Raptor Pharmaceutical Corp
Form 10-Q
May 07, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

Commission File Number: 000-25571

RAPTOR PHARMACEUTICAL CORP.
(Exact name of registrant as specified in its charter)

Delaware	86-0883978
(State of incorporation)	(I.R.S. Employer Identification No.)

7 Hamilton Landing, Suite 100, Novato, CA 94949
(Address of Principal Executive Offices)

(415) 408-6200
(Registrant's telephone number)

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 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

At May 5, 2015, there were 80,480,267 shares of the registrant's common stock outstanding.

RAPTOR PHARMACEUTICAL CORP.

FORM 10-Q

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

RAPTOR PHARMACEUTICAL CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except shares and per share data)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$134,537	$149,613
Restricted cash	1,492	1,562
Accounts receivable	10,850	7,455
Inventories	4,317	9,134
Prepaid expenses and other	2,952	3,841
Total current assets	154,148	171,605
Noncurrent assets:		
Fixed assets, net	7,623	5,880
Goodwill	3,275	3,275
Intangible assets, net	2,914	2,974
Other assets	5,050	5,332
Total Assets	$173,010	$189,066
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,245	$2,550
Accrued liabilities	17,245	16,859
Common stock warrant liability	766	711
Note payable, current portion	12,000	9,000
Total current liabilities	31,256	29,120
Noncurrent liabilities:		
Note payable, net of current portion	48,000	51,000
Convertible notes	60,000	60,000
Total liabilities	139,256	140,120
Stockholders' equity:		
Preferred stock, $0.001 par value per share, 15,000,000 shares authorized, zero shares issued and outstanding	-	-
Common stock, $0.001 par value per share, 150,000,000 shares authorized, 69,394,765 and 68,861,366 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	69	69
Additional paid-in capital	311,870	306,832
Accumulated other comprehensive loss	(607)	(60)
Accumulated deficit	(277,578)	(257,895)
Total stockholders' equity	33,754	48,946
Total Liabilities and Stockholders' Equity	$173,010	$189,066

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

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RAPTOR PHARMACEUTICAL CORP.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited)

(In thousands, except shares and per share data)

	For the Three Months Ended March 31,	
	2015	2014
Revenues	$20,453	$12,134
Cost of sales	3,722	1,314
Gross profit	16,731	10,820
Operating expenses:		
Research and development	16,552	9,547
Selling, general and administrative	14,839	12,064
Total operating expenses	31,391	21,611
Loss from operations	$(14,660)	$(10,791)
Interest income	27	31
Interest expense	(4,498)	(2,979)
Foreign currency transaction (loss) gain	(476)	17
Adjustment to fair value of common stock warrants	(55)	(1,163)
Net loss before provision for income taxes	(19,662)	(14,885)
Provision for income taxes	(21)	(6)
Net Loss	$(19,683)	$(14,891)
Other comprehensive income (loss):		
Foreign currency translation gain (loss)	(547)	150
Comprehensive Loss	$(20,230)	$(14,741)
Net loss per share:		
Basic and diluted	$(0.28)	$(0.24)
Weighted-average shares outstanding:		
Basic and diluted	69,140,642	62,118,796

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

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RAPTOR PHARMACEUTICAL CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	For the Three Months Ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net loss	$(19,683)	$(14,891)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	2,853	2,375
Fair value adjustment of common stock warrants	55	1,163
Amortization of intangible assets	60	60
Depreciation of fixed assets	302	117
Amortization of debt issuance cost	302	148
Changes in assets and liabilities:		
Accounts receivable	(3,395)	(898)
Inventories	4,817	(3,363)
Prepaid expenses and other assets	869	384
Accounts payable	(1,305)	(3,085)
Accrued liabilities	386	338
Deferred revenue	-	287
Net cash used in operating activities	(14,739)	(17,365)
Cash flows from investing activities:		
Net purchase of fixed assets	(2,045)	(187)
Change in restricted cash	70	(530)
Net cash used in investing activities	(1,975)	(717)
Cash flows from financing activities:		
Proceeds from the exercise of common stock warrants	-	1,826
Proceeds from the exercise of common stock options and ESPP	2,185	1,158
Offering costs	-	(29)
Net cash provided by financing activities	2,185	2,955
Effect of exchange rates on cash and cash equivalents	(547)	150
Net decrease in cash and cash equivalents	(15,076)	(14,977)
Cash and cash equivalents, beginning of period	149,613	83,052
Cash and Cash Equivalents, End of Period	$134,537	$68,075
Supplemental cash flow information:		
Interest paid	$2,869	$2,600
Income taxes paid	$120	$46
Supplemental disclosure of non-cash financing activities:		
Fair value of warrant liability reclassified to equity upon exercise	$-	$7,502

