Raptor Pharmaceutical Corp
Form 424B3
April 14, 2011

Prospectus Supplement No. 2 Filed Pursuant to Rule 424(b)(3)
Registration No. 333-166249

Prospectus Supplement No. 2 dated April 13, 2011
(To Prospectus dated December 1, 2010)

4,500,000 SHARES OF COMMON STOCK

This prospectus supplement no. 2 supplements that certain prospectus dated December 1, 2010, as supplemented by that certain prospectus supplement no. 1, dated January 14, 2011 (collectively, the “Prospectus”) relating to the sale by Lincoln Park Capital Fund, LLC of up to 4,500,000 shares of common stock, par value $0.001, of Raptor Pharmaceutical Corp., a Delaware corporation (the “Company”).

This prospectus supplement no. 2 contains the Quarterly Report on Form 10-Q for the quarterly period ended February 28, 2011 filed by the Company with the Securities and Exchange Commission on April 13, 2011 (the “10-Q”). This prospectus supplement no. 2 is not complete without, and may not be delivered or used except in connection with, the Prospectus. This prospectus supplement no. 2 is qualified by reference to the Prospectus except to the extent that the information in this prospectus supplement no. 2 updates and supersedes the information contained in the Prospectus, including any supplements or amendments thereto.

INVESTING IN THE COMPANY’S COMMON STOCK INVOLVES SUBSTANTIAL RISKS. SEE THE SECTION TITLED “RISK FACTORS” BEGINNING ON PAGE 9 OF THE PROSPECTUS AND THE SECTION TITLED “RISK FACTORS THAT MAY AFFECT FUTURE RESULTS” BEGINNING ON PAGE 55 OF THE 10-Q TO READ ABOUT FACTORS YOU SHOULD CONSIDER BEFORE BUYING SHARES OF THE COMPANY’S COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE PROSPECTUS OR THIS PROSPECTUS SUPPLEMENT NO. 2. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus supplement is April 13, 2011.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended February 28, 2011

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to __________

Commission File Number: 000-25571

Raptor Pharmaceutical Corp.
(Exact name of registrant as specified in its charter)

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

9 Commercial Blvd., Suite 200, Novato, CA 94949
(Address of principal executive offices) (Zip Code)

(415) 382-8111
(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

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

There were 32,540,318 shares of the registrant’s common stock, $.001 par value per share, outstanding at March 31, 2011.

RAPTOR PHARMACEUTICAL CORP.

FORM 10-Q FOR THE QUARTER ENDED FEBRUARY 28, 2011

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

Raptor Pharmaceutical Corp.
(A Development Stage Company)
Condensed Consolidated Balance Sheets

ASSETS	February 28, 2011 (unaudited)	August 31, 2010 (1)
Current assets:		
Cash and cash equivalents	$ 16,480,598	$ 16,953,524
Restricted cash	113,748	-
Prepaid expenses and other	162,707	285,898
Total current assets	16,757,053	17,239,422
Intangible assets, net	3,435,792	3,512,542
Goodwill	3,275,404	3,275,403
Fixed assets, net	78,808	93,249
Deposits	104,906	102,906
Deferred offering costs	-	166,015
Total assets	$ 23,651,963	24,389,537
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Current liabilities:		
Accounts payable	$ 714,646	$ 637,321
Accrued liabilities	1,113,782	1,129,810
Common stock warrant liability	19,696,623	15,780,216
Deferred rent	22,845	2,673
Capital lease liability – current	4,814	4,865
Total current liabilities	21,552,710	17,554,885
Capital lease liability - long-term	-	1,811
Total liabilities	21,552,710	17,556,696
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 15,000,000 shares authorized, zero shares issued and outstanding	-	-
	32,416	30,077

Common stock, $0.001 par value, 150,000,000 shares authorized, 32,415,318 and 30,076,758 shares issued and outstanding as at February 28, 2011 and August 31, 2010, respectively				
Additional paid-in capital		55,971,044		47,617,449
Accumulated other comprehensive loss		(2,305)		(7,854)
Deficit accumulated during development stage		(53,901,902)		(40,806,831)
Total stockholders' equity		2,099,253		6,832,841
Total liabilities and stockholders' equity	$	23,651,963	$	24,389,537

(1) Derived from the Company's audited consolidated financial statements as of August 31, 2010.

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

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Raptor Pharmaceutical Corp.
(A Development Stage Company)
Condensed Consolidated Statements of Operations
(Unaudited)

	For the three month periods from	
	December 1, 2010 to February 28, 2011	December 1, 2009 to February 28, 2010
Revenues:	$ -	$ -
Operating expenses:		
General and administrative	1,126,512	981,272
Research and development	3,669,246	2,162,004
Total operating expenses	4,795,758	3,143,276
Loss from operations	(4,795,758)	(3,143,276)
Interest income	11,756	7,145
Interest expense	(356)	(811)
Foreign currency transaction loss	(159)	-
Adjustment to fair value of common stock warrants	1,810,223	(1,043,389)
Net loss	$ (2,974,294)	$ (4,180,331)
Loss per share from operations:		
Basic and diluted	$ (0.15)	$ (0.15)
Net loss per share:		
Basic and diluted	$ (0.09)	$ (0.19)
Weighted average shares outstanding used to compute:		
Basic and diluted	31,778,911	21,622,108

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

Raptor Pharmaceutical Corp.
(A Development Stage Company)
Condensed Consolidated Statements of Operations
(Unaudited)

