Retrophin, Inc.
Form 10-Q
November 04, 2016

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from _____ to _____

RETROPHIN, INC.

(Exact name of registrant as specified in its charter)

Delaware	001-36257	27-4842691
(State or other jurisdiction of incorporation or organization)	(Commission File No.)	(I.R.S. Employer Identification No.)

12255 El Camino Real, Suite 250,
San Diego, CA 92130
(Address of Principal Executive Offices)

_____

(760) 260-8600
(Registrant's Telephone number including area code)

_____

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ 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 þ 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 þ 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 þ

The number of shares of outstanding common stock, par value $0.0001 per share, of the Registrant as of November 3, 2016 was 37,732,329.

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FORWARD LOOKING STATEMENTS

This report contains forward-looking statements regarding our business, financial condition, results of operations and prospects. Words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates” and similar expressions variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this report. Additionally, statements concerning future matters are forward-looking statements.

Although forward-looking statements in this report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the headings “Risks Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our annual report on Form 10-K for the fiscal year ended December 31, 2015, in our quarterly reports in Form 10-Q for the periods ended March 31, 2016 and June 30, 2016, and in this Form 10-Q and information contained in other reports that we file with the Securities and Exchange Commission (the “SEC”). You are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this report.

We file reports with the SEC. The SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us. You can also read and copy any materials we file with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this report, except as required by law. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this quarterly report, which are designed to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
RETROPHIN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

	September 30, 2016 (unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$23,895	$37,805
Marketable securities	250,408	191,799
Accounts receivable, net	14,955	12,458
Inventory, net	3,253	2,536
Prepaid expenses and other current assets	3,553	2,378
Prepaid taxes	—	8,107
Note receivable, current	46,526	46,849
Total current assets	342,590	301,932
Property and equipment, net	382	428
Other assets	1,974	1,859
Prepaid tax assets	3,240	—
Intangible assets, net	183,298	161,536
Goodwill	936	936
Note receivable, long term	—	45,573
Total assets	$532,420	$512,264
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$3,066	$7,639
Accrued expenses	40,376	23,820
Guaranteed minimum royalty	2,000	2,000
Other current liabilities	1,143	958
Taxes payable	3,879	—
Business combination-related contingent consideration	6,570	13,754
Derivative financial instruments, warrants	28,960	38,810
Total current liabilities	85,994	86,981
Convertible debt	44,257	43,766
Other non-current liabilities	2,461	3,066
Guaranteed minimum royalty, less current portion	8,281	8,885
Business combination-related contingent consideration, less current portion	75,370	45,267
Deferred income tax liability, net	8,462	24,328
Total liabilities	224,825	212,293
Stockholders' Equity:		
Preferred stock $0.001 par value; 20,000,000 shares authorized; 0 issued and outstanding as of September 30, 2016 and December 31, 2015	—	—
Common stock $0.0001 par value; 100,000,000 shares authorized; 37,703,996 and 36,465,853 issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	4	4
Additional paid-in capital	412,348	365,802
Accumulated deficit	(104,453)	(65,153)
Accumulated other comprehensive loss	(304)	(682)

Total stockholders' equity	307,595	299,971
Total liabilities and stockholders' equity	$532,420	$512,264

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

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RETROPHIN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(in thousands, except share and per share amounts)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net product sales	$33,945	$28,005	$96,265	$69,444
Operating expenses:				
Cost of goods sold	1,573	513	3,351	1,424
Research and development	18,428	14,064	50,775	34,974
Selling, general and administrative	23,848	22,308	66,178	56,856
Legal fee settlement	5,212	—	5,212	—
Change in fair value of contingent consideration	5,256	6,906	10,741	7,026
Impairment of intangible assets	—	4,710	—	4,710
Total operating expenses	54,317	48,501	136,257	104,990
Operating loss	(20,372)	(20,496)	(39,992)	(35,546)
Other income (expenses), net:				
Other income (expenses), net	151	(314)	156	35
Interest expense, net	(299)	(695)	(609)	(7,415)
Debt early payment penalty	—	—	—	(2,250)
Finance expense	—	—	—	(600)
Change in fair value of derivative instruments	(10,126)	29,991	(4,849)	(36,180)
Gain on sale of assets	—	140,004	—	140,004
Loss on extinguishment of debt	—	(4,151)	—	(4,151)
Litigation settlement gain	—	—	—	15,500
Bargain purchase gain	—	—	—	49,063
Total other income (loss), net	(10,274)	164,835	(5,302)	154,006
Income (loss) before provision for income taxes	(30,646)	144,339	(45,294)	118,460
Income tax benefit (expense)	(6,467)	(38,761)	5,994	1,246
Net income (loss)	$(37,113)	$105,578	$(39,300)	$119,706
Net earnings (loss) per common share, basic	$(1.00)	$2.95	$(1.07)	$3.67
Net earnings (loss) per common share, diluted	$(1.00)	$1.78	$(1.07)	$3.30
Weighted average common shares outstanding, basic	36,980,356	35,741,877	36,728,911	32,650,408
Weighted average common shares outstanding, diluted	36,980,356	42,752,859	36,728,911	36,800,536
Comprehensive income (loss):				
Net income (loss)	$(37,113)	$105,578	$(39,300)	$119,706
Foreign currency translation	17	14	19	8
Unrealized gain (loss) on marketable securities	308	(876)	(397)	(4,395)
Comprehensive income (loss)	$(36,788)	$104,716	$(39,678)	$115,319