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

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RAPTOR PHARMACEUTICAL CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2015
(Unaudited)

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed consolidated financial statements reflect the financial position and 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 ("GAAP") pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures have been condensed or omitted pursuant to such rules and regulations. The unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management reflect all adjustments, which include only normal recurring adjustments, necessary for a fair presentation of the periods presented. The condensed consolidated balance sheet as of December 31, 2014 has been derived from the Company’s audited financial statements as of such date but does not include all disclosures required by GAAP. This Form 10-Q should be read in conjunction with the audited financial statements and accompanying notes in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Raptor is a biopharmaceutical company focused on developing and commercializing transformative treatments for people affected by rare and debilitating diseases. The Company's first product, PROCYSBI® (cysteamine bitartrate) delayed-release capsules ("PROCYSBI"), received marketing approval from the U.S. Food and Drug Administration ("FDA") on April 30, 2013 for the management of nephropathic cystinosis in adults and children six years and older. In Europe, PROCYSBI® gastro-resistant hard capsules of cysteamine (as mercaptamine bitartrate), received marketing authorization on September 6, 2013 from the European Commission ("EC"), for marketing in the European Union ("EU") as an orphan medicinal product for the management of proven nephropathic cystinosis. PROCYSBI received seven years of market exclusivity as an orphan drug in the United States and ten years of market exclusivity as an orphan drug in the EU. The Company commenced commercial sales of PROCYSBI in the United States in mid-June 2013, and in Europe in April 2014. For at least the near term, the Company's ability to generate revenues is entirely dependent upon sales of PROCYSBI in the United States for the management of nephropathic cystinosis in adults and children six years and older and in the EU for the management of proven nephropathic cystinosis.

Raptor's pipeline includes its proprietary delayed-release form of cysteamine, or RP103 and its proprietary oral 4-methylpyrazole, or Convivia®. Raptor currently has product candidates in clinical development designed to potentially treat Huntington's disease ("HD"), non-alcoholic steatohepatitis ("NASH") in children, Leigh syndrome and other mitochondrial disorders and aldehyde dehydrogenase deficiency ("ALDH2"). Raptor's preclinical programs are based upon bioengineered novel drug candidates that are designed to address current indications, target cancer and other diseases.

The Company is subject to a number of risks, including: the level of commercial sales of PROCYSBI in the United States and Europe; the ability to successfully launch PROCYSBI in other international markets; uncertainty whether the Company's research and development efforts will result in expanded labeling for PROCYSBI and additional commercialization for RP103 in various indications or additional commercial products; competition from other organizations; reliance on other entities for manufacturing; reliance on licensing the proprietary technology of others; uncertain patent protection; and the need to raise capital through equity and/or debt financings. Funding may not be available when needed if at all or on terms acceptable to the Company. If the Company exhausts its cash reserves and is unable to obtain adequate financing, it may be required to curtail planned operating expenditures, including its development programs.