	For the six month periods from		
	September 1, 2010 to February 28, 2011	September 1, 2009 to February 28, 2010	For the cumulative period from September 8, 2005 (inception) to February 28, 2011
Revenues:	$ -	$ -	$ -
Operating expenses:			
General and administrative	2,832,612	1,988,848	13,509,000
Research and development	6,364,375	4,095,339	30,572,739
In-process research and dev.	-	-	240,625
Total operating expenses	9,196,987	6,084,187	44,322,364
Loss from operations	(9,196,987)	(6,084,187)	(44,322,364)
Interest income	19,232	10,409	346,836
Interest expense	(998)	(1,836)	(114,885)
Foreign currency transaction gain (loss)	89	-	(368)
Adjustment to fair value of common stock warrants	(3,916,407)	(1,043,389)	(9,811,121)
Net loss	$ (13,095,071)	$ (7,119,003)	$ (53,901,902)
Loss per share from operations:			
Basic and diluted	$ (0.30)	$ (0.30)	
Net loss per share:			
Basic and diluted	$ (0.42)	$ (0.35)	
Weighted average shares outstanding used to compute:			
Basic and diluted	30,999,253	20,062,776	

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

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

	For the six month periods from		For the cumulative period from
	September 1, 2010 to February 28, 2011	September 1, 2009 to February 28, 2010	September 8, 2005(inception) to February 28, 2011
Cash flows from operating activities:			
Net loss	$ (13,095,071)	$ (7,119,003)	$ (53,901,902)
Adjustments to reconcile net loss to net cash used in operating activities:			
Employee stock-based compensation exp.	1,179,562	53,005	2,611,320
Consultant stock-based compensation exp.	37,010	70,680	522,951
Fair value adjustment of common stock warrants	3,916,407	1,043,389	9,811,121
Amortization of intangible assets	76,750	75,500	474,208
Depreciation of fixed assets	39,441	35,986	462,622
In-process research and development	-	-	240,625
Amortization of capitalized finder's fee	-	-	102,000
Capitalized acquisition costs previously expensed	-	-	38,000
Changes in assets and liabilities:			
Prepaid expenses and other	123,191	57,257	(63,269)
Intangible assets	-	-	(150,000)
Deposits	(2,000)	-	(104,907)
Accounts payable	77,325	336,172	714,646
Accrued liabilities	(16,028)	(612,061)	433,056
Deferred rent	20,172	1,097	22,740
Net cash used in operating activities	(7,643,241)	(6,057,978)	(38,786,789)
Cash flows from investing activities:			
Purchase of fixed assets	(25,000)	(3,303)	(522,106)
Cash acquired in 2009 Merger	-	581,395	581,391
Increase in restricted cash	(113,748)	-	(113,748)
Net cash provided by (used in) investing activities	(138,748)	578,092	(54,463)
Cash flows from financing activities:			
Proceeds from the sale of common stock	-	7,495,116	39,941,278
	6,747,778	-	11,647,729

Proceeds from the sale of common stock under an equity line			
Proceeds from the exercise of common stock warrants	556,956	56,020	7,541,475
Proceeds from the exercise of common stock options	8,828	6,348	81,549
Fundraising costs	(8,186)	(1,204,493)	(4,183,367)
Proceeds from the sale of common stock to initial investors	-	-	310,000
Proceeds from bridge loan	-	-	200,000
Repayment of bridge loan	-	-	(200,000)
Principal payments on capital lease	(1,862)	(1,973)	(14,509)
Net cash provided by financing activities	7,303,514	6,351,018	55,324,155
Foreign currency translation gain (loss)	5,549	-	(2,305)
Net increase (decrease) in cash and cash equivalents	(472,926)	871,132	16,480,598
Cash and cash equivalents, beginning of period	16,953,524	3,701,787	-
Cash and cash equivalents, end of period	$ 16,480,598	$ 4,572,919	$ 16,480,598
Supplemental disclosure of non-cash financing activities:			
Warrants issued in connection with financing	$ -	$ 1,916,011	$ 16,310,414
Common stock and warrants issued in connection with reverse merger	$ -	$ 4,417,046	$ 4,417,046
Common stock issued as fee for equity line	$ 352,500	$ -	$ 827,637
Acquisition of equipment in exchange for capital lease	$ -	$ -	$ 21,403
Notes receivable issued in exchange for common stock	$ -	$ -	$ 110,000
Common stock issued for a finder’s fee	$ -	$ -	$ 102,000
Common stock issued in asset purchase	$ -	$ -	$ 2,898,624

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

RAPTOR PHARMACEUTICAL CORP.
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) NATURE OF OPERATIONS AND BUSINESS RISKS

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

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

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

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

RPC, the Company's wholly-owned subsidiary, was the "accounting acquirer," and for accounting purposes, the Company was deemed as having been "acquired" in the 2009 Merger. The board of directors and officers that managed and operated RPC immediately prior to the effective time of the 2009 Merger became the Company's board of directors and officers. Additionally, following the effective time of the 2009 Merger, the business conducted by RPC immediately prior to the effective time of the 2009 Merger became primarily the business conducted by the Company.

RAPTOR PHARMACEUTICAL CORP.
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Raptor Pharmaceutical Corp., formerly TorreyPines Therapeutics, Inc. (Delaware)
|
Raptor Pharmaceuticals Corp. (Delaware)
| |
Raptor Therapeutics Inc. (Delaware) Raptor Discoveries Inc. (Delaware)
(f/k/a Bennu Pharmaceuticals Inc.) (f/k/a Raptor Pharmaceutical Inc.)
(merged with TPTX, Inc. on August 30, 2010)
|
Raptor Pharmaceuticals Europe B.V. (Netherlands)

Raptor is a publicly-traded biotechnology company dedicated to speeding the delivery of new treatment options to patients by enhancing existing therapeutics through the application of highly specialized drug targeting platforms and formulation expertise. The Company focuses on underserved patient populations where it can have the greatest potential impact. Raptor's clinical division advances clinical-stage product candidates towards marketing approval and commercialization. Raptor's clinical programs include DR Cysteamine for the potential treatment of nephropathic cystinosis, non-alcoholic steatohepatitis ("NASH"), and Huntington's Disease. Raptor also has ConviviaTM for the potential treatment of aldehyde dehydrogenase ("ALDH2") deficiency, a clinical stage product candidate for which it is seeking to out-license or form a development partnership franchise in Asia. The Company is also developing tezampanel in a planned Phase 1 study for the potential treatment of thrombotic disorder.

