapeutic applications. We received a formal Notice of Allowance from the U.S. Patent and Trademark Office, or USPTO, for this patent in November 2011. The patent is still in examination in Europe and other countries. The EMA and FDA granted orphan drug designation for RP103 for the treatment of cystinosis in calendar 2010 and 2006, respectively.

*Development of RP103/RP104 for the Potential Treatment of Non-Alcoholic Steatohepatitis or NASH*

On December 15, 2011, we executed a cooperative research and development agreement, or CRADA, with the National Institute of Diabetes and Digestive and Kidney Diseases, or NIDDK, part of the National Institutes of Health, or NIH, to conduct a Phase 2b clinical trial. The clinical trial will evaluate the safety and potential efficacy of RP103 as a potential treatment of non-alcoholic steatohepatitis, or NASH, an advanced form of non-alcoholic fatty liver disease, or NAFLD, in children. The clinical trial is expected to begin early in the second quarter of calendar 2012 with NIDDK sharing the costs with us to conduct the clinical trial.

We estimate the total cost of the one year clinical trial treatment period to be in the range of \$14-\$16 million. Under the CRADA agreement, we will fund a total of \$6 million of the cost of the trial, in addition to providing clinical trial materials and drug manufacturing/quality support estimated at approximately \$1 million. The remainder of the funding will come from NIDDK. We hold worldwide, exclusive licenses from UCSD to patents relating to use of cysteamine in NAFLD and NASH. Under this CRADA collaboration, we will retain exclusive development and commercial rights to the clinical data resulting from the clinical trial. If the clinical trial commences timely, we anticipate releasing the top-line Phase 2b data in the first half of calendar 2014.

We continue to work on the formulation of RP104, a delayed-release tablet form of RP103. RP103 will be used in the Phase 2b clinical trial in parallel to the continued formulation studies of RP104.

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In October 2008, we commenced a clinical trial in collaboration with UCSD to investigate a prototype formulation of RP103/RP104 for the treatment of NASH in juvenile patients. In May 2010, we presented positive Phase 2a clinical trial results from our pilot study of delayed-release cysteamine bitartrate in 11 adolescent patients with NASH, a progressive form of liver disease believed to affect 5% to 11% of the U.S. population. The results were presented at the Digestive Disease Week 2010 conference in New Orleans, Louisiana on May 2, 2010. Our open-label Phase 2a clinical trial was conducted under a collaboration agreement with UCSD at UCSD's General Clinical Research Center. Eligible patients with baseline levels of the liver enzymes alanine transaminase, or ALT, and aspartate aminotransferase, or AST, that were at least twice that of normal levels, were enrolled to receive twice-daily, escalating oral doses of up to 1,000 mg of delayed-release cysteamine bitartrate (a prototype of our RP103) for six months, followed by a six-month post-treatment monitoring period.

Patients showed a marked decline in ALT levels during the treatment period with 7 of 11 patients achieving a greater than 50% reduction and 6 of 11 reduced to within normal range. AST levels also saw significant improvements with patients averaging 41% reduction by the end of the treatment phase. The reduction in liver enzymes was largely sustained during the 6 month post-treatment monitoring phase. Other important liver function markers showed positive trends. Levels of cytokeratin 18, a potential marker of disease activity in Non-alcoholic Fatty Liver Disease, or NAFLD, decreased by an average of 45%.

Adiponectin levels increased by an average of 35% during the treatment period. Reduced adiponectin levels are thought to be a marker of the pathogenesis and progression of NASH. Body Mass Index, or BMI, did not change significantly during both the treatment and post-treatment phases. Delayed-release cysteamine bitartrate demonstrated a strong, favorable safety profile, with mean gastrointestinal symptom scores of 1.1 at baseline and 0.7 after 6 months of treatment using a rating system in which the maximum score of 14 indicates most severe gastrointestinal symptoms.

There are no currently approved drug therapies for NASH, and patients are limited to lifestyle changes such as diet, exercise and weight reduction to manage the disease. RP104 may provide a potential treatment option for patients with NASH. Although NASH is most common in insulin-resistant obese adults with diabetes and abnormal serum lipid profiles, its prevalence is increasing among juveniles as obesity rates rise within this patient population. Although most patients are asymptomatic and feel healthy, NASH causes decreased liver function and can lead to cirrhosis, liver failure and end-stage liver disease.

