Raptor Pharmaceutical Corp
Form 10-Q
August 06, 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 June 30, 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 August 4, 2015, there were 81,179,979 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)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$192,994	$149,613
Restricted cash	1,515	1,562
Short-term investments	27,496	-
Accounts receivable	13,167	7,455
Inventories	5,320	9,134
Prepaid expenses and other	2,326	3,841
Total current assets	242,818	171,605
Noncurrent assets:		
Fixed assets, net	7,568	5,880
Goodwill	3,275	3,275
Intangible assets, net	2,855	2,974
Other assets	4,744	5,332
Total Assets	$261,260	$189,066
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$3,417	$2,550
Accrued liabilities	19,817	16,859
Common stock warrant liability	-	711
Note payable, current portion	12,000	9,000
Total current liabilities	35,234	29,120
Noncurrent liabilities:		
Note payable, net of current portion	45,000	51,000
Convertible notes	60,000	60,000
Total liabilities	140,234	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, 81,032,050 and 68,861,366 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	81	69
Additional paid-in capital	412,949	306,832
Accumulated other comprehensive loss	(478)	(60)
Accumulated deficit	(291,526)	(257,895)
Total stockholders' equity	121,026	48,946

Total Liabilities and Stockholders' Equity	$261,260	$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 June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Net product sales	$23,332	$16,313	$43,785	$28,447
Cost of sales	2,640	995	6,362	2,309
Gross profit	20,692	15,318	37,423	26,138
Operating expenses:				
Research and development	11,877	11,077	28,429	20,624
Selling, general and administrative	17,770	13,326	32,608	25,390
Total operating expenses	29,647	24,403	61,037	46,014
Loss from operations	$(8,955)	$(9,085)	$(23,614)	$(19,876)
Interest income	68	10	95	41
Interest expense	(4,784)	(3,497)	(9,282)	(6,476)
Foreign currency transaction gain (loss)	232	19	(243)	36
Adjustment to fair value of common stock warrants	(440)	(134)	(495)	(1,297)
Net loss before provision for income taxes	(13,879)	(12,687)	(33,539)	(27,572)
Provision for income taxes	(70)	(6)	(92)	(12)
Net Loss	$(13,949)	$(12,693)	$(33,631)	$(27,584)
Other comprehensive income (loss):				
Foreign currency translation gain (loss)	129	48	(418)	197
Comprehensive Loss	$(13,820)	$(12,645)	$(34,049)	$(27,387)
Net loss per share:				
Basic and diluted	$(0.17)	$(0.20)	$(0.45)	$(0.44)
Weighted-average shares outstanding:				
Basic and diluted	79,771,454	62,652,079	74,485,415	62,414,793

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 Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net loss	$(33,631)	$(27,584)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	7,165	5,650
Fair value adjustment of common stock warrants	495	1,297
Amortization of intangible assets	119	120
Depreciation of fixed assets	630	246
Amortization of debt issuance cost	611	300
Changes in assets and liabilities:		
Accounts receivable	(5,712)	405
Inventories	3,814	(5,350)
Prepaid expenses and other assets	1,515	1,023
Deposits	(23)	-
Accounts payable	867	(3,402)
Accrued liabilities	2,958	3,728
Deferred revenue	-	(1,702)
Net cash used in operating activities	(21,192)	(25,269)
Cash flows from investing activities:		
Net purchase of fixed assets	(2,318)	(2,056)
Purchase of short-term investments	(27,496)	-
Change in restricted cash	47	(530)
Net cash used in investing activities	(29,767)	(2,586)
Cash flows from financing activities:		
Proceeds from sale of common stock	98,325	-
Proceeds from the exercise of common stock warrants	301	1,826
Proceeds from the exercise of common stock options and ESPP	5,409	1,611
Debt issuance costs	-	(631)
Offering costs	(6,277)	(43)
Payments on capital lease	-	(19)
Payments on note payable	(3,000)	-
Net cash provided by financing activities	94,758	2,744
Effect of exchange rates on cash and cash equivalents	(418)	159
Net decrease in cash and cash equivalents	43,381	(24,952)
Cash and cash equivalents, beginning of period	149,613	83,052
Cash and Cash Equivalents, End of Period	$192,994	$58,100
Supplemental cash flow information:		
Interest paid	$5,492	$5,431
Income taxes paid	$243	$159