Raptor's preclinical division bioengineers novel drug candidates and drug-targeting platforms derived from the human receptor-associated protein ("RAP") and related proteins. Raptor's preclinical programs target cancer, neurodegenerative disorders and infectious diseases. HepTide™ is designed to utilize engineered RAP-based peptides conjugated to drugs to target delivery to the liver to potentially treat primary liver cancer and other liver diseases. NeuroTrans™ represents engineered RAP peptides created to target receptors in the brain and are currently, in collaboration with Roche, undergoing preclinical evaluation for their ability to enhance the transport of therapeutics across the blood-brain barrier. WntTide™ is based upon Mesd and Mesd peptides that the Company is studying in a preclinical breast cancer model for WntTide™'s potential inhibition of Wnt signaling through LRP5, which may block cancers dependent on signaling through LRP5 or LRP6.

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The Company’s condensed consolidated financial statements include the accounts of the Company’s direct and indirect wholly owned subsidiaries, Raptor Pharmaceuticals Corp., Raptor Discoveries Inc., and Raptor Therapeutics Inc., such subsidiaries incorporated in Delaware on May 5, 2006, September 8, 2005 (date of inception), and August 1, 2007, respectively, and Raptor Pharmaceuticals Europe B.V. incorporated in the Netherlands on December 15, 2009. All inter-company accounts have been eliminated. The Company’s

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. Through February 28, 2011, the Company had accumulated losses of approximately $53.9 million. Management expects to incur further losses for the foreseeable future. Management believes that the Company's cash and cash equivalents as of March 31, 2011 of approximately $16.0 million will be sufficient to meet the Company's obligations into the first calendar quarter of 2012. The Company plans to continue to review strategic partnerships, collaborations and potential equity sales as a potential means to fund its preclinical and clinical programs beyond the first calendar quarter of 2012. Until the Company can generate sufficient levels of cash from its operations, the Company expects to continue to finance future cash needs primarily through proceeds from equity or debt financings, loans and collaborative agreements with corporate partners or through a business combination with a company that has such financing in order to be able to sustain its operations until the Company can achieve profitability and positive cash flows, if ever.

On September 29, 2009, upon the closing of the merger with RPC (as discussed further in the Note 9, Issuance of Common Stock), RPC's stockholders exchanged each share of RPC's common stock into .2331234 shares of the post-merger company and the exercise prices and stock prices were divided by .2331234 to reflect the post-merger equivalent stock prices and exercise prices. Therefore, all shares of common stock and exercise prices of common stock options and warrants are reported in these condensed consolidated financial statements on a post-merger basis.

The Company's independent registered public accounting firm has audited the Company's consolidated financial statements for the years ended August 31, 2010 and 2009. The November 22, 2010 audit opinion included a paragraph indicating substantial doubt as to the Company's ability to continue as a going concern due to the fact that the Company is in the development stage and has not generated any revenue to date.

Management plans to seek additional debt and/or equity financing for the Company through private or public offerings or through a business combination or strategic partnership, but it cannot assure that such financing or transaction will be available on acceptable terms, or at all. The uncertainty of this situation raises substantial doubt about the Company's ability to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments that might result from the failure to continue as a going concern.

(b) Use of Estimates

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

(c) Functional Currency

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

(d) Fair Value of Financial Instruments

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(e) Segment Reporting

The Company has determined that it operates in two operating segments, preclinical development and clinical development. Operating segments are components of an enterprise for which separate financial information is available and are evaluated regularly by the Company in deciding how to allocate resources and in assessing performance. The Company's chief executive officer assesses the Company's performance and allocates its resources. Below is a break-down of the Company's net loss and total assets by operating segment:

	For the three months ended February 28,					
	2011			2010		
	Preclinical	Clinical	Total	Preclinical	Clinical	Total
Net loss	$ (390,178)	$ (2,584,116)	$ (2,974,294)	$ (973,941)	$(3,206,390)	$(4,180,331)
Total assets	8,189,431	15,462,532	23,651,963	829,051	10,971,702	11,800,753

	For the six months ended February 28,					
	2011			2010		
	Preclinical	Clinical	Total	Preclinical	Clinical	Total
Net loss	$ (2,568,541)	$ (10,526,530)	$ (13,095,071)	$ (1,966,258)	$(5,152,745)	$(7,119,003)
Total assets	8,189,431	15,462,532	23,651,963	829,051	10,971,702	11,800,753

(f) 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. The Company has not experienced any losses on these investments. Restricted cash represents compensating balances required by our U.S. and European banks as collateral for credit cards.

(g) Intangible Assets

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

until development is completed, but will be tested annually for impairment.

(h) Goodwill

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

(i) Fixed Assets

Fixed assets, which mainly consist of leasehold improvements, lab equipment, computer hardware and software and

RAPTOR PHARMACEUTICAL CORP.
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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

(j) Impairment of Long-Lived Assets

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

(k) Common Stock Warrant Liabilities

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

(l) 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.

(m) Research and Development

The Company is a development stage biotechnology company. Research and development costs are charged to expense as incurred. Research and development expenses include medical, clinical, regulatory and scientists' salaries and benefits, lab collaborations, preclinical studies, clinical trials, clinical trial materials, regulatory and clinical consultants, lab supplies, lab services, lab equipment maintenance and small equipment purchased to support the research laboratory, amortization of intangible assets and allocated executive, human resources and facilities expenses.