Basis of Presentation

The Company's consolidated financial statements include the accounts of the Company's direct and indirect wholly owned subsidiaries, Raptor Pharmaceuticals Inc., formerly known as Raptor Therapeutics Inc. which merged with Raptor Discoveries Inc. in December 2012 prior to changing its name, and Raptor European Products, LLC, such subsidiaries incorporated in Delaware on August 1, 2007, and February 14, 2012, respectively, and Raptor Pharmaceuticals Europe B.V. ("BV"), Raptor Pharmaceuticals France SAS ("SAS"), Raptor Pharmaceuticals Germany GmbH ("GMBH") and RPTP European Holdings C.V. ("CV"), domiciled in the Netherlands on December 15, 2009, in France on October 30, 2012, in Germany on October 16, 2013 and in the Cayman Islands on February 16, 2012, respectively. All inter-company accounts have been eliminated.

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(Unaudited)

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Functional Currency

The Company's consolidated functional currency is the U.S. dollar. BV, SAS, and GMBH, the Company's Dutch subsidiary, French subsidiary, and German Subsidiary, respectively, use the European Euro as their functional currency. The CV subsidiary, a Cayman-based subsidiary, uses the dollar as its functional currency. At each quarter end, each foreign subsidiary's balance sheets are translated into U.S. dollars based upon the quarter-end exchange rate, while their statements of operations and comprehensive loss are translated into U.S. dollars based upon an average exchange rate during the period.

Segment Information

The Company has determined that it operates in only one segment, as it only reports profit and loss information on an aggregate basis to its chief operating decision maker. The Company's long-lived assets maintained outside the U.S. are not material.

Fair Value of Financial Instruments

The carrying amounts of certain of the Company's financial instruments including cash equivalents, restricted cash, accounts payable, accrued liabilities, note payable and capital lease liability approximate fair value due either to length of maturity or interest rates that approximate prevailing market rates. 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.

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 certificates of deposit and compensating balances required by the Company's U.S. and European banks as collateral for credit cards and for access to a value-added tax deferral program. As of March 31, 2015, the Company had $134.5 million in cash and cash equivalents, of which $10.6 million was held by its foreign subsidiaries.

Revenue Recognition and Accounts Receivable

The Company recognizes revenue in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification (“ASC”) 605, Revenue Recognition, when the following criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred and risk of loss has passed; the seller's price to the buyer is fixed or determinable and collectability is reasonably assured. The Company determines that persuasive evidence of an arrangement exists based on written contracts that define the terms of the arrangements. Pursuant to the contract terms, the Company determines when title to products and associated risk of loss has passed on to the customer. The Company assesses whether the fee is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. The Company assesses collectability based primarily on the customer's payment history and creditworthiness.

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PROCYSBI is currently available for U.S. distribution from the Company's U.S. specialty pharmacy partner, the Accredo Health Group, Inc. ("Accredo") which is currently the Company's only U.S. customer and ships directly to patients. The Company's distributor in the EU is the Almac Group, Ltd. PROCYSBI is not available in U.S. retail pharmacies. Authorization of coverage by patients' commercial insurance plans, Raptor's patient assistance program ("PAP") or government payors is a prerequisite to the shipment of PROCYSBI to U.S. patients. Prior to the third quarter of 2014, revenue was recognized in the United States once the product had been shipped by the specialty pharmacy to patients because the Company had not yet been able to reasonably estimate the third-party payor mix and resulting rebates based on its lack of sufficient historical data. Beginning July 2014, the Company was able to reasonably estimate and determine sales allowances; therefore the Company began recognizing PROCYSBI revenue at the point of sale to the specialty pharmacy. Revenue is currently recognized in the EU once confirmed orders from the pharmacies have been shipped and invoiced for payment by the distributor on the Company’s behalf.

The Company records revenue net of expected discounts, distributor fees, and rebates, including government rebates such as Medicare and Medicaid in the United States. Allowances are recorded as a reduction of revenue at the time product sales are recognized. Allowances for government rebates and discounts are established based on the actual payor and payor mix information, which is known in the United States at the time of shipment to the distributor and in Germany at the time of shipment to the pharmacy, and the government-mandated discount rates applicable to government-funded programs. The allowances are adjusted to reflect known changes in the factors that may impact such allowances in the quarter the changes are known.