Supplemental disclosure of non-cash financing activities:		
Fair value of warrant liability reclassified to equity upon exercise	$1,206	$7,503

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
June 30, 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, through 2020, as an orphan drug in the United States and ten years of market exclusivity, through 2023, as an orphan drug in Europe. The Company commenced commercial sales of PROCYSBI in the United States in 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 development pipeline includes its proprietary delayed-release form of cysteamine, or RP103, the investigational form of PROCYSBI, 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 and potential other cysteamine indications, as well as 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 as to whether the Company's regulatory efforts, 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 on terms that are acceptable to the Company, if at all. 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, each of which was 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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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 Company's 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 chief executive officer. 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, short-term investments, 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 was carried at fair value, which was 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. As of June 30, 2015, the Company had $193.0 million in cash and cash equivalents, of which $10.1 million was held by its foreign subsidiaries.

Restricted Cash

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.

Short-term Investments

Short-term investments represent investments in high quality commercial paper with original maturities of greater than 90 days but less than six months. The Company invests in short-term, high credit-quality funds in order to obtain higher yields on its cash reserves. 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 June 30, 2015.

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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 its revenue 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 Company’s product and/or revenue fees are fixed or determinable based on the payment terms associated with the corresponding transaction and whether the sales price and/or fees are subject to refund or adjustment. The Company assesses collectability based primarily on the customer’s payment history and creditworthiness, and records a reserve for product returns based upon timing and history of similar product sales and returns in the pharmaceutical industry.

PROCYSBI is currently distributed in the U.S. by a specialty pharmacy distributor, 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 at that time 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 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 Europe at the time of shipment to pharmacies, 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 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 including manufacturing overhead of inventory intended for sale 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”.

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Upon launching PROCYSBI in June 2013 in the United States and in 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; inventory variance amortization; 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.

Goodwill and Intangible Assets

Intangible assets primarily include the intellectual property and other rights relating to DR Cysteamine (currently utilized in PROCSYBI and in the development of RP103) associated with a licensing agreement with UCSD, which was acquired by the Company 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 previously issued common stock warrants that contained conditional obligations that could have required the Company to transfer cash to settle the warrants upon the occurrence of certain fundamental transactions. Therefore, the Company classified the warrants as liabilities. The Company re-measured the common stock warrant 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 were

re-measured and reclassified to equity. As of June 30, 2015, all common stock warrants subject to liability classification had been exercised or expired.

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 the amendment did not result in substantially different terms. The amended loan requires quarterly interest payments at an annual fixed interest rate of outstanding principal and includes a synthetic royalty component based on net product revenue, including PROCYSBI, in a calendar year. The amended loan is a senior secured obligation of the Company.

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

See Note 7 for additional information on note payable.

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.

See Note 8 for additional information on note payable.

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.

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:

	Six Months Ended June 30,	
	2015	2014
Options to purchase common stock	9,231,283	9,952,407
Convertible debt	3,428,571	-
Restricted stock unit awards outstanding	287,363	-
Warrants to purchase common stock	236,812	334,764
Total Potentially Dilutive Securities	13,184,029	10,287,171

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.

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(Unaudited)

Incentive Plans

In February 2010, the Company's shareholders approved the Raptor Pharmaceutical Corp. 2010 Stock Incentive Plan ("2010 Stock Incentive Plan") for executive officers, employees, and non-employee directors. The Incentive Plan provides for the grant of stock options, restricted stock units ("RSUs"), and other types of awards to eligible participants. Long-term incentive awards granted under the 2010 Stock 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.

On May 19, 2015, at the Company's Annual Meeting of Stockholders, the stockholders approved amendments to the Company's 2010 Stock Incentive Plan ("2015 Plan Amendment"). These amendments were previously approved by the Company's Board of Directors in February 2015. Among other things, the 2015 Plan Amendment increased the share reserve available for issuance under the 2010 Stock Incentive Plan by 3,456,620 shares to an aggregate of 15,393,002 shares plus any shares which are subject to awards under the 2014 Commencement Plan which are forfeited or lapse unexercised and which are not issued under the 2014 Commencement Plan, all of which may be used for any form of award under the 2010 Stock Incentive Plan. Following the approval of the 2015 Plan Amendment by our stockholders, no new equity grants will be made under the 2014 Commencement Plan.

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.