(n) In-Process Research and Development

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(o) Net Loss per Share

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

	February 28,	
	2011	2010
Warrants to purchase common stock	10,137,255	5,843,302
Options to purchase common stock	3,265,307	1,191,534
Total potentially dilutive securities	13,402,562	7,034,836

(p) Stock Option Plan

Effective September 1, 2006, the Company adopted the provisions of FASB ASC Topic 718, Accounting for Compensation Arrangements, (“ASC 718”) (previously listed as Statement of Financial Accounting Standards (“SFAS”) No. 123 (revised 2004), Share-Based Payment) in accounting for its stock option plans. Under ASC 718, compensation cost is measured at the grant date based on the fair value of the equity instruments awarded and is recognized over the period during which an employee is required to provide service in exchange for the award, or the requisite service period, which is usually the vesting period. The fair value of the equity award granted is estimated on the date of the grant. The Company previously applied Accounting Principles Board (“APB”) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations and provided the required pro forma disclosures required by SFAS No. 123, Accounting for Stock-Based Compensation. The Company accounts for stock options issued to third parties, including consultants, in accordance with the provisions of the FASB ASC Topic 505-50, Equity-Based Payments to Non-Employees, (“ASC 505-50”) (previously listed as Emerging Issues Task Force (“EITF”) Consensus No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services). See Note 8, Stock Option Plans, for further discussion of employee stock-based compensation.

(q) Recent Accounting Pronouncements

In December 2010, the FASB issued ASU 2010-28, Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (“ASU 2010-28”). ASU 2010-28 modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts and requires the company to perform Step 2 if it is more likely than not that a goodwill impairment may exist. ASU 2010-28 is effective for fiscal years and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Company will adopt these standards on September 1, 2011 and is currently assessing the impact on its condensed consolidated financial statements.

(3) INTANGIBLE ASSETS AND GOODWILL

On January 27, 2006, BioMarin Pharmaceutical Inc. (“BioMarin”) assigned the intellectual property and other rights relating to the RAP technology to the Company. As consideration for the assignment of the RAP technology, BioMarin will receive milestone payments based on certain financing and regulatory triggering events. No other consideration was paid for this assignment. The Company has recorded $150,000 of intangible assets on the condensed consolidated balance sheets as of February 28, 2011 and August 31, 2010 based on the estimated fair value of its agreement with BioMarin.

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

Intangible assets recorded as a result of the 2009 Merger were approximately $1.1 million as discussed in Note 9 below.

Summary of intangibles acquired as discussed above:

Intangible asset (IP license) related to the Encode merger	$	2,620,000
Intangible asset related to NeuroTransTM purchase from BioMarin		150,000
Intangible assets (out-license) related to the 2009 Merger		240,000
In-process research and development (IP license) related to the 2009 Merger		900,000
Total intangible assets		3,910,000
Less accumulated amortization		(474,208)
Intangible assets, net	$	3,435,792

The intangible assets related to DR Cysteamine and NeuroTransTM are being amortized monthly over 20 years, which are the life of the intellectual property patents and the estimated useful life. The 20 year estimated useful life is also based upon the typical development, approval, marketing and life cycle management timelines of pharmaceutical drug products. The intangible assets related to the out-license will be amortized using the straight-line method over the estimated useful life of 16 years, which is the life of the intellectual property patents. The intangible assets related to tezampanel, which has been classified as in-process research and development, will not be amortized until the product is developed. During the three and six months ended February 28, 2011 and 2010 and the cumulative period from September 8, 2005 (inception) to February 28, 2011, the Company amortized $38,375, $76,750, $38,375, $75,500, and $474,208, respectively, of intangible assets to research and development expense.

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

Amortization period	Amortization expense	
September 8, 2005 (inception) to August 31, 2006 – actual	$	4,375
Fiscal year ended August 31, 2007 – actual		7,500
Fiscal year ended August 31, 2008 – actual		94,833
Fiscal year ended August 31, 2009 – actual		138,500
Fiscal year ended August 31, 2010 – actual		152,250
Fiscal year ending August 31, 2011 – estimate		153,500

Fiscal year ending August 31, 2012 – estimate	153,500
Fiscal year ending August 31, 2013 – estimate	153,500
Fiscal year ending August 31, 2014 – estimate	153,500
Fiscal year ending August 31, 2015 – estimate	153,500

Goodwill of $3,275,404 represents the excess of total consideration recorded for the 2009 Merger over the value of the assets assumed. In October 2010, the Company reviewed the carrying value of goodwill for impairment as of its fiscal year ended August 31, 2010 and determined that there was no impairment. For the three and six months ended February 28, 2011, there were no indications of impairment of goodwill. Intangibles are tested for impairment whenever events indicate that their carrying values may not be recoverable. There were no indications of impairment of intangible assets during the three and six months ended February 28, 2011.

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(4) FIXED ASSETS

Fixed assets consisted of:

Category		February 28, 2011		August 31, 2010	Estimated useful lives
Leasehold improvements	$	119,773	$	119,773	Shorter of life of asset or lease term
Office furniture		3,188		3,188	7 years
Laboratory equipment		277,303		277,303	5 years
Computer hardware and software		119,841		94,842	3 years
Capital lease equipment		14,006		14,006	Shorter of life of asset or lease term
Total at cost		534,111		509,112	
Less: accumulated depreciation		(455,303)		(415,863)	
Total fixed assets, net	$	78,808	$	93,249	

Depreciation expense for the three and six months ended February 28, 2011 and 2010 and the cumulative period from September 8, 2005 (inception) to February 28, 2011 was $19,756, $39,441, $18,817, $35,986 and $462,622, respectively. Accumulated depreciation on capital lease equipment was $10,415 and $3,951 as of February 28, 2011, and August 31, 2010, respectively.