Trade accounts receivable are recorded net of product sales allowances for prompt-payment discounts and chargebacks. Estimates for chargebacks and prompt-payment discounts are based on contractual terms and the Company's expectations regarding the utilization rates.

Inventories and Cost of Sales

Inventories are stated at the lower of cost or market price, with cost determined on a first-in, first-out basis. Inventories are reviewed periodically to identify slow-moving inventory based on sales activity, both projected and historical, as well as product shelf-life. Prior to the approval of PROCYSBI by the FDA on April 30, 2013 and in Europe, prior to the approval by the EC on September 6, 2013, the Company recorded the purchase of raw materials and the manufacturing costs relating to PROCYSBI as research and development expense. Subsequent to FDA and EC approval, the Company began capitalizing these costs and manufacturing overhead as commercial inventory.

Products that have been approved by the FDA or other regulatory authorities are also used in clinical programs, to assess the safety and efficacy of the products for usage in diseases that have not been approved by the FDA or other regulatory authorities. The form of PROCYSBI utilized for both commercial and clinical programs is identical and, as a result, the inventory has an “alternative future use” as defined in authoritative guidance. Raw materials and purchased drug product associated with clinical development programs are included in inventory and charged to research and development expense when the product enters the research and development process and no longer can be used for commercial purposes and, therefore, does not have an “alternative future use”.

Upon launching PROCYSBI in June 2013 in the United States and April 2014 in the EU, the Company began recognizing cost of sales. Cost of sales includes the cost of inventory sold or reserved; manufacturing, manufacturing overhead and supply chain costs; product shipping and handling costs; and amortization of licensing approval milestone payments and licensing royalties payable to the University of California, San Diego ("UCSD").

Fixed Assets

Fixed assets, which mainly consist of leasehold improvements, office furniture, lab equipment and computer hardware and software, 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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Goodwill and Intangible Assets

Intangible assets primarily include the intellectual property and other rights relating to DR Cysteamine (currently developed as RP103) and to an out-license acquired in a 2009 merger. The intangible assets related to RP103 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.

Goodwill represents the excess of the purchase price over the fair value of tangible and identified intangible net assets of businesses acquired. Goodwill is not amortized, but is evaluated for impairment on an annual basis or more often when impairment indicators are present. The Company has one reporting unit. Therefore, the Company's consolidated net assets, including existing goodwill and other intangible assets, are considered to be the carrying value of the reporting unit. If the carrying value of the reporting unit is in excess of its fair value, an impairment may exist, and the Company must perform the second step of the analysis, in which the implied fair value of the goodwill is compared to its carrying value to determine the impairment charge, if any. If the estimated fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and no further analysis is required.

The Company makes judgments about the recoverability of purchased intangible assets with finite lives whenever events or changes in circumstances indicate that impairment may exist. Recoverability of purchased intangible assets with finite lives is measured by comparing the carrying amount of the asset to the future undiscounted cash flows the asset is expected to generate. Impairment, if any, is measured as the amount by which the carrying value exceeds the fair value of the impaired asset.

Common Stock Warrant Liabilities

The Company issued warrants that contain conditional obligations that may require the Company to transfer cash to settle the warrants upon the occurrence of certain fundamental transactions. Therefore, the Company has classified the warrants as liabilities. The Company re-measures the liability at the end of every reporting period with the change in value reported in the Company's consolidated statements of operations and comprehensive loss. At the exercise date, the fair values of these warrants are re-measured and reclassified to equity.

Note Payable

Note payable consists of a loan agreement with HealthCare Royalty Partners II, L.P. ("HC Royalty"), as lender, which was amended effective July 1, 2014. The amendment qualified as a modification of debt in accordance with ASC 470-50, Debt – Modifications and Extinguishments, as the Company determined it did not result in substantially different terms. The amended loan requires quarterly interest payments at an annual fixed interest rate of 8.0% of outstanding principal and includes a synthetic royalty component based on net product sales, including PROCYSBI, in a calendar year. The amended loan is a senior secured obligation of the Company.

