

Corium International, Inc.
Form 10-Q
May 08, 2015
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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 March 31, 2015

OR

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to .

Commission File Number: 001-36375

Corium International, Inc.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

38-3230774
(I.R.S. Employer
Identification Number)

Corium International, Inc.
235 Constitution Drive
Menlo Park, California 94025

(Address of principal executive offices and zip code)

(650) 298-8255

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant 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. (Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of May 7, 2015, there were approximately 18,080,984 shares of the Registrant's Common Stock outstanding.

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Table of Contents**PART I****ITEM 1. FINANCIAL STATEMENTS****CORIUM INTERNATIONAL, INC.****CONDENSED BALANCE SHEETS**

(in thousands, except share amounts)

	As of March 31, 2015 (Unaudited)	As of September 30, 2014 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 33,660	\$ 36,395
Accounts receivable	4,891	4,168
Unbilled accounts receivable	1,232	1,385
Inventories, net	2,961	2,592
Prepaid expenses and other current assets	686	1,292
Total current assets	43,430	45,832
Property and equipment, net	11,923	12,658
Debt financing costs, net	634	571
Intangible assets, net	6,741	6,683
TOTAL ASSETS	\$ 62,728	\$ 65,744
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 2,588	\$ 2,512
Accrued expenses and other current liabilities	3,292	4,008
Long-term debt, current portion	54	107
Capital lease obligations, current portion	782	760
Recall liability, current portion	660	774
Deferred contract revenues, current portion	125	301
Total current liabilities	7,501	8,462
Long-term debt, net of current portion	48,970	38,155
Capital lease obligations, net of current portion	492	891
Recall liability, net of current portion	2,691	2,936
Deferred contract revenues, net of current portion	3,500	3,500
Total liabilities	63,154	53,944
Stockholders' equity (deficit):		
Common stock; par value of \$0.001 per share, 150,000,000 shares authorized; 18,072,866 and 18,003,883 shares issued and outstanding as of March 31, 2015 and September 30, 2014, respectively	18	18
Additional paid-in capital	115,792	114,117
Accumulated deficit	(116,236)	(102,335)
Total stockholders' equity (deficit)	(426)	11,800
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)	\$ 62,728	\$ 65,744

(1) Derived from the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2014.

See accompanying notes to condensed financial statements.

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CORIUM INTERNATIONAL, INC.

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(in thousands, except share and per share data)

(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Revenue:				
Product revenues	\$ 7,632	\$ 7,240	\$ 14,171	\$ 15,340
Contract research and development revenues	3,363	3,173	6,293	5,237
Other revenues	296	304	593	608
Total revenues	11,291	10,717	21,057	21,185
Costs and operating expenses:				
Cost of product revenues	5,219	4,998	9,306	10,227
Cost of contract research and development revenues	4,510	3,911	8,227	7,448
Research and development expenses	3,980	1,267	8,177	2,128
General and administrative expenses	2,670	1,236	5,357	3,046
Amortization of intangible assets	162	131	323	261
(Gain) / loss on disposal and sale and leaseback of equipment		(32)	7	(69)
Total costs and operating expenses	16,541	11,511	31,397	23,041
Loss from operations	(5,250)	(794)	(10,340)	(1,856)
Interest income	4	1	6	3
Interest expense	(1,896)	(1,780)	(3,565)	(3,804)
Change in fair value of preferred stock warrant liability		(231)		(274)
Change in fair value of subordinated note embedded derivative liability		6,338		7,367
Income (loss) before income taxes	(7,142)	3,534	(13,899)	1,436
Income tax expense			2	
Net income (loss) and comprehensive income (loss)	\$ (7,142)	\$ 3,534	\$ (13,901)	\$ 1,436
Net income (loss) per share attributable to common stockholders, basic	\$ (0.40)	\$ 0.50	\$ (0.77)	\$ 0.03
Net income (loss) per share attributable to common stockholders, diluted	\$ (0.40)	\$ 0.33	\$ (0.77)	\$ 0.02
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders, basic	18,071,320	2,232,300	18,052,809	2,231,049
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders, diluted	18,071,320	5,930,309	18,052,809	3,482,956

See accompanying notes to condensed financial statements

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CORIUM INTERNATIONAL, INC.