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, preclinical, and research personnel, preclinical and nonclinical studies, clinical trials, and drug manufacturing expenses, including 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 June 30, 2015, there were no accrued uncertain tax positions or interest and penalties related to uncertain tax positions.

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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. In July 2015, the FASB voted to defer the effective date of this ASU for one year, revising the effective date for interim and annual periods beginning after December 15, 2016. Early adoption is permitted. The Company does not anticipate the adoption of this ASU will have a material impact on its consolidated financial statements.

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, 2017, 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.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory, which requires entities to measure most inventory “at the lower of cost and net realizable value,” thereby simplifying the current guidance under which an entity must measure inventory at the lower of cost or market. ASU 2015-11 is effective prospectively for annual and interim periods beginning after December 15, 2016. 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.

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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.

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)

June 30, 2015	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents [1]	$178,193	$ -	$-	$178,193
Short-term investments	27,496	-	-	27,496
Total	$205,689	$ -	$-	$205,689
Liabilities				
Common stock warrants	$-	$ -	$-	$-
Total	$-	$ -	$-	$-

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 June 30, 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. At June 30, 2015, all common stock warrants subject to liability classification had been exercised or expired.

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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

	Six Months Ended June 30,	
(In thousands)	2015	2014
Beginning fair value	$711	$7,066
Change in fair value recognized in earnings	495	1,297
Exercises	(1,206)	(7,503)
Ending Fair Value	$-	$860

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 a risk-free interest rate. The primary factors affecting the fair value of the warrant liability are the Company's stock price and volatility.

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 cost and an overhead allocation of the Company's manufacturing and quality testing expenses. Also included in inventories are raw materials that may be used for clinical trials, which are charged to research and development expense when consumed.

The following table summarizes the components of inventories.

	June 30,	December 31,
(In thousands)	2015	2014
Raw materials	$1,143	$ 6,290
Work-in-process	798	721
Finished goods	3,379	2,123
Total Inventories	$5,320	$ 9,134

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4. FIXED ASSETS

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

(In thousands)	June 30, 2015	December 31, 2014	Estimated useful lives
Assets under construction	$4,047	$ 2,393	-
Office furniture	2,258	2,198	7 years
Laboratory equipment	1,704	1,373	5 years
Computer hardware and software	1,000	815	3 years
Leasehold improvements	558	470	Lease term
Total at cost	9,567	7,249	
Less: accumulated depreciation	(1,999)	(1,369)	
Total Fixed Assets, Net	$7,568	$ 5,880	

Depreciation expense for the six months ended June 30, 2015 and 2014 was approximately $630 thousand and $246 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 was obligated to pay an annual maintenance fee until the commencement of commercial sales of any licensed products is 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 these obligations under the agreement, UCSD may terminate the license or otherwise cause the license to become non-exclusive.

In May 2013, the Company announced that the FDA approved PROCYSBI (cysteamine bitartrate) delayed release capsules for the management of nephropathic cystinosis in adults and children 6 years and older. Subsequently, in September 2013, the Company announced that the EC 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 intangible assets acquired is as follows:

(In thousands)	Useful Life (Years)	June 30, 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		(1,255)	(1,136)
Intangible Assets, Net		$2,855	$ 2,974

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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 associated with the UCSD license agreement. 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 their corresponding intellectual property patents.

During the six months ended June 30, 2015 and year ended December 31, 2014 there was no intangible asset impairment recognized. During both the three months ended June 30, 2015 and 2014, the Company amortized approximately $37 thousand of intangible assets to research and development expense. During the both the six months ended June 30, 2015 and 2014, the Company amortized approximately $74 thousand of intangible assets to research and development expense.

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

(In thousands)	Amortization Expense
2015 (remaining 6 months)	$ 119
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.

6. ACCRUED LIABILITIES

Accrued liabilities consisted of:

(In thousands)	June 30, 2015	December 31, 2014
Personnel-related costs	$5,606	$ 6,879
Clinical trials and research and development costs	2,935	2,522
Rebates and other sales deductions	2,711	3,231
Synthetic royalty interest payable	2,065	369
License royalty payable	1,283	972
Manufacturing costs	885	284
Legal and other professional services	1,430	1,008
Other	2,902	1,594
Total Accrued Liabilities	$19,817	$ 16,859

7. NOTE PAYABLE

On December 20, 2012, the Company entered into a loan agreement with HC Royalty, as lender, under which it agreed to borrow $50.0 million in two $25.0 million tranches. The Company received $23.4 million in net proceeds from the first tranche of the loan at closing in December 2012 and an additional $23.7 million in net proceeds in May 2013 from the second tranche upon FDA approval of PROCYSBI.