Note payable is carried at its unpaid principal balance. The fixed and royalty interest under both agreements are recognized as interest expense as incurred.

Convertible Notes

Convertible notes include unsecured convertible senior notes and are carried at their unpaid principal balance. Interest on the notes is payable quarterly and the notes mature on August 1, 2019. If converted by a holder, upon conversion, the holder of the notes would receive shares of the Company’s common stock.

Debt Issuance Costs

Debt issuance costs are expenses associated with the issuance of the loan agreements with HC Royalty and the convertible notes. Debt issuance costs which were capitalized are being amortized over the life of the respective debt to interest expense using the interest method. Debt issuance costs are a component of Other Assets on the Company's consolidated balance sheets.

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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 loss per share is calculated by dividing net loss 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:

	Three Months Ended March 31,	
	2015	2014
Options to purchase common stock	9,663,956	9,584,383
Convertible debt	3,428,571	-
Warrants to purchase common stock	334,764	334,764
Restricted stock awards outstanding	212,980	-
Total Potentially Dilutive Securities	13,640,271	9,919,147

Comprehensive Loss

The components of comprehensive loss include net loss and foreign currency translation adjustments.

Stock-Based Compensation

Compensation costs related to the Company's stock incentive plans are measured at the grant date based on the fair value of the equity instruments awarded and are 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 compensation expense for stock-based compensation awards is reduced by an estimate for forfeitures.

Incentive Plans

In May 2014, the Company’s shareholders approved the Raptor Pharmaceutical Corp. 2010 Stock Incentive Plan (“Incentive Plan”) for executive officers, employees, and non-employee directors. The Incentive Plan provides for the grant of stock options, restricted stock units, and other types of awards to eligible participants. Long-term incentive awards granted under the Incentive Plan generally vest over a four-year period. Non-employee directors are also provided annual awards under the Incentive Plan that generally vest over a one year period. The cost of the awards is amortized over the vesting period on a straight-line basis.

In November 2014, the Company’s Board of Directors approved the 2014 Employment Commencement Stock Incentive Plan (“2014 Commencement Plan”) under Rule 5635(c)(4) of the Nasdaq Global Select Market for equity grants to induce new employees to enter into employment with the Company.

Employee Stock Purchase Plan

In July 2014, the Company’s shareholders approved the Raptor Pharmaceutical Corp. 2013 Employee Stock Purchase Plan (“ESPP”). Up to 1,000,000 shares may be issued pursuant to the ESPP. The purpose of the ESPP is to give the

Company's employees an opportunity to acquire an equity interest in the Company through the purchase of shares of common stock at a discount. The ESPP allows eligible employees to purchase common stock at 85% of its fair value, subject to certain limits. Fair value as defined under the ESPP is the lesser of the closing market price of the common stock on the first day of the offering period or the last day of the offering period, which is a six-month period beginning on each May 15 and November 15.

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Research and Development Costs

Research and development costs are charged to expense as incurred. Research and development expenses primarily include salaries and benefits for medical, clinical, regulatory, quality, pharmacovigilance and research personnel, preclinical studies, clinical trials, and certain commercial drug manufacturing expenses prior to obtaining marketing approval..

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. Based on the weight of available evidence, including cumulative losses since inception and expected future losses, the Company has determined that it is more likely than not that the deferred tax asset amount will not be realized and therefore a full valuation allowance has been provided on the Company's net deferred tax assets.

The Company identifies uncertain tax positions and discloses any potential tax liability on its financial statements. The Company recognizes interest and/or penalties related to income tax matters as a component of income tax expense. As of March 31, 2015, there were no accrued uncertain tax positions or interest and penalties related to uncertain tax positions.

The Company files U.S. Federal, California, various other state and other income tax returns and various foreign country income tax returns. The Company is currently not subject to any income tax examinations. Due to the Company's net operating losses ("NOLs"), generally all tax years remain open.