CONDENSED STATEMENT OF STOCKHOLDERS EQUITY (DEFICIT)

(in thousands, except share and per share data)

(Unaudited)

	Shares	Common Stock Amount		Additional Paid-in Capital		Accumulated Deficit		Total Stockholders Equity (Deficit)
Balance September 30, 2014	18,003,883	\$ 18	\$	114,117	\$	(102,335)	\$	11,800
Issuance of common stock under Employee Stock Purchase Plan	61,042			298				298
Issuance of common stock upon exercise of stock options	7,941			13				13
Stock-based compensation expense				1,364				1,364
Net loss and comprehensive loss						(13,901)		(13,901)
Balance March 31, 2015	18,072,866	\$ 18	\$	115,792	\$	(116,236)	\$	(426)

See accompanying notes to condensed financial statements.

Table of Contents**CORIUM INTERNATIONAL, INC.****CONDENSED STATEMENTS OF CASH FLOWS****(in thousands)****(Unaudited)**

	Six Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss) and comprehensive income (loss)	\$ (13,901)	\$ 1,436
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Depreciation and amortization of property and equipment	1,102	1,054
(Gain) / loss on disposal and sale and leaseback of equipment	7	(69)
Amortization of premium on modification of subordinated note		(286)
Change in fair value of preferred stock warrant liability		274
Change in fair value of subordinated note embedded derivative liability		(7,367)
Amortization of intangible assets	323	261
Noncash amortized issue costs on long-term debt and capital leases	87	171
Noncash amortized discount on long-term debt and capital leases	12	104
Stock-based compensation expense	1,364	250
Changes in operating assets and liabilities:		
Accounts receivable	(723)	(1,128)
Unbilled accounts receivable	153	(848)
Inventories, net	(369)	1,469
Prepaid expenses and other current assets	606	454
Accounts payable	121	144
Accrued expenses and other current liabilities	70	1,412
Deferred contract revenues	(176)	86
Recall liability	(359)	(627)
Long-term interest payable		823
Net cash used by operating activities	(11,683)	(2,387)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(419)	(1,648)
Proceeds from sale of equipment		12
Proceeds from repayment of notes receivable related parties		100
Payments for patents and licensing rights	(381)	(308)
Net cash used by investing activities	(800)	(1,844)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	10,000	
Payment of transaction costs on issuance of common stock and long-term debt	(150)	(1,832)
Principal payments on long-term debt	(33)	(452)
Principal payments on capital lease obligations	(380)	(525)
Borrowings on bank lines of credit		1,298
Payments on bank lines of credit		(2,513)
Proceeds from exercise of stock options	13	7
Proceeds from issuance of common stock under employee stock purchase plan	298	
Net cash provided (used) by financing activities	9,748	(4,017)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,735)	(8,248)
CASH AND CASH EQUIVALENTS Beginning of period	36,395	13,581
CASH AND CASH EQUIVALENTS End of period	\$ 33,660	\$ 5,333
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		

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Cash paid for interest	\$	3,466	\$	2,996
Cash paid for income taxes	\$	1	\$	
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Property and equipment purchases included in accounts payable	\$	154	\$	38
Issuance of payment-in-kind notes in lieu of cash interest payments	\$	786	\$	647
Transaction costs associated with Initial Public Offering included in accrued liabilities	\$		\$	1,161

See accompanying notes to condensed financial statements.

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CORIUM INTERNATIONAL, INC.

Notes to the Condensed Financial Statements

1. Organization, Description of Business and Summary of Significant Accounting Policies

Organization

Corium International, Inc., a Delaware corporation (the Company), is a commercial stage biopharmaceutical company focused on the development, manufacture and commercialization of specialty pharmaceutical products that leverage its broad experience in transdermal and transmucosal delivery systems.

In the normal course of business, the Company enters into collaborative agreements with partners to develop and manufacture products based on the Company's drug delivery technologies and product development expertise. Revenues consist of net sales of products manufactured, royalties and profit-sharing payments based on sales of such products by partners, and product development fees for research and development activities under collaborative agreements with strategic partners. The Company is also engaged in the research and development of its own transdermal drug delivery products using its proprietary technologies.