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In July 2014, the Company entered into an amended and restated loan agreement with HC Royalty which revised the terms of the 2012 loan agreement between the Company and HC Royalty, and also provided for an additional $10 million in term loan funding. The interest rate was revised to an annual fixed rate of 8.0%, compared to the original interest rate of 10.75%. The loan also contains a synthetic royalty component based on net product revenues, including PROCYSBI, in each calendar year, and such royalty is payable quarterly. The variable royalty rate under the amended and restated loan agreement has been revised to 8.0% on the first $50 million of revenue and 2.0% on revenue in excess of $50 million. The first quarterly principal payment of $3 million was due in June 2015. All term loans under the amended and restated loan agreement mature on March 31, 2020. The loan and the Company's obligation to make payments thereunder will terminate immediately when all payments received by HC Royalty equal $120.0 million.

Prior to July 1, 2014, with respect to the first $25.0 million tranche, for each calendar year (prorated for any portion thereof), the loan bore a royalty rate of 6.25% of the first $25.0 million of product net revenues, 3.0% of product net revenues for such calendar year in excess of $25.0 million and up to $50.0 million, and 1.0% of product net revenues for such calendar year in excess of $50.0 million, payable quarterly. Prior to July 1, 2014, with respect to the second $25.0 million tranche, for each calendar year (prorated for any portion thereof), the loan bore a variable royalty interest rate of 6.0% of the first $25.0 million of net product revenues for such calendar year, 3.0% of product net revenues for such calendar year in excess of $25.0 million and up to $50.0 million, and 1.0% of product net revenues for such calendar year in excess of $50.0 million, payable quarterly.

The Company's amended and restated loan agreement with HC Royalty includes affirmative and negative covenants, including the use of commercially reasonable efforts to exploit RP103 in specific markets and compliance with laws, as well as restrictions on mergers and sales of assets, incurrence of liens, incurrence of indebtedness and transactions with affiliates and other requirements. To secure the performance of the Company's obligations under the loan, the Company granted a security interest to HC Royalty in substantially all of its assets, the assets of its domestic subsidiaries and a pledge of stock of certain of its domestic subsidiaries. The Company's failure to comply with the terms of the loan and related documents, the occurrence of a change of control of the Company or the occurrence of an uncured material adverse effect on the Company or the occurrence of certain other specified events, will result in an event of default under the loan that, if not cured or waived, could result in the acceleration of the payment of all of its indebtedness, as well as prepayment penalties, to HC Royalty and interest thereon. Under the terms of the security agreement, in an event of default, the lender can potentially take possession of, foreclose on, sell, assign or grant a license to use, the Company's pledged collateral and assign and transfer the pledged stock of certain of its subsidiaries.

The Company received marketing approval of PROCYSBI from the FDA on April 30, 2013 and commenced shipment of PROCYSBI during June 2013, and as a result, variable royalty interest became payable to HC Royalty based upon net revenues of PROCYSBI. Interest expense on the loan, excluding amortization of debt issuance costs, for both the three months ended June 30, 2015 and 2014 was approximately $3.3 million. Interest expense on the loan, excluding amortization of debt issuance costs, for the six months ended June 30, 2015 and 2014 was approximately $6.3 million and $6.2 million, respectively.

The following table presents contractual principal payments of the note payable at June 30, 2015.

(In thousands)	Note Principal Payments

2015 (six months)	$ 6,000
2016	12,000
2017	12,000
2018	12,000
2019	12,000
2020 and thereafter	3,000
Total	$ 57,000

Unamortized debt issuance costs on the loan agreement totaled $1.9 million and $2.3 million at June 30, 2015 and December 31, 2014, respectively. Amortization expense was $0.2 million and $0.2 million for the three months ended June 30, 2015 and 2014, respectively. Amortization expense was $0.4 million and $0.3 million for the six months ended June 30, 2015 and 2014, respectively.