(5) FAIR VALUE MEASUREMENT

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

- Level one — Quoted market prices in active markets for identical assets or liabilities;
- Level two — Inputs other than level one inputs that are either directly or indirectly observable; and
- Level three — Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter. Assets and liabilities measured at fair value on a recurring basis at February 28, 2011 and August 31, 2010 are summarized as follows:

Assets	Level 1	Level 2	Level 3	February 28, 2011

Fair value of cash equivalents	$15,277,633	$ —	$ —	$15,277,633
Restricted cash	—	113,748	—	113,748
Total	$15,277,633	$ 113,748	$ —	$15,391,381
Liabilities				
Fair value of common stock warrants	$ —	$ —	$19,696,623	$19,696,623
Total	$ —	$ —	$19,696,623	$19,696,623

Assets	Level 1	Level 2	Level 3	August 31, 2010
Fair value of cash equivalents	$16,509,186	$ —	$ —	$16,509,186
Total	$16,509,186	$ —	$ —	$16,509,186

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Liabilities							
Fair value of common stock warrants	$	—	$	—	$15,780,216	$15,780,216
Total	$	—	$	—	$15,780,216	$15,780,216

Cash equivalents represent the fair value of the Company's investment in four and two money market accounts as of February 28, 2011, and August 31, 2010, respectively.

Marked-to-Market

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

For the three and six months ended February 28, 2011 and 2010, as a result of the marking-to-market of the warrant liability, the Company recorded a gain of $1.81 million, and losses of $3.92 million, $1.04 million and $1.04 million, respectively, in the line item adjustment to fair value of common stock warrants in its condensed consolidated statement of operations. See Note 10 for further discussion on the calculation of the fair value of the warrant liability.

	Warrant liability in millions
Fair value of December 2009 direct offering warrants (including broker warrants) at fiscal year ended August 31, 2010	$ 5.83
Adjustment to mark to market common stock warrants at quarter ended November 30, 2010	2.28
Adjustment to mark to market common stock warrants at quarter ended February 28, 2011	(1.02)
December 2009 direct offering common stock warrant liability at fair value on February 28, 2011	7.09
Fair value of August 2010 private placement warrants (including broker warrants) at fiscal year ended August 31, 2010	9.95
Adjustment to mark to market common stock warrants at quarter ended November 30, 2010	3.45
Adjustment to mark to market common stock warrants at quarter ended February 28, 2011	(0.79)
August 2010 private placement common stock warrant liability at fair value on February 28, 2011	12.61

Total warrant liability at February 28, 2011	$	19.70

(6) ACCRUED LIABILITIES

Accrued liabilities consisted of:

	February 28, 2011	August 31, 2010
Clinical trial costs	$ 733,788	$ 280,918
Accrued vacation	109,538	79,077
Salaries and wages	99,355	88,024
Legal fees	55,000	182,890
Clinical trial materials	44,902	50,000
Proxy printing	33,418	-
Patent costs	20,000	8,956
Consulting – research and development	8,333	-
Consulting - general and administrative	8,250	19,304
Auditing and tax preparation fees	-	33,245
Clinical milestone payment due to UCSD	-	200,000
Accrued bonuses	-	184,021
Other	1,198	3,375
Total accrued liabilities	$ 1,113,782	$ 1,129,810

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(7) COMPREHENSIVE LOSS

The following table shows the computation of total comprehensive loss:

	Three months ended February 28,		Six months ended February 28,	
	2011	2010	2011	2010
Net loss	$(2,974,294)	$(4,180,331)	$(13,095,071)	$(7,119,003)
Foreign currency translation adjustments	2,039	-	5,549	-
Total comprehensive loss	$(2,972,255)	$(4,180,331)	$(13,089,522)	$(7,119,003)

Other comprehensive loss includes gains (losses) on the translation of foreign currency denominated financial statements. Adjustments resulting from these translations are accumulated and reported as a component of other comprehensive income in the stockholders' equity section of the balance sheet.

(8) STOCK OPTION PLANS

Effective September 1, 2006, the Company began recording compensation expense associated with stock options and other forms of equity compensation in accordance with ASC 718. Prior to September 1, 2006, the Company accounted for stock options according to the provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, and therefore no related compensation expense was recorded for awards granted with no intrinsic value. The Company adopted the modified prospective transition method provided for under ASC 718, and consequently has not retroactively adjusted results from prior periods. Under this transition method, compensation cost associated with stock options now includes: (i) quarterly amortization related to the remaining unvested portion of all stock option awards granted prior to September 1, 2006, based on the grant date value estimated in accordance with the original provisions of ASC 718; and (ii) quarterly amortization related to all stock option awards granted subsequent to September 1, 2006, based on the grant date fair value estimated in accordance with the provisions of ASC 718. In addition, the Company records consulting expense over the vesting period of stock options granted to consultants. The compensation expense for stock-based compensation awards includes an estimate for forfeitures and is recognized over the requisite service period of the options, which is typically the period over which the options vest, using the straight-line method. Employee stock-based compensation expense for the three and six months ended February 28, 2011 and 2010 and for the cumulative period from September 8, 2005 (inception) to February 28, 2011 was $305,888, $1,179,562, $27,202, $53,005 and $2,611,320, respectively, of which cumulatively $2,111,444 was included in general and administrative expense and $499,876 was included in research and development expense. No employee stock compensation costs were recognized for the period from September 8, 2005 (inception) to August 31, 2006, which was prior to the Company's adoption of ASC 718.