The Company's fiscal year ends on September 30. References to fiscal refer to the years ended September 30.

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and follow the requirements of the Securities and Exchange Commission (the SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. The interim balance sheet as of March 31, 2015 and the statements of operations and comprehensive income (loss) for the three and six months ended March 31, 2015 and 2014, statement of stockholders' equity (deficit) for the six months ended March 31, 2015 and statements of cash flows for the six months ended March 31, 2015 and 2014 are unaudited. The unaudited interim 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 to present fairly the Company's financial position as of March 31, 2015 and its results of operations for the three and six months ended March 31, 2015 and 2014 and cash flows for the six months ended March 31, 2015 and 2014. The financial data and the other financial information contained in these notes to the financial statements related to the three and six month periods are also unaudited. The results of operations for the six months ended March 31, 2015 are not necessarily indicative of the results to be expected for the year ending September 30, 2015 or for any future annual or interim period. The balance sheet as of September 30, 2014 has been derived from the audited financial statements at that date but does not include all of the information required by U.S. GAAP for complete financial statements.

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The accompanying condensed financial statements and related financial information should be read in conjunction with the audited financial statements and the related notes thereto for the year ended September 30, 2014 included in the Company's Annual Report on Form 10-K, which was filed with the SEC on December 15, 2014.

There have been no material changes to the significant accounting policies previously disclosed in the Company's audited financial statements for the year ended September 30, 2014.

Initial Public Offering

In April 2014, the Company sold 6,874,997 shares of its common stock in its initial public offering (the "IPO") at a price of \$8.00 per share. The Company received net cash proceeds of \$48.5 million from the IPO, including proceeds from the partial exercise of the underwriters' option, after deducting underwriting discounts, commissions and issuance costs paid by the Company.

On April 8, 2014, immediately prior to the closing of the IPO, all outstanding shares of convertible preferred stock were converted into 3,567,807 shares of common stock, and the related carrying value of \$57.3 million was reclassified to common stock and additional paid-in capital. In addition, certain warrants to purchase convertible preferred stock and common stock were converted and net exercised into 971,440 shares of common stock. In connection with the IPO, Corium also repurchased 1,077,809 shares of common stock from its founders for an aggregate purchase price of \$5.2 million.

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Following the filing of the Restated Certificate of Incorporation of the Company on April 8, 2014, the number of shares of capital stock the Company is authorized to issue is 155,000,000 shares, of which 150,000,000 shares may be common stock and 5,000,000 shares may be preferred stock. Both the common stock and preferred stock have a par value of \$0.001 per share.

Use of Estimates

Estimates and assumptions are required to be used by management in the preparation of financial statements in conformity with U.S. GAAP that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of operating revenues and operating expenses during the reporting period. Those estimates and assumptions affect revenue recognition and deferred revenues, impairment of long-lived assets, determination of fair value of stock-based awards and other debt- and equity-related instruments, and accounting for income taxes. As future events and their effects cannot be determined with precision, actual results could differ from those estimates.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents with a single domestic financial institution that is well capitalized. The Company provides credit, in the normal course of business, to its partners and performs credit evaluations of such partners.

Four partners accounted for 89% of the Company's revenues for both the three and six months ended March 31, 2015, compared to 92% and 94% for the corresponding periods in 2014. These same four partners accounted for 71% and 95% of accounts receivable as of March 31, 2015 and September 30, 2014, respectively.

Comprehensive Income (Loss)

During the three and six months ended March 31, 2015 and 2014, the Company did not recognize any other comprehensive income (loss) and, therefore, the net income (loss) and comprehensive income (loss) was the same for all periods presented.

Revenue Recognition

The Company generates revenues from agreements for the development and commercialization of its products. The terms of the agreements may include nonrefundable upfront payments, partial or complete reimbursement of research and development costs, milestone payments, product sales, and royalties and profit sharing on product sales derived from partner agreements. The Company recognizes revenues when the following criteria are met: persuasive evidence of a sales arrangement exists; delivery has occurred; the price is fixed or determinable; and collectability is

reasonably assured.