Reclassifications

Certain amounts previously reported under specific financial statement captions have been reclassified to be consistent with the current period presentation.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that “an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.” In applying the revenue model to contracts within its scope, the Company will: identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the entity satisfies a performance obligation. This ASU is effective for interim and annual periods beginning after December 15, 2016 and early adoption is not permitted. The Company does not believe the adoption of this ASU will have a material impact on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. This ASU is effective for interim and annual periods beginning after December 15, 2015 and early adoption is permitted. The Company does not anticipate the adoption of this ASU will have a material impact on its consolidated financial statements.

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In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern, which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The ASU requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date of issuance of the entity’s financial statements (or within one year after the date on which the financial statements are available to be issued, when applicable). Further, an entity must provide certain disclosures if there is “substantial doubt about the entity’s ability to continue as a going concern.” This ASU is effective for annual periods ending after December 15, 2016, and interim periods thereafter; early adoption is permitted.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest, which amends the presentation of debt issuance costs in the balance sheet as a direct deduction from the carrying amount of the related debt liability rather than as a deferred charge as presented under current guidance. ASU 2015-03 is effective for annual and interim periods beginning after December 15, 2015, and must be retrospectively applied. Early adoption is permitted. The Company does not expect the adoption of this amendment to have a material effect on its financial condition and results of operations.

2. 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 1 – Quoted market prices in active markets for identical assets or liabilities;

- Level 2 – Inputs other than level one inputs that are either directly or indirectly observable; and

- Level 3 – Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

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Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each reporting period. The following table presents the assets and liabilities recorded that are reported at fair value on our consolidated balance sheets on a recurring basis.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

(In thousands)

March 31, 2015	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents [1]	$115,205	$ -	$-	$115,205
Total	$115,205	$ -	$-	$115,205
Liabilities				
Common stock warrants	$-	$ -	$766	$766
Total	$-	$ -	$766	$766

December 31, 2014	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents [1]	$137,938	$ -	$-	$137,938
Total	$137,938	$ -	$-	$137,938
Liabilities				
Common stock warrants	$-	$ -	$711	$711
Total	$-	$ -	$711	$711

(1) Cash equivalents represent the fair value of the Company's investments in money market funds at March 31, 2015 and December 31, 2014.

Certain of the Company's common stock warrants are classified as liabilities and are, therefore, re-measured using the Black-Scholes option valuation model at the end of each reporting period with the change in value reported in the Company's consolidated statements of operations and comprehensive loss.

The following table presents a reconciliation of the Company's recurring fair value measurements categorized within Level 3 of the fair value hierarchy (liability-classified common stock warrants).

Changes in Level 3 Liabilities Measured at Fair Value on a Recurring Basis – Common Stock Warrants

	Three Months Ended March 31,	
(In thousands)	2015	2014
Beginning fair value	$711	$7,066
Change in fair value recognized in earnings	55	1,163

Exercises	-	(7,503)
Ending Fair Value	$766	$726

Effect of Raptor's Stock Price and Volatility Assumptions on the Calculation of Fair Value of Warrant Liabilities

As discussed above, the Company uses the Black-Scholes option pricing model as its method of valuation for warrants that are subject to warrant liability accounting. The determination of fair value as of the reporting date is affected by Raptor's stock price as well as assumptions regarding a number of subjective variables. These variables include, but are not limited to, expected stock price volatility over the term of the security and risk-free interest rate. The primary factors affecting the fair value of the warrant liability are the Company's stock price and volatility.

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3. INVENTORIES

Inventories consist of raw materials, work-in-process and finished goods related to the manufacture of PROCYSBI. Raw materials include the active pharmaceutical ingredient ("API"), cysteamine bitartrate. Work-in-process includes third party manufacturing and associated labor costs relating to the Company's personnel directly involved in the production process. Also included in inventories are raw materials that may be used for clinical trials, which are charged to research and development ("R&D") expense when consumed.

The following table summarizes the components of inventories.