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

Period*	Risk-free Interest rate	Expected life of stock option	Annual volatility	Annual turnover rate
September 8, 2005 (inception) to August 31, 2006**	5%	10 years	100%	0%
Quarter ended November 30, 2006	5%	8 years	100%	10%
Quarter ended February 28, 2007	5%	8 years	100%	10%
Quarter ended May 31, 2007	5%	8 years	100%	10%
Quarter ended August 31, 2007	4%	8 years	100%	10%
Quarter ended November 30, 2007	3.75%	8 years	109%	10%
Quarter ended February 29, 2008	2%	8 years	119%	10%
Quarter ended May 31, 2008	2%	8 years	121%	10%
Quarter ended August 31, 2008	2.5%	8 years	128%	10%
Quarter ended November 30, 2008	1.5%	7 years	170%	10%
Quarter ended February 28, 2009	2.0%	7 years	220%	10%
Quarter ended May 31, 2009	2.6%	7 years	233%	10%
Quarter ended August 31, 2009	3.2%	7 years	240%	10%
Quarter ended November 30, 2009	3.0%	7 years	245%	10%
Quarter ended February 28, 2010	3.1%	7 years	55%	10%
Quarter ended May 31, 2010	3.1%	7 years	77%	2.5%
Quarter ended August 31, 2010	2.07%	6 years	85%	2.5%
Quarter ended November 30, 2010	1.64%	6 years	88%	2.5%
Quarter ended February 28, 2011	2.42%	6 years	90%	2.5%

* Dividend rate is 0% for all periods presented.

** Stock-based compensation expense was recorded on the condensed consolidated statements of operations commencing on the effective date of ASC 718, September 1, 2006. Prior to

September 1, 2006, stock based compensation was reflected only in the footnotes to the condensed consolidated statements of operations, with no effect on the condensed consolidated statements of operations, per the guidelines of APB Opinion No. 25. Consultant stock-based compensation expense has been recorded on the condensed consolidated statements of operations since inception.

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

During the three months ended May 31, 2010, the Company changed its volatility calculation to reflect its historical trading commencing on September 30, 2009, which is the date that the 2009 Merger was consummated and the Company's common stock started trading on NASDAQ. The Company originally estimated volatility based upon historical volatility commencing in June 2006, when it first began trading on the Over-the-Counter Bulletin Board. The Company changed the volatility assumptions to better reflect its anticipated trading on NASDAQ. During the three months ended May 31, 2010, the Company analyzed its actual historical turnover rate and concluded that 2.5% was a more accurate estimate of future turnover rate on an annual basis.

The Company recognizes as an expense the fair value of options granted to persons who are neither employees nor directors. The fair value of expensed options was based on the Black-Scholes option-pricing model assuming the same factors shown in the stock-based compensation expense table above. Stock-based compensation expense for consultants for the three and six months ended February 28, 2011 and 2010 and for the cumulative period from September 8, 2005 (inception) to February 28, 2011 was $32,737, $37,010, $5,480, $70,680 and $522,951, respectively, of which cumulatively $147,295 was included in general and administrative expense and $375,655 was included in research and development expense.

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

	Option shares	Weighted-average exercise price	Exercisable	Weighted-average fair value of options granted
Outstanding at September 8, 2005	—	—	—	—
Granted	580,108	$ 2.64	—	$ 2.47
Exercised	—	—	—	—
Canceled	—	—	—	—
Outstanding at August 31, 2006	580,108	$ 2.64	4,010	$ 2.47
Granted	107,452	$ 2.56	—	$ 2.31
Exercised	(3,381)	$ 2.57	—	$ 2.40
Canceled	—	—	—	—
Outstanding at August 31, 2007	684,179	$ 2.63	273,236	$ 2.45
Granted	223,439	$ 2.27	—	$ 2.21
Exercised	—	—	—	—
Canceled	—	—	—	—
Outstanding at August 31, 2008	907,618	$ 2.54	600,837	$ 2.39
Granted	81,595	$ 1.13	—	$ 1.04
Exercised	—	—	—	—
Canceled	—	—	—	—
Outstanding at August 31, 2009	989,213	$ 2.42	826,303	$ 2.40
Granted	302,772	$ 2.29	160,605	$ 1.24
Assumed in the 2009 Merger	161,044	$ 114.12	158,475	$ 2.63
Exercised	(37,881)	$ 1.69	—	$ 1.49
Canceled	(23,860)	$ 142.42	—	$ 2.00
Outstanding at August 31, 2010	1,391,288	$ 14.25	1,089,248	$ 1.87
Granted	1,750,680	$ 3.36	335,859	$ 0.15
Exercised	—	—	—	—
Canceled	(1,102)	$ 1,292.00	—	—
Outstanding at November 30, 2010	3,140,866	$ 7.73	1,424,005	$ 2.11

Granted	130,000	$ 3.54	10,000	$ 2.66
Exercised	(3,835)	$ 2.30	—	—
Canceled	(1,724)	$ 1,075.76	—	—
Outstanding at February 28, 2011	3,265,307	$ 7.01	1,537,971	$ 2.02

The weighted average intrinsic values of stock options outstanding and expected to vest and stock options exercisable as of February 28, 2011 and 2010 were $1,605,085, $1,027,098, $107,997 and $46,195, respectively.

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There were 816,548 options available for grant as of February 28, 2011 under the 2010 Equity Incentive Plan, which was approved by the Company's Board of Directors as of February 2, 2010 and approved by its stockholders on March 9, 2010. No further grants will be made under any previous or assumed stock option plans. As of February 28, 2011, the options outstanding under all of the Company's stock option plans consisted of the following:

	Options outstanding			Options exercisable	
Range of exercise prices	Number of options outstanding and expected to vest (#)	Weighted-average remaining contractual life (yrs.)	Weighted-average exercise price ($)	Number of options exercisable (#)	Weighted-average exercise price ($)
$0 to $1.00	34,969	8.13	.85	16,027	0.85
$1.01 to $2.00	85,773	8.25	1.72	51,128	1.70
$2.01 to $3.00	1,590,356	7.46	2.64	891,432	2.53
$3.01 to $4.00	1,442,924	9.54	3.54	470,433	3.57
$4.01 to $5.00	62,104	7.77	4.57	59,770	4.58
$5.01 to $1,075.76	49,181	4.13	266.78	49,181	266.78
	3,265,307	8.36	7.01	1,537,971	11.33

At February 28, 2011, the total unrecognized compensation cost was approximately $3.8 million. The weighted average period over which it is expected to be recognized is 3 years.