Revenue related to multiple element arrangements are analyzed to determine whether the deliverables can be separated or whether they must be accounted for as a single unit of accounting. This determination is generally based on whether any deliverable has stand-alone value to the partner. This analysis also establishes a selling price hierarchy for determining how to allocate arrangement consideration to identified units of accounting. The selling price used for each unit of accounting is based on vendor-specific objective evidence, if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific nor third-party evidence is available. Typically, the Company has not granted licenses to partners at the beginning of its arrangements and thus there are no delivered items separate from the research and development services provided. As such, upfront payments are recorded as deferred revenues in the balance sheet and are recognized as contract research and development revenues over the estimated period of performance that is consistent with the terms of the research and development obligations contained in the agreement. The Company periodically reviews the estimated period of performance based on the progress made under each arrangement.

Amounts related to research and development funding are generally recognized as the related services or activities are performed, in accordance with the contract terms. To the extent that agreements specify services are to be performed on a cost-plus basis, revenues are recognized as services are rendered. Such work is generally billed on a monthly basis for time incurred at specified rates in the agreements. To the extent that agreements specify services to be performed on a fixed-price basis, revenues are recognized consistent with the pattern of the work performed. Generally, all of the agreements provide for reimbursement of third-party expenses, and such reimbursable expenses are billed as revenues at the time the associated expenses are incurred.

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The arrangements include contractual milestones, which relate to the achievement of pre-specified research, development, regulatory and commercialization events. The milestone events contained in the Company's arrangements generally coincide with the progression of the Company's product candidates through research and development, to regulatory approval, and through to commercialization. The process of successfully developing a new product, having it approved from a regulatory perspective, and ultimately sold for a profit, is highly uncertain. As such, the milestone payments that the Company earns from its partners involve a significant degree of risk to achieve. Research and development milestones in the Company's strategic alliances includes the following types of events: completion of pre-clinical research and development work, completion of certain development events and initiation or completion of clinical trials. Regulatory milestones may include the following types of events: filing of regulatory applications with the Food and Drug Administration and approval of the regulatory applications by the Food and Drug Administration. Commercialization milestones generally relate to product launch. The Company recognizes milestone payments in their entirety in the period in which the milestone is achieved.

Upon commercialization, revenues are generated from product sales, royalties and profit sharing. Product sales are generally recognized as products are shipped and title and risk of loss pass to the partner. Royalties and profit sharing are generally recognized when the partners sell the product to their customers, which could be in a different accounting period than the period in which we sold that product to our partners, and are based on a percentage of the partners' gross sales or net profits of the products as specified in the underlying agreements. Royalties and profit sharing totaled \$0.6 million and \$1.2 million for the three and six months ended March 31, 2015, compared to \$1.1 million and \$3.0 million for the corresponding periods in 2014.

Other revenues consists primarily of income derived from the Company's arrangements with its partners, whereby a portion of the revenues received under these agreements relates to rental income from embedded leases associated with these relationships, as well as revenues associated with licenses granted to a third party for intellectual property related to thin film dressings.

2. Fair Value Measurements

Financial assets and liabilities are recorded at fair value. Except as noted below, the carrying values of the Company's financial instruments, including cash equivalents, accounts receivable, and accounts payable, approximated their fair values due to the short period of time to maturity or repayment.

Assets and liabilities recorded at fair value on a recurring basis in the balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Fair value is defined as the exchange price that would be received for an asset, or an exit price that would be paid to transfer a liability, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The authoritative guidance on fair value measurements establishes a three-tier fair value hierarchy for disclosure of fair value measurements as follows:

Level I Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date;

Level II Inputs are observable, unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities; and

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Level III Unobservable inputs that are significant to the measurement of the fair value of the assets or liabilities that are supported by little or no market data.