(In thousands)	March 31, 2015	December 31, 2014
Raw materials	$588	$ 6,290
Work-in-process	2,892	721
Finished goods	837	2,123
Total Inventories	$4,317	$ 9,134

4. FIXED ASSETS

The following table presents the components of fixed assets and their estimated useful lives.

(In thousands)	March 31, 2015	December 31, 2014	Estimated useful lives
Assets under construction	$4,047	$ 2,393	-
Office furniture	2,198	2,198	7 years
Laboratory equipment	1,684	1,373	5 years
Computer hardware and software	895	815	3 years
Leasehold improvements	470	470	Lease term
Total at cost	9,294	7,249	
Less: accumulated depreciation	(1,671)	(1,369)	
Total Fixed Assets, Net	$7,623	$ 5,880	

Depreciation expense for the three months ended March 31, 2015 and 2014 was approximately $302 thousand and $117 thousand, respectively.

5. INTANGIBLE ASSETS AND GOODWILL

On December 14, 2007, the Company acquired the intellectual property and other rights to develop RP103 to treat various clinical indications from 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 fair value of the intangible assets at the time of acquisition was approximately $2.6 million.

Pursuant to the license agreement with UCSD, the Company is obligated to pay an annual maintenance fee until the commencement of commercial sales of any licensed products developed. The Company is also obligated to pay milestone payments upon the occurrence of certain events, royalties on net sales from products developed pursuant to the license agreement and a percentage of sublicense fees or royalties, if any. The Company is obligated to fulfill predetermined milestones within a specified number of years from the effective date of the license agreement, depending on the indication. To the extent that the Company fails to perform any of its obligations under the agreement, UCSD may terminate the license or otherwise cause the license to become non-exclusive.

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In May 2013, the Company announced that the FDA has approved PROCYSBI (cysteamine bitartrate) delayed release capsules for the management of nephropathic cystinosis in adults and children 6 years and older. Subsequently, the Company announced that the EC has approved PROCYSBI® gastro-resistant hard capsules of cysteamine (as mercaptamine bitartrate) as an orphan medicinal product for the management of proven nephropathic cystinosis for marketing in the EU. In conjunction with these approvals, the Company paid milestone payments to UCSD during the second and third quarters of 2013 of $0.8 million and $0.5 million, respectively, pursuant to this license, which were capitalized as intangible assets.

A summary of intangibles acquired is as follows:

(In thousands)	Useful Life (Years)	March 31, 2015	December 31, 2014
Intangible asset (IP license for RP103) related to the Encode merger	20.0	$2,620	$ 2,620
Intangible assets (UCSD license - FDA and EC approval milestones)	20.0	1,250	1,250
Other intangible assets	16.0	240	240
Total intangible assets		4,110	4,110
Less accumulated amortization		(1,196)	(1,136)
Intangible Assets, Net		$2,914	$ 2,974

The intangible assets related to RP103 are being amortized over an 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. Other intangible assets are being amortized using the straight-line method over an estimated useful life of 16 years, which is the life of the intellectual property patents.

During the three months ended March 31, 2015 and the year ended December 31, 2014, there was no intangible asset impairment recognized. During both the three months ended March 31, 2015 and 2014, the Company amortized approximately $60 thousand of intangible assets.

Amortization expense for intangible assets for each of the next five years is expected to be as follows:

(In thousands)	Amortization Expense
2015 (remaining 9 months)	$ 178
2016	238
2017	238
2018	238
2019	238

The Company tested the carrying value of goodwill for impairment as of December 31, 2014 and determined that there was no impairment.

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6. ACCRUED LIABILITIES

Accrued liabilities consisted of:

(In thousands)	March 31, 2015	December 31, 2014
Personnel-related costs	$4,777	$ 6,879
Rebates and other sales deductions	2,687	3,231
Clinical trials and research and development costs	2,726	2,522
License royalty payable	1,123	972
Royalty-based interest payable	1,809	369
Manufacturing costs		