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

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RETROPHIN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	For the Nine Months Ended September 30,	
	2016	2015
Cash Flows From Operating Activities:		
Net income (loss)	$(39,300)	$119,706
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	11,953	9,417
Realized gain (loss) on marketable securities	(11)	293
Gain upon divestiture of Pediatric Priority Review Voucher	—	(140,004)
Gain upon divestiture of assets to Turing Pharmaceuticals	—	(914)
Deferred income tax benefit	(10,999)	(11,791)
Interest income from notes receivable	(1,605)	—
Legal fee settlement	5,212	—
Non-cash interest expense	1,551	1,818
Amortization of premiums on marketable securities	853	—
Amortization of debt discount and deferred financing costs	491	1,175
Lease liability	—	32
Loss on early retirement of debt	—	4,151
Impairment of intangible assets	—	4,710
Loss on disposal of fixed assets	—	112
Legal accrual reversal	(2,967)	—
Bargain purchase gain	—	(49,063)
Share based compensation	22,034	18,748
Derivative financial instruments, warrants, issued, recorded in interest expense	—	1,050
Change in estimated fair value of liability classified warrants	4,849	36,180
Change in estimated fair value of contingent consideration	10,741	7,026
Payments related to change in fair value of contingent consideration	(772)	(203)
Changes in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	(2,486)	(5,540)
Inventory	(712)	(1,284)
Prepaid expenses and other current assets	(822)	(1,912)
Accounts payable and accrued expenses	3,278	(1,172)
Income taxes payable	3,879	9,628
Net cash provided by operating activities	5,167	2,163
Cash Flows From Investing Activities:		
Purchase of fixed assets	(61)	(35)
Cash paid for intangible assets	(7,632)	(5,271)
Proceeds from the sale/maturity of marketable securities	92,609	4,977
Purchase of marketable securities	(152,016)	(94,793)
Proceeds from maturity of note receivable	47,500	—
Security deposits	(115)	—
Cash received upon divestiture of asset	—	148,411
Cash paid upon acquisition, net of cash acquired	(500)	(33,430)
Net cash provided by (used in) investing activities	(20,215)	19,859

Cash Flows From Financing Activities:		
Payment of acquisition-related contingent consideration-Manchester	(3,257)	(2,220)
Payment of acquisition-related contingent consideration-Asklepion	(1,082)	(307)
Payment of guaranteed minimum royalty	(1,500)	(1,500)
Proceeds from exercise of warrants	5,998	4,372
Payment of other liability	(750)	(1,000)
Proceeds from exercise of stock options	2,225	5,237
Excess benefit related to stock compensation	(439)	834
Repayment of credit facility	—	(45,000)
Proceeds received from issuance of common stock	—	149,454
Financing costs from issuance of common stock	—	(9,500)
Net cash provided by financing activities	1,195	100,370
Effect of exchange rate changes on cash	(57)	—
Net change in cash	(13,910)	122,392
Cash, beginning of year	37,805	18,204
Cash, end of period	$23,895	$140,596

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

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RETROPHIN, INC. AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATMENTS
NOTE 1. DESCRIPTION OF BUSINESS
Organization and Description of Business
In this Quarterly Report on Form 10-Q, unless the context requires otherwise, the terms “we”, “our”, “us”, “Retrophin” and the “Company” refer to Retrophin, Inc., a Delaware corporation, as well as our direct and indirect subsidiaries. We are a fully integrated biopharmaceutical company with approximately 135 employees headquartered in San Diego, California dedicated to delivering life-changing therapies to people living with rare diseases who have few, if any, treatment options. Our approach centers on our pipeline, featuring clinical-stage assets and pre-clinical discovery programs targeting rare diseases with significant unmet medical needs. Our research and development efforts are supported by revenues from the Company's marketed products, Chenodal®, Cholbam® and Thiola®. In addition we regularly evaluate and, where appropriate, act on opportunities to expand our product pipeline through licenses and acquisitions of products in areas that will serve patients with serious, catastrophic or rare diseases and that we believe offer attractive growth characteristics.
Products on the Market:

- Chenodal® (chenodeoxycholic acid) is approved in the United States for the treatment of patients suffering from gallstones in whom surgery poses an unacceptable health risk due to disease or advanced age. Chenodal has also been the standard of care for cerebrotendinous xanthomatosis (“CTX”) patients for more than three decades and the Company is currently pursuing adding this indication to the label.
- Cholbam® (cholic acid) is approved in the United States for the treatment of bile acid synthesis disorders due to single enzyme defects and is further indicated for adjunctive treatment of patients with peroxisomal disorders.
- Thiola® (tiopronin) is approved in the United States for the prevention of cystine (kidney) stone formation in patients with homozygous cystinuria.

Product Candidates:
Sparsentan, also known as RE-021, is an investigational therapeutic agent which acts as both a potent angiotensin receptor blocker (“ARB”), as well as a selective endothelin receptor antagonist (“ERA”), with in vitro selectivity toward endothelin receptor type A. We have secured a license to sparsentan from Ligand Pharmaceuticals, Inc. and Bristol-Myers Squibb Company (who referred to it as DARA). We are developing sparsentan as a treatment for focal segmental glomerulosclerosis ("FSGS"), which is a leading cause of end-stage renal disease and Nephrotic Syndrome (“NS”). There are no U.S. Food and Drug Administration ("FDA") approved pharmacological treatments for FSGS and the off-label armamentarium is limited to ACE/ARBs, steroids, and immunosuppressant agents, which are effective in only a subset of patients. In the third quarter of 2016, we announced positive top-line data from the Phase 2 DUET study of sparsentan for the treatment of FSGS. We will work with the FDA in the near future to determine the most expeditious path forward to gain approval for sparsentan. Sparsentan was granted orphan drug designation in the U.S. and EU in January 2015 and November 2015, respectively.
We are developing RE-024, a novel small molecule, as a potential treatment for pantothenate kinase-associated neurodegeneration ("PKAN"). PKAN is a genetic neurodegenerative disorder that is typically diagnosed in the first decade of life. Consequences of PKAN include dystonia, dysarthria, rigidity, retinal degeneration, and severe digestive problems. There are currently no viable treatment options for patients with PKAN. RE-024 is a phosphopantothenate prodrug therapy that aims to restore levels of this key substrate in PKAN patients. Certain international health regulators have approved the initiation of dosing RE-024 in PKAN patients under physician-initiated studies in accordance with local regulations in their respective countries. The Company filed a Investigational New Drug application ("U.S. IND") for RE-024 with the FDA in the first quarter of 2015 to support the commencement of a Company-sponsored Phase 1 study, which was successfully completed during 2015. RE-024 was granted orphan drug designation by the FDA in May 2015 and was granted fast track designation by the FDA in June 2015. On February 24, 2016, we announced RE-024 was granted orphan drug designation from the European Commission. The Company continues discussions with the FDA and the European Medicines Agency ("EMA") regarding the initiation of a potential registration-enabling efficacy trial in PKAN patients.

L-UDCA is a liquid formulation of ursodeoxycholic acid being developed for the treatment of a rare liver disease called primary biliary cholangitis ("PBC"). Retrophin expects to file a New Drug Application with the FDA in 2017 and, if approved, plans to make L-UDCA commercially available to the subset of PBC patients who have difficulty swallowing. There are no liquid formulations of ursodeoxycholic acid currently approved by the FDA.

RE-034 is a synthetic hormone analog of the first 24 amino acids of the 39 amino acids contained in adrenocorticotropic hormone ("ACTH") incorporated into a novel formulation developed by the Company. RE-034 exhibits similar physiological actions as endogenous ACTH by binding to all five melanocortin receptors (pan-MCR), resulting in its anti-inflammatory and immunomodulatory effects. Retrophin has successfully manufactured RE-034 at proof-of-concept scale using a novel formulation process that allows modulation of the release of the active ingredient from the site of administration. The Company is exploring strategic options for development of RE-034, including the evaluation of external partnership and out-licensing opportunities.