The Company's financial assets that are measured at fair value on a recurring basis by level within the fair value hierarchy are as follows (in thousands):

	As of March 31, 2015			Total
	Level I	Level II	Level III	
Financial Assets:				
Money market funds	\$ 33,593	\$	\$	\$ 33,593
Total financial assets	\$ 33,593	\$	\$	\$ 33,593

	As of September 30, 2014			Total
	Level I	Level II	Level III	
Financial Assets:				
Money market funds	\$ 36,019	\$	\$	\$ 36,019
Total financial assets	\$ 36,019	\$	\$	\$ 36,019

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The following financial liabilities have carrying values which differ from their fair value as estimated by the Company for instruments with similar terms and remaining maturities (Level III valuation technique) (in thousands):

	Carrying Value	As of March 31, 2015 Fair Value	Difference
Long-term debt	\$ 49,024	\$ 49,145	\$ 121
Total	\$ 49,024	\$ 49,145	\$ 121

	Carrying Value	As of September 30, 2014 Fair Value	Difference
Long-term debt	\$ 38,262	\$ 40,357	\$ 2,095
Total	\$ 38,262	\$ 40,357	\$ 2,095

3. Inventories

Inventories consist of the following (in thousands):

	As of March 31, 2015	As of September 30, 2014
Raw materials	\$ 1,700	\$ 1,268
Work in process	850	898
Finished goods	564	632
Total inventories, cost	3,114	2,798
Less inventory reserves	(153)	(206)
Total inventories, net	\$ 2,961	\$ 2,592

4. Long-Term Debt

The Company's outstanding long-term debt was as follows (in thousands):

	As of March 31, 2015	As of September 30, 2014
Term loan agreement expiring June 30, 2019, less discount of \$66 and \$76 as of March 31, 2015 and September 30, 2014, respectively. See terms of the agreement below.	\$ 48,421	\$ 37,625
Notes payable to lessor for tenant improvements. The note calls for monthly payments of principal and interest of \$3 at an interest rate of 7% and is due April 2017	81	96

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Notes payable to lessor for tenant improvements. The note calls for monthly payments of principal and interest of \$6 at an interest rate of 7% and is due November 2024	522	541
Total	49,024	38,262
Less current portion	54	107
Long-term portion	\$ 48,970	\$ 38,155

On July 13, 2012, the Company completed a \$35.0 million term loan agreement with Capital Royalty Group, subsequently renamed as CRG (CRG), a healthcare-focused investment firm. In August 2012 and December 2012, the Company drew down \$29.0 million and \$6.0 million under this agreement, respectively, completing the principal borrowing authorized under that agreement. On November 14, 2014, the agreement was amended to, among other things, increase the principal amount of the term loan by \$10.0 million, extend the interest-only period to June 30, 2018, and extend its maturity from June 30, 2017 to June 30, 2019. The amended agreement provides for a maximum borrowing of \$45.0 million, excluding PIK notes, as defined below. The amended agreement requires

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interest to be paid quarterly at a simple annual rate of 15%, and all outstanding principal be repaid in four equal quarterly payments beginning on June 30, 2018, with interest continuing to accrue on the unpaid principal at a simple annual rate of 15%. In addition, the amended agreement contains a provision whereby the Company can, at each quarterly payment due date prior to June 30, 2018, choose to convert that portion of each quarterly interest obligation equal to 3.5% of the then-outstanding principal into additional notes. As of March 31, 2015 and September 30, 2014, the Company had converted \$3.5 million and \$2.7 million, respectively, of interest into such additional notes (also known as payment-in-kind (PIK) notes), each of which add to the outstanding principal.

On December 4, 2014, the Company borrowed the remaining \$10.0 million of principal provided for in the amended agreement. As of March 31, 2015, the principal amount outstanding under the term loan agreement, including all PIK notes, was \$48.5 million. Amounts outstanding under the term loan agreement are collateralized by all of the Company's assets. The amended agreement provides for a prepayment penalty on the outstanding principal if the Company chooses to repay principal prior to June 30, 2018, or upon other specified events, including a change of control. The term loan agreement provides for financial covenants for minimum annual revenues (beginning with the 12 months ending June 30, 2015) and minimum liquidity, with which the Company has been in continuous compliance since the inception of the loan.

5. Collaboration and Partner Arrangements

The Company has recognized the following revenues from its collaboration and partner agreements (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
P&G	\$ 2,539	\$ 2,811	\$ 6,216	\$ 5,762
Teva	3,922	2,784	5,826	6,487
Par	2,611	3,405	4,863	6,528
Agile	980	851	1,867	1,217
Other	1,239	866	2,285	1,191
Total revenues	\$ 11,291	\$ 10,717	\$ 21,057	\$ 21,185

6. Warrants

The Company issued warrants to purchase shares of the Company's capital stock as part of several transactions from fiscal 2008 through fiscal 2013. The warrants had been recorded as either equity instruments or liability instruments at the date of their issuances based on the terms of the warrants.