(9) ISSUANCE OF COMMON STOCK

As of February 28, 2011, there were 32,415,318 shares of the Company's common stock outstanding.

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

During the three and six months ended February 28, 2011, the Company received $208,250 and $556,956 from the exercise of warrants in exchange for the issuance of 85,000 and 221,620 shares of the Company's common stock, respectively. During the cumulative period from September 8, 2005 (inception) through February 28, 2011, the Company received approximately $7.5 million from the exercise of warrants in exchange for the issuance of an aggregate of 3,963,378 shares.

During the three and six months ended February 28, 2011, the Company received $8,828 from the exercise of stock options in exchange for the issuance of 3,835 shares of the Company's common stock. For the cumulative period from September 8, 2005 (inception) through February 28, 2011, the Company received $81,549 from the exercise of stock options resulting in the issuance of 45,096 shares of common stock.

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

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

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

MERGER OF RAPTOR'S CLINICAL DEVELOPMENT SUBSIDIARY AND ENCODE PHARMACEUTICALS, INC.

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

As a result of the merger with Encode, the Company received the exclusive worldwide license to DR Cysteamine (the "License Agreement"), developed by clinical scientists at the UCSD, School of Medicine. DR Cysteamine is a

proprietary enterically coated formulation of cysteamine bitartrate, a cystine depleting agent currently approved by the U.S. Food and Drug Administration (“FDA”). Cysteamine bitartrate is prescribed for the management of the genetic disorder known as nephropathic cystinosis (“cystinosis”), a lysosomal storage disease. The active ingredient in DR Cysteamine has also demonstrated potential in studies as a treatment for other metabolic and neurodegenerative diseases, such as Huntington’s Disease and NASH.

In consideration of the grant of the license, the Company will be obligated to pay an annual maintenance fee until it begins commercial sales of any products developed pursuant to the License Agreement. In addition to the maintenance fee, the Company will be obligated to pay during the life of the License Agreement: milestone payments ranging from $20,000 to $750,000 for orphan indications and from $80,000 to $1,500,000 for non-orphan indications upon the occurrence of certain events, if ever; royalties on commercial net sales from products developed pursuant to the License Agreement ranging from 1.75% to 5.5%; a percentage of sublicense fees ranging from 25% to 50%; a percentage of sublicense royalties; and a minimum annual royalty commencing the year the Company begins commercially selling any products pursuant to the License Agreement, if ever. Under the License Agreement, the Company is obligated to fulfill predetermined milestones within a specified number of years ranging from 0.75 to 6 years from the effective date of the License Agreement, depending on the indication. To the extent that the Company fails to perform any of the obligations, UCSD may terminate the license or otherwise cause the license to become non-exclusive. Cumulatively, Raptor has expensed $470,000 in milestone payments to UCSD based upon the initiation of clinical trials in cystinosis, Huntington’s Disease and NASH.

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

During the period from May 21, 2008 through June 27, 2008, Raptor entered into a Securities Purchase Agreement, as amended (the "2008 Private Placement Purchase Agreement"), with 11 investors for the private placement of units of the Company, each unit comprised of one share of Raptor's Common Stock and one warrant to purchase one half of one share of Raptor's Common Stock, at a purchase price of $2.14 per unit. Pursuant to the 2008 Private Placement Purchase Agreement, the Company sold an aggregate of 4,662,468 shares of Common Stock for aggregate gross proceeds of $10 million and issued to the investors warrants, exercisable for two years from the initial closing, which entitle the investors to purchase up to an aggregate of 2,331,234 shares of Common Stock of the Company and have an exercise price of either $3.22 or $3.86 per share, depending on when such warrants are exercised, if at all, and were valued at approximately $3 million (using the following Black-Scholes pricing model assumptions: risk-free interest rate 2%; expected term 2 years and annual volatility 121.45%).

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

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

On August 21, 2009, Raptor entered into a securities purchase agreement with four investors for the private placement of units of the Company at a purchase price of $1.37 per unit, each unit comprised of one share of Raptor's common stock, par value $0.001 per share and one warrant to purchase one half of one share of Raptor's common stock. Pursuant to the securities purchase agreement, the Company sold an aggregate of 1,738,226 units to the investors for

aggregate gross proceeds of $2,386,000. The 1,738,226 units are comprised of an aggregate of 1,738,226 shares of common stock and warrants to purchase up to 869,113 shares of Raptor's common stock valued at $1.0 million (using the following Black-Scholes pricing model assumptions: risk-free interest rate 1.11%; expected term 2 years and annual volatility 240.29%). The warrants, exercisable for two years from the closing, entitle the investors to purchase, in the aggregate, up to 869,113 shares of Raptor's common stock and have an exercise price of either $2.57 until the first anniversary of issuance or $3.22 per share after the first anniversary of issuance.

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

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2009 MERGER AND NASDAQ LISTING

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

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

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

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

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

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

Asset Allocation	Value (millions)	%

Cash and equivalents	$	0.58	13
Other current assets		0.10	2
Accrued liabilities		(0.68)	(15)
Intangible assets:			
In-process research & development		0.90	20
Licenses		0.24	6
Total identifiable assets		1.14	26
Plus Goodwill		3.28	74
Total net assets acquired	$	4.42	100

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

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

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

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

discussed further below in Note 10.