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Preclinical:

NGLY1

The Company entered into a research collaboration with the Grace Science Foundation and the Warren Family Research Center for Drug Discovery and Development at the University of Notre Dame for the development of a novel therapeutic for patients with NGLY1 deficiency, a rare genetic disorder. NGLY1 deficiency is believed to be caused by a deficiency in an enzyme called N-glycanase-1, which is encoded by the gene NGLY1. The condition is characterized by a variety of symptoms, including global developmental delay, movement disorder, seizures, and ocular abnormalities. Under this collaboration, the Grace Science Foundation is providing support and funding to Retrophin to enable discovery efforts that aim to validate and address a new molecular target that may be relevant to NGLY1 deficiency. The Warren Family Research Center for Drug Discovery and Development at the University of Notre Dame is providing funding and in-kind research support to help Retrophin advance this program.

NOTE 2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 (the "2015 10-K") filed with the Securities and Exchange Commission (the "SEC") on February 26, 2016, and amended on March 2, 2016. The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information, the instructions for Form 10-Q and the rules and regulations of the SEC. Accordingly, since they are interim statements, the accompanying condensed consolidated financial statements do not include all of the information and notes required by GAAP for annual financial statements, but reflect all adjustments consisting of normal, recurring adjustments, that are necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. Interim results are not necessarily indicative of the results that may be expected for any future periods. The December 31, 2015 balance sheet information was derived from the audited financial statements as of that date. Certain reclassifications have been made to the prior period consolidated financial statements to conform to the current period presentation.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies applied in the preparation of the accompanying condensed consolidated financial statements follows:

Principles of Consolidation

The unaudited condensed consolidated financial statements represent the consolidation of the accounts of the Company and its subsidiaries in conformity with GAAP. All intercompany accounts and transactions have been eliminated in consolidation.

Adoption of New Accounting Standards

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. This ASU amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of as a deferred charge. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2015. The Company retroactively adopted the new guidance in 2016. The adoption of the new guidance did not have a material impact on the Company's financial statements. See Note 10 for further discussion.

In November 2015, the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, to simplify the presentation of deferred taxes. This ASU requires that all deferred tax assets and liabilities, along with any related valuation allowances, be classified as noncurrent on the balance sheet. However, an entity shall not offset deferred tax liabilities and assets attributable to different tax jurisdictions. This ASU is effective for annual and interim reporting periods ending after December 15, 2016. Early adoption is permitted, and the new guidance may be applied either prospectively or retrospectively. We adopted this guidance prospectively as of December 31, 2015. Therefore, prior periods have not been adjusted to reflect this adoption. This change in accounting principle did not change our results of operations, cash flows or stockholders' equity.

Recently Issued Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the FASB or other standard setting bodies. Unless otherwise discussed, the Company believes that the impact of recently issued standards that are not yet effective will not have a material impact on its consolidated financial position or results of operations upon adoption.

In May 2014, the FASB issued ASU No. 2014-9, Revenue from Contracts with Customers. Under the new standard, revenue is recognized at the time a good or service is transferred to a customer for the amount of consideration for which the entity expects to be entitled for that specific good or service. Entities may use a full retrospective approach or report the cumulative effect as of the date of adoption. On July 9, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date. Early adoption of this ASU is permitted but not before the original effective date (annual periods beginning after December 15, 2016). We are currently evaluating the impact, if any, the adoption of this standard will have on our consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This standard amends Topic 330, Inventory, which currently requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. When this standard is adopted, an entity should measure in scope inventory

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at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The adoption of this standard will not have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the impact, if any, the adoption of this standard will have on our consolidated financial statements.

In April 2016, the FASB issued ASU No. 2016-09, Compensation —Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. Specifically, the ASU requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits, and assess the need for a valuation allowance, regardless of whether the benefit reduces taxes payable in the current period. That is, off balance sheet accounting for net operating losses stemming from excess tax benefits would no longer be required and instead such net operating losses would be recognized when they arise. Existing net operating losses that are currently tracked off balance sheet would be recognized, net of a valuation allowance if required, through an adjustment to opening retained earnings in the period of adoption. Entities will no longer need to maintain and track an “APIC pool.” The ASU also requires excess tax benefits to be classified along with other income tax cash flows as an operating activity in the statement of cash flows. In addition, the ASU elevates the statutory tax withholding threshold to qualify for equity classification up to the maximum statutory tax rates in the applicable jurisdiction(s). The ASU also clarifies that cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. The ASU provides an optional accounting policy election (with limited exceptions), to be applied on an entity-wide basis, to either estimate the number of awards that are expected to vest (consistent with GAAP) or account for forfeitures when they occur. The ASU is effective for public business entities for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Certain detailed transition provisions apply if an entity elects to early adopt. We are currently evaluating the impact, if any, the adoption of this standard will have on our consolidated financial statements.