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8. CONVERTIBLE NOTES

In July 2014, the Company sold $60 million aggregate principal amount of 8.0% convertible senior notes due August 2019 to HC Royalty and other purchasers. These convertible notes require quarterly interest distributions at a fixed coupon rate equal to 8.0% until maturity or conversion, which will be no later than August 1, 2019. The convertible senior notes are convertible at the option of the holder at a conversion rate of 57.14 common shares per $1,000 principal amount of convertible senior notes at issuance (equivalent to a conversion price of $17.50 per common share), subject to adjustment in certain events. Upon conversion of these convertible senior notes by a holder, the holder will receive shares of the Company's common stock.

In addition, the Company may elect to exercise the optional redemption, as defined in the note purchase agreement, in which case the convertible senior notes will convert into shares of common stock if the price of the common stock is at or above 175% of the applicable conversion price over a 30 consecutive day period. Upon the occurrence of a "change of control", as defined in the note purchase agreement, the holders may require the Company to repurchase all or a portion of the notes for cash at 100% of the principal amount of the notes being purchased, plus a repayment premium and any accrued and unpaid interest. To secure the performance of the Company's obligations under the convertible notes agreement, the Company has assigned certain of its assets as collateral.

Interest expense on convertible notes, excluding amortization of debt issuance costs, was $1.2 million and $2.4 million for the three and six months ended June 30, 2015, respectively. Unamortized debt issuance costs on these convertible notes totaled $2.6 million and $2.8 million at June 30, 2015 and December 31, 2014, respectively. Amortization expense for the three and six months ended June 30, 2015 was $0.1 million and $0.2 million, respectively.

9. CAPITAL STRUCTURE

Preferred Stock

At June 30, 2015, the Company was authorized to issue 15,000,000 shares of $0.001 par value per share of preferred stock. There were no preferred shares issued and outstanding.

Common Stock

At June 30, 2015, the Company was authorized to issue 150,000,000 shares of $0.001 par value per share of common stock. Each holder of common stock is entitled to vote on all matters and is entitled to one vote for each share held. In April 2015, the Company completed a public offering of 10.925 million shares of its common stock for net proceeds after expenses of $92.0 million. As of June 30, 2015 and December 31, 2014, there were 81,032,050 and 68,861,366 shares, respectively, of the Company's common stock issued and outstanding.

Stockholder Rights Plan

The Company's stockholder rights plan entitled the holder of each outstanding share of common stock of the Company to one stock purchase right (a "Right"). Each Right entitled the registered holder to purchase from the Company one thousandth of a share of the Company's Series A Participating Preferred Stock (the "Preferred Shares") at a price of $15 per one one-thousandth of a Preferred Share (the "Purchase Price"), once the Rights became exercisable. The Rights

were not exercisable until the earlier of either (a) 10 days after the public announcement that a person, together with all affiliates or associates of such person, has become an “Acquiring Person” by obtaining beneficial ownership of 15% or more of the Company’s outstanding common stock, or (b) 10 business days (or a later date determined by the Board before any person or group becomes an Acquiring Person) after a person or group of affiliated or associated persons began a tender or exchange offer which, if completed, would result in that person or group of affiliated or associated persons becoming an Acquiring Person. Each one one-thousandth of a share preferred stock, if issued, would have the same voting power as one one-hundred thirty-sixth (1/136th) of a share of common stock and would have entitled holders to a per share payment equal to the payment made on one one-hundred thirty-sixth (1/136th) of a share of common stock, so that one full share of preferred stock would be entitled to receive a payment one one-hundred thirty-sixth (1/136th) of 1,000 times the per share payment to a share of common stock, provided that shares of the Company’s common stock were exchanged via merger, consolidation or a similar transaction. The Rights expired on May 13, 2015.

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Common Stock Issuance under At-The-Market ("ATM") Agreement

On April 30, 2012, the Company entered into an "At-the-Market" ("ATM") sales agreement, with Cowen and Company, LLC ("Cowen"), under which the Company could, at its discretion, sell its common stock with a sales value of up to a maximum of $40.0 million through ATM offerings on the NASDAQ Stock Market (the “Sales Agreement”). On July 3, 2013, the Company and Cowen amended and restated the Sales Agreement (the "Amended and Restated Sales Agreement") to increase the aggregate gross sales proceeds that could be raised to $100 million. Cowen was the sole sales agent for any sales made under the ATM for a 3.0% commission on gross proceeds. The common stock was sold at prevailing market prices at the time of the sale of common stock, and, as a result, prices varied. During the six months ended June 30, 2014, there were no shares sold under the ATM. As of December 31, 2014, the Company did not have any remaining shares available under the ATM for future sales of the Company’s common stock.