We hold an exclusive worldwide license from UCSD for the patent, *Methods of Treating Non-Alcoholic Steatohepatitis (NASH) Using Cysteamine Products*. The patent was filed in 2010. We received a formal Notice of Allowance from USPTO for this patent in June 2011. The patent is still in examination in Europe and other countries.

### *Development of RP103 for the Potential Treatment of Huntington's Disease or HD*

Huntington's Disease, or HD, is a fatal, inherited degenerative neurological disease affecting about 30,000 people in the U.S. and a comparable number of people in Europe. We are not aware of any therapeutic treatment for HD other than therapeutics that minimize symptoms such as the uncontrollable movements and mood swings resulting from HD. We are collaborating with a French institution, CHU d'Angers, on a Phase 2 clinical trial investigating RP103 in HD patients, which began in October 2010. We are providing the clinical trial materials for the study, which is sponsored by CHU d'Angers and funded in part by a grant from the French government. Eight clinical sites in France were set up by CHU d'Angers for a 96 patient, placebo-controlled, 18-month trial, followed by an open-label trial with all placebo patients rolling onto RP103 and all non-placebo patients continuing on RP103 for up to another 18 months. The primary end point of the trial will be based upon the Unified Huntington's Disease Rating Scale, or UHDRS.

We anticipate reaching full enrollment for our Phase 2 clinical trial for RP103 in patients with HD in the second quarter of calendar 2012 and we anticipate releasing the top-line Phase 2 clinical trial data in the first half of calendar 2014.

In June 2010, we acquired an exclusive worldwide license to intellectual property related to the potential treatment of HD from the Weizmann Institute of Science in Israel and Niigata University in Japan. The Weizmann and Niigata patents cover the use of transglutaminase inhibitors, a class of molecules chemically similar to cysteamine, in the potential treatment of HD and other neurological disorders. These patents add to our portfolio of intellectual property related to our programs utilizing RP103/RP104. We were granted Orphan Drug Designation in the U.S. by the FDA for cysteamine as a potential treatment for HD in 2008 and are planning to apply for Orphan Drug Designation in the E.U. once clinical data is available.

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### **Other Clinical-Stage Product Candidates**

We have two other clinical-stage product candidates.

#### *Convivia for Liver Aldehyde Dehydrogenase Deficiency*

Convivia is our proprietary oral formulation of 4-methylpyrazole, or 4-MP, intended for the potential treatment of acetaldehyde toxicity resulting from alcohol consumption in individuals with ALDH2 deficiency, which is an inherited disorder of the body's ability to breakdown ethanol, commonly referred to as alcohol intolerance. 4-MP is presently marketed in the U.S. and E.U. in an intravenous form as an anti-toxin. Convivia is designed to lower systemic levels of acetaldehyde (a carcinogen) and reduce symptoms, such as tachycardia and flushing, associated with alcohol consumption by ALDH2-deficient individuals. Convivia is a capsule designed to be taken approximately 30 minutes prior to consuming an alcoholic beverage.

In 2008, we completed a Phase 2a dose escalation clinical trial of oral 4-MP with ethanol in ALDH2 deficient patients. The study results demonstrated that the active ingredient in Convivia significantly reduced heart palpitations (tachycardia), which are commonly experienced by ALDH2 deficient people who drink, at all dose levels tested. The study also found that the 4-MP significantly reduced peak acetaldehyde levels and total acetaldehyde exposure in a subset of the study participants who possess specific genetic variants of the liver ADH and ALDH2 enzymes. We believe that this subset represents approximately one-third of East Asian populations.

In June 2010, we entered into an exclusive agreement with Uni Pharma Co., Ltd., or Uni Pharma, to commercialize Convivia in Taiwan. Under terms of the agreement, we will grant to Uni Pharma an exclusive license under all relevant patent applications, trademarks and future patents controlled by us to market Convivia in Taiwan. Uni Pharma will register Convivia for drug licensure for existing indications and will conduct a clinical trial and register Convivia for acetalde