As of March 31, 2015, warrants to purchase 128,582 shares of common stock were outstanding with a weighted-average exercise price of \$1.77 per share. All of the common stock warrants are exercisable at any time up to five years from issuance. The fair value of these warrants was recorded in stockholders' equity upon issuance.

7. Convertible Preferred Stock, Common Stock and Stockholders' Equity (Deficit)

Convertible Preferred Stock

The Company was authorized to issue up to 5.0 million shares of preferred stock as of March 31, 2015 and September 30, 2014 with a par value of \$0.001 per share. No preferred stock was outstanding as of that date.

Common Stock

The Company was authorized to issue up to 150.0 million shares of common stock as of March 31, 2015 and September 30, 2014 with a par value of \$0.001 per share. As of March 31, 2015, there were 18,072,866 shares of common stock outstanding.

Table of Contents**8. Stock-Based Compensation****Equity Incentive Plans**

As of March 31, 2015 and September 30, 2014, the Company had four equity incentive plans, all of which are sponsored by the Company, with the exception of the separate stock option plan of StrataGent, Inc., a corporation acquired by the Company on September 20, 2007 (the StrataGent Plan). The Company assumed all unexpired, unexercised options outstanding for those employees of StrataGent who remained Company employees after the merger. Each StrataGent option became exercisable into whole shares of Corium stock based on an agreed exchange ratio and per share exercise price such that the total value of the option grant did not change. The Company elected to make no further grants under the StrataGent Plan, however, its terms continue to govern all options issued under that plan. No additional shares available for grant under the StrataGent Plan were assumed by the Company, and any options that were returned to the pool subsequent to the merger with StrataGent were canceled and were not made available for future grants. This wholly-owned subsidiary was dissolved in 2008. As of March 31, 2015, all StrataGent options had been either exercised or canceled.

On March 20, 2014, the Company's board of directors approved the adoption of the 2014 Equity Incentive Plan (the 2014 Plan), which became effective in connection with the IPO. Under the 2014 Plan, the Company initially had reserved a total of 1.0 million shares of common stock plus the remaining unissued shares under the Company's 2012 Equity Incentive Plan (the 2012 Plan), which was adopted in November 2012 and was replaced by the 2014 Plan. The Company also sponsored the 2002 Stock Option Plan that expired in 2012. On January 1 of each year during the ten-year term of the 2014 Plan, the number of shares of common stock issuable under the 2014 Plan can be increased by an amount equal to up to 4% of the number of shares of common stock outstanding as of the preceding December 31, or such lesser number agreed to by the Company's board of directors. On January 16, 2015, the Company's board of directors authorized an increase of 722,834 shares to be added to the total number of shares of common stock issuable under the 2014 Plan.

The exercise price of each option issued under each of the equity incentive plans is required to be no less than the fair value of the Company's common stock, as determined by the Company's board of directors on the date of the grant. The maximum term of the options is ten years and the vesting period is typically four years. The term "Corium Plans" refers to the 2014 Plan, the 2012 Plan and the 2002 Stock Option Plan.

A summary of activity under the Corium Plans during the six months ended March 31, 2015 is as follows:

	Shares Available for Grant	Stock Options Outstanding	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)
Balance September 30, 2014	949,885	2,085,028	\$ 2.92	7.02	\$ 6,710
Additional shares authorized	722,834				
Granted	(689,950)	689,950	\$ 5.57		
Exercised		(3,383)	\$ 1.65		

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Forfeited / Cancelled	3,785	(3,785)	\$	3.50			
Balance March 31, 2015	986,554	2,767,810	\$	3.58	7.28	\$	8,219
Options exercisable March 31, 2015		1,458,272	\$	2.67	5.81	\$	5,658
Options vested and expected to vest March 31, 2015		2,647,448	\$	3.51	4.23	\$	8,048

All outstanding options under the Corium Plans as of March 31, 2015 have an exercise price between \$2.12 and \$8.18 per share.