ISSUANCES OF COMMON STOCK IN CONNECTION WITH AN EQUITY LINE

On April 16, 2010, the Company signed a purchase agreement with Lincoln Park Capital Fund, LLC ("LPC"), together with a registration rights agreement, whereby LPC has agreed to purchase up to $15 million of the Company's common stock over a 25 month period. Under the registration rights agreement, the Company agreed to file a registration statement related to the transaction with the U.S. Securities and Exchange Commission ("SEC") covering the shares that have been issued or may be issued to LPC under the purchase agreement. Such registration statement was declared effective by the SEC on May 7, 2010. A post-effective amendment to such registration statement was filed on November 23, 2010 and was declared effective by the SEC on December 1, 2010. The Company has the right over a 25-month period to sell its shares of common stock to LPC in amounts of $100,000 to up to $1,000,000 per sale, depending on certain conditions as set forth in the purchase agreement, up to the aggregate amount of $15 million. The purchase agreement may be terminated by the Company at any time at its discretion without any cost to the Company.

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

In consideration for entering into the purchase agreement (the "LPC Purchase Agreement"), the Company issued to LPC 145,033 shares of common stock valued at $246,556 (recorded as deferred offering costs on the Company's balance sheet and amortized over the usage of the equity line) as a commitment fee and is required to issue up to an additional 217,549 shares of its common stock pro rata as LPC purchases the $15 million of the Company's common stock over the 25-month period. During the three and six months ended February 28, 2011, the Company sold 1,734,873 and 2,015,240 shares to LPC at weighted average prices of $3.37 and $3.35, respectively, and paid commitment fees to LPC in the form of 84,812 and 97,865 shares (in addition to the 145,033 shares issued as the initial commitment fee), valued at $306,380 and $352,500, respectively. Since inception, the Company sold 4,186,038 shares to LPC at a weighted average price of $2.78 and paid commitment fees to LPC in the form of 168,929 shares (in addition to the 145,033 shares issued as the initial commitment fee), valued at $581,081. The Company has issued an aggregate of 4,500,000 shares (including shares issued to LPC as commitment fees) to LPC pursuant to the LPC Purchase Agreement and does not plan to issue or register additional shares under such agreement.

2010 PRIVATE PLACEMENT

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

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

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

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The following is a summary of common stock outstanding as of February 28, 2011:

Transaction	Date of Issuance	Common Stock Issued
Founders’ shares	Sept. 2005	1,398,742
Seed round	Feb. 2006	466,247
PIPE concurrent with reverse merger	May 2006	1,942,695
Shares issued in connection with reverse merger	May 2006	3,100,541
Warrant exercises	Jan. – Nov. 2007	1,513,359
Stock option exercises	Mar. 2007	3,380
Loan finder’s fee	Sept. 2007	46,625
Convivia asset purchase	Oct. 2007 – June 2010	160,272
Encode merger DR Cysteamine asset purchase	Dec. 2007	802,946
Shares issued pursuant to consulting agreement	May 2008	2,040
PIPE — initial tranche	May 2008	1,030,405
PIPE — second tranche	May 2008	69,937
PIPE — third tranche	June 2008	3,562,126
Warrant exercises from warrant exchange	June/July 2009	2,031,670
PIPE	August 2009	1,738,226
Warrant exercises	Sept. 2009 – Feb. 2011	418,356
Shares issued in connection with reverse merger	September 2009	940,863
Stock option exercises	October 2009 – Feb. 2011	41,716
Registered direct financing	December 2009	3,747,558
Shares issued to equity line investor (incl. fee shares)	April 2010 – Feb. 2011	4,500,000
2010 private placement	August 2010	4,897,614
Total shares of common stock outstanding		32,415,318

(10) WARRANTS

The table reflects the number common stock warrants outstanding as of February 28, 2011:

	Number of shares exercisable	Exercise price		Expiration date
Issued in connection with Encode merger	233,309	$	2.87	12/13/2015
Issued to placement agents in May / June 2008	465,816	$	2.36	5/21/2013
Issued to PIPE investors in August 2009	635,990	$	3.22	8/21/2011
Issued to placement agents in August 2009	129,733	$	1.50	8/21/2014
TorreyPines warrants assumed in 2009 Merger	8,140	$	80.86*	6/11/2013-9/26/2015
Issued to registered direct investors in Dec. 2009	1,725,000	$	2.45	6/22/2011
Issued to registered direct investors in Dec. 2009	1,868,750	$	2.45	12/23/2014
Issued to placement agent in Dec. 2009	74,951	$	2.50	12/23/2014
Issued to private placement investors in Aug. 2010	4,897,614	$	3.075	8/11/2015
Issued to placement agent in Aug. 2010	97,952	$	3.075	8/11/2015
Total warrants outstanding	10,137,225	$	2.86*	

* Average exercise price

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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 Topic 480, Distinguishing Liabilities from Equity ("ASC 480"), a financial instrument that may require the issuer to settle the obligation by transferring assets is classified as a liability. Therefore, the Company has classified the warrants from both financings as liabilities and will mark them to fair value at each period end.

A Black-Scholes option-pricing model was used to obtain the fair value of the warrants issued in the December 2009 and August 2010 equity financings using the following assumptions at February 28, 2011 and August 31, 2010:

	December 2009 equity financing						August 2010 private placement	
	Series A		Series B		Placement agent		Investors and placement agent	
	At February 28, 2011	At August 31, 2010	At February 28, 2011	At August 31, 2010	At February 28, 2011	At August 31, 2010	At February 28, 2011	At August 31, 2010
Fair value ($ millions)	4.7	3.7	2.2	2.0				