Common Stock Warrants

During the three months ended June 30, 2015, Company received approximately $0.3 million from the exercise of warrants in exchange for the issuance of 97,952 shares of the Company’s common stock. There were no exercises of warrants during the three months ended March 31, 2015. During the six months ended June 30, 2014, the Company received approximately $1.8 million from the exercise of warrants in exchange for the issuance of 611,606 shares of the Company’s common stock.

The number of common stock warrants outstanding as of June 30, 2015 were as follows:

	Number of Shares Exercisable	Exercise Price	Expiration Date
Issued in connection with Encode merger	233,309	$2.87	12/13/2015
TorreyPines warrants assumed in 2009 Merger	3,503	157.08	9/26/2015
Total Warrants Outstanding	236,812	$5.15 (1)	

(1) 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 marks them to fair value at each period end. All warrants issued in connection with the December 2009 equity financing have been exercised or expired as of December 31, 2014. All warrants issued in connection with the August 2010 private placement have been exercised or expired as of June 30, 2015.

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A Black-Scholes option-pricing model was used to obtain the fair value of the warrant liabilities using the following assumptions at December 31, 2014. There were no warrants subject to ASC 480 at June 30, 2015.

December 31, 2014	August 2010 Private Placement Investors and Placement Agent	
Fair value (in thousands)	$ 711	
Black-Scholes inputs:		
Stock price	$ 10.28	
Exercise price	$ 3.08	
Risk free interest rate	0.12	%
Volatility	95.00	%
Expected term (years)	0.50	
Dividend	-	

10. STOCK-BASED COMPENSATION

Stock Incentive Plans

The Company’s 2010 Stock Incentive Plan, as amended, provides for stock options, restricted stock or restricted stock units to be granted to its employees, independent contractors, consultants and non-employee directors.

On November 25, 2014, as a key requirement of the Company’s strategy of strengthening its leadership team and employee base, continuing the expansion of its commercial activities into new territories, and increasing the expansion of its product development programs, the Company’s Board of Directors approved the 2014 Employment Commencement Stock Incentive Plan. The plan was approved pursuant to Rule 5635(c)(4) of the Nasdaq Global Select Market for equity grants to induce new employees to enter into employment with the Company. Up to 2,400,000 shares were available to be issued under this plan.

On May 19, 2015, at the Company’s Annual Meeting of Stockholders, the stockholders approved amendments to the Company’s 2010 Stock Incentive Plan. These amendments were previously approved by the Company’s Board of Directors in February 2015. Among other things, the 2015 Plan Amendment increased the share reserve available for issuance by 3,456,620 under the 2010 Stock Incentive Plan to an aggregate of approximately 15.4 million shares plus any shares which are subject to awards under the 2014 Commencement Plan which are forfeited or lapse unexercised and which are not issued under the 2014 Commencement Plan, all of which may be used for any form of award under the 2010 Stock Incentive Plan. Following the approval of the 2015 Plan Amendment by the Company’s stockholders, no new equity grants will be made under the 2014 Commencement Plan.

During the three and six months ended June 30, 2015, the Company received approximately $2.7 million and $4.9 million, respectively, from the exercise of stock options. At June 30, 2015, there were 4,157,674 shares remaining

available for issuance under the 2010 Stock Incentive Plan.

The Company recorded employee stock-based compensation expense as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Cost of goods sold	$44	$47	$76	$87
Research and development	631	739	1,215	1,298
Sellin, general and administrative	3,636	2,489	5,874	4,265
Total Stock-Based Compensation Expense	$4,311	$3,275	$7,165	$5,650

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In the three months ended June 30, 2015, the Company incurred $1.3 million of incremental stock-based compensation costs associated with modifications to one retiring director's stock option grants. These modifications included the acceleration of unvested shares and an extended period to exercise vested options.

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

	For the Three Months Ended June 30, 2015		For the Six Months Ended June 30, 2015	
	Option Shares	Weighted-average Exercise Price	Option Shares	Weighted-average Exercise Price
Beginning balance	9,663,956	$ 8.15	8,857,961	$ 7.71
Granted	334,464	11.53	1,970,325	10.05
Exercised	(539,301)	4.97	(1,072,700)	4.54
Canceled	(227,836)	11.19		