The weighted-average fair value of the stock options granted for the six months ended March 31, 2015 were estimated using the Black-Scholes option-pricing model with the following assumptions:

	Six Months Ended March 31, 2015	
Expected term (in years)	5.27	6.63
Expected volatility	70	77%
Risk-free interest rate	1.6	1.9%
Expected dividend rate		0%

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Expected Term The expected term represents the period that the stock-based awards are expected to be outstanding before exercise or cancellation. As the Company's historical share exercise experience has not yet provided a reasonable basis upon which to estimate expected term because of a lack of sufficient data points, the Company estimated the expected term by using the simplified method.

Expected Volatility Because the Company has limited information on the volatility of its common stock due to a lack of significant trading history and limited historical data regarding the volatility of its common stock, the expected volatility used is based on the volatility of a group of comparable publicly traded companies. In evaluating comparability, the Company considered factors such as industry, stage of life cycle and size. The Company will continue to analyze the historical stock price volatility and term assumptions as more historical data for the Company's common stock becomes available.

Risk-Free Interest Rate The risk-free interest rate is based on the constant maturity yields of U.S. Treasury notes with remaining maturities similar to the expected term.

Expected Dividend Rate The Company has never paid any dividends, does not plan to pay dividends in the foreseeable future, and, therefore, uses an expected dividend rate of zero in the valuation model.

2014 Employee Stock Purchase Plan

On March 20, 2014, the Company's board of directors approved the adoption of the 2014 Employee Stock Purchase Plan (the "2014 ESPP"), which became effective in connection with the IPO. On January 1 of each year during the ten-year term of the plan, the number of shares issuable under the 2014 ESPP can be increased by an amount equal to up to 1% of the number of shares of common stock and common stock equivalents outstanding as of the preceding December 31, or a lesser number agreed to by the board of directors. No more than 4.0 million shares may be issued over the ten-year term of the 2014 ESPP without the consent of the Company's stockholders. Shares subject to purchase rights granted under the Company's 2014 ESPP that terminate without having been exercised in full will not reduce the number of shares available for issuance under the Company's 2014 ESPP.

The Company initially had reserved 310,000 shares of common stock for issuance pursuant to the 2014 ESPP upon its adoption and, on January 16, 2015, the Company's board of directors reserved an additional 181,994 shares of common stock for issuance pursuant to the 2014 ESPP. As of March 31, 2015, the total reserve available for issuance pursuant to the 2014 ESPP was 430,952 shares of common stock, which reserve is net of issuances of 61,042 shares of common stock. The 2014 ESPP is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986 with the purpose of providing employees with an opportunity to purchase the Company's common stock through accumulated payroll deductions.

The 2014 ESPP provides for a 24-month offering period with four consecutive six-month purchase periods during each offering period. Employees are able to purchase shares of common stock at 85% of the lower of the fair market value of the Company's common stock on the first day of the offering period (the "Offering Date") or on the last day of each six-month purchase period (the "Purchase Date"). The closing price as quoted by the Nasdaq is deemed to be the fair value of the Company's common stock on the Offering Date or the Purchase Date, or if there are no sales on such date, then the last preceding business day on which there were sales. In the event that the closing price of the Company's common stock on the Purchase Date is lower than it was on the Offering Date, then all participating employees may re-enroll in a new 24-month

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offering period that commences the day following the Purchase Date.

The first Purchase Date of the April 2, 2014 offering period of the Company's 2014 ESPP was November 19, 2014. The closing price of the Company's common stock on that date was \$5.73, which was lower than the \$8.00 fair market value on the Offering Date. Accordingly, all participants who acquired shares on the first Purchase Date received a purchase price equal to 85% of \$5.73, or \$4.87.

The fair value of the purchase rights granted under the 2014 ESPP between April 2, 2014 and November 19, 2014 and the offering period commencing on November 20, 2014 were estimated by applying the Black-Scholes option-pricing model to each of the four purchase periods in each offering period using the following assumptions:

	Six Months Ended March 31, 2015	
Fair value of common stock	\$5.73	8.00
Grant price	\$4.87	6.80
Expected term (in years)	0.50	2.00
Expected volatility	47	51%
Risk-free interest rate	0.07	0.54%
Expected dividend rate		0%

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Fair Value of Common Stock The fair market value of the Company's common stock on the first day of each offering period, or \$8.00 for the first offering period, based on the Company's IPO price, and \$5.73 for the new offering period commencing on November 20, 2014.

Grant Price 85% of the fair market value of the Company's common stock on the first day of each offering period, or \$6.80 for the first offering period and \$4.87 for the new offering period commencing November 20, 2014.

Expected Terms The expected terms are based on the end dates of the four purchase periods of each ESPP offering period, which are six, twelve, eighteen and twenty four months from the commencement of each new offering period.

Expected Volatility Because the Company has limited information on the volatility of its common stock due to a lack of significant trading history and limited historical data regarding the volatility of its common stock, the expected volatility used is based on the volatility of a group of comparable publicly traded companies. In evaluating comparability, the Company considered factors such as industry, stage of life cycle and size. The Company will continue to analyze the historical stock price volatility and term assumptions as more historical data for the Company's common stock becomes available.

Risk-Free Interest Rate The risk-free interest rate is based on the constant maturity yields of U.S. Treasury notes with remaining maturities similar to each expected term.

Expected Dividend Rate The Company has never paid any dividends, does not plan to pay dividends in the foreseeable future, and, therefore, uses an expected dividend rate of zero in the valuation model.

For the three and six months ended March 31, 2015, the Company recorded stock-based compensation expense of \$111,000 and \$275,000, respectively, and for the six months ended March 31, 2015 issued 61,042 shares of common stock to employees related to the 2014 ESPP.

Stock-Based Compensation Expense

Employee stock-based compensation expense for the three and six months ended March 31, 2015 and 2014 is classified in the condensed statements of operations and comprehensive income (loss) as follows (in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Cost of product revenues	\$ 82	\$ 5	\$ 185	\$ 11
Cost of contract research and development revenues	46	5	103	9

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Research and development	143	16	268	23
General and administrative	405	168	808	207
Total stock-based compensation	\$ 676	\$ 194	\$ 1,364	\$ 250

As of March 31, 2015, there was a total of \$5.2 million of unrecognized employee stock-based compensation expense, net of estimated forfeitures, related to unvested stock option awards, which is expected to be recognized on a straight-line basis over a weighted-average period of approximately 2.9 years.

9. Product Recall Liability

In fiscal 2008 and fiscal 2010, Actavis issued two voluntary recalls of certain lots and strengths of Fentanyl TDS manufactured by the Company and sold and distributed by Actavis in the United States. The Company and Actavis negotiated financial settlements for these two recalls, and the Company accrued amounts related to these settlements in fiscal 2009 and 2011. These recall liabilities were subsequently reduced through various mechanisms per the terms of the settlement agreements.

In October 2012, the Company reached a revised settlement related to the two recalls, which provided for a total and combined remaining liability of \$5.0 million as of that date. The revised liability will be repaid through quarterly payments in arrears based on a percentage of the average of the total net revenues recorded by the Company related to Fentanyl TDS. These quarterly payments have been paid to Actavis since July 1, 2013 and will continue through April 1, 2017. To the extent that the revised settlement liability has not been fully repaid as of April 1, 2017, the remaining liability, if any, will be converted into the most recent form of capital stock issued by the Company in connection with a financing, at the price per share of that financing. The revised liability does not accrue interest.

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The following table summarizes the changes to the product recall liability (in thousands):

	Six months ended March 31, 2015
Balance at September 30, 2014	\$ 3,710
Payment of settlement liability	(359)
Balance at March 31, 2015	\$ 3,351

10. Net Income (Loss) and Net Income (Loss) per Share Attributable to Common Stockholders

In April 2014, the Company completed its IPO, which resulted in significant changes to the number of then-outstanding shares of common stock. The following table sets forth the computation of the Company's basic and diluted net income (loss) per share attributable to common stockholders during the three and six months ended March 31, 2015 and 2014 (in thousands, except share and per share data):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Basic Net income (loss) per share				
Net income (loss) attributable to common stockholders, basic and diluted	\$ (7,142)	\$ 3,534	\$ (13,901)	\$ 1,436
Less: undistributed earnings attributable to participating securities		(2,420)		