In June 2016, the FASB issued No. 2016-13, Financial Instruments —Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Topic 326 amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. This Accounting Standards Update affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. This update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company currently holds available for sale debt securities that are affected by this ASU. This ASU is not expected to have a material impact on the Company’s financial statements.

In October 2016, the FASB issued No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. The new guidance changes the accounting for income tax effects of intra-entity transfers of assets other than inventory. Under the new guidance, the selling (transferring) entity is required to recognize a current tax

expense or benefit upon transfer of the asset. Similarly, the purchasing (receiving) entity is required to recognize a deferred tax asset or deferred tax liability, as well as the related deferred tax benefit or expense, upon receipt of the asset. The new guidance will be effective for the Company starting in fiscal year 2018 on a modified retrospective basis, and early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements as well as whether to adopt the new guidance early.

NOTE 4. INCOME TAXES

The following table summarizes our effective tax rate and income tax (expense) benefit for the three and nine months ended September 30, 2016 and 2015 (in thousands except for percentages):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Effective tax rate	(21.1)%	26.9 %	13.2 %	(1.1)%
Income tax (expense) benefit	(6,467)	(38,761)	5,994	1,246

For the three and nine months ended September 30, 2016, we recognized an income tax expense of $6.5 million and an income tax benefit $6.0 million, respectively, representing an effective tax rate of (21.1)% and 13.2%, respectively. Under GAAP, quarterly effective tax rates may vary

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significantly depending on the actual operating results in the various tax jurisdictions, and significant transactions, as well as changes in the valuation allowance related to the expected recovery of deferred tax assets.

The difference between the expected statutory federal tax benefit of 35% and the (21.1)% effective tax expense for the three months ended September 30, 2016, was primarily attributable to the increase in valuation allowance against our deferred tax assets, partially offset by the tax benefit of prior year return to provision true-ups.

The difference between the expected statutory federal tax benefit of 35% and the 13.2% effective tax benefit for the nine months ended September 30, 2016, was primarily attributable to the increase in valuation allowance against our deferred tax assets.

For the three and nine months ended September 30, 2015, we recognized income tax expense of $38.8 million and an income tax benefit of $1.2 million, respectively, representing an effective tax rate of 26.9% and (1.1)%, respectively.

The difference between the expected statutory federal tax expense of 35% and the (1.1)% effective tax benefit for the nine months ended September 30, 2015, was primarily attributable to the current and deferred tax expense recorded on the sale of our Priority Review Voucher, offset by the partial release of the US federal valuation allowance.

At September 30, 2016, we had gross unrecognized tax benefits of $1.5 million compared to $3.3 million at December 31, 2015, representing a net decrease of $1.8 million during the nine months ended September 30, 2016. If recognized, none of unrecognized tax benefits would affect the Company’s effective tax rate. We did not recognize any interest and penalties related to unrecognized tax benefits during the nine months ended September 30, 2016.

We are currently under income tax audit examination for our United States federal income tax return for 2014. At this time, we do not anticipate that the conclusion of the audit will have a material effect on the financial statements.

NOTE 5. BUSINESS COMBINATION

Acquisition of Liquid Ursodeoxycholic Acid (L-UDCA)

On June 20, 2016, the Company announced the signing of a definitive agreement to purchase the rights, titles, and ownership of L-UDCA from Asklepion. Retrophin intends to file a New Drug Application ("NDA") with the FDA for L-UDCA for the treatment of PBC in 2017.

The acquisition was accounted for under the purchase method of accounting in accordance with Accounting Standard Codification ("ASC") 805. The fair value of assets acquired and liabilities assumed was based upon a valuation and the Company’s estimates. Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows from acquired product rights for L-UDCA, licenses, trade names and developed technologies, present value and discount rates. Management’s estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. Management's valuation is preliminary. Once the valuation is complete, the Company will make any necessary adjustments.

The purchase included $25.5 million for an intangible asset with a definite life related to product rights for the U.S. The useful life related to the acquired product rights is expected to be approximately 17 years once the NDA is approved by the FDA.

The contingent consideration of $25.0 million (present value) recorded during the period ended June 30, 2016, is related to an agreement to pay an additional cash amount in the form of milestones and sales royalties through 2035. The accrued contingent consideration was recorded as a liability at acquisition-date fair value using the income approach with an assumed discount rate of 12.0% over the applicable term.

The purchase price allocation of $25.5 million as of the acquisition completion date of June 16, 2016 is as follows (in thousands):

Cash paid upon consummation	$500
Present value of contingent consideration	25,000
Total purchase price	$25,500

Fair Value of Assets Acquired and Liabilities Assumed	
Acquired product rights: L-UDCA (intangible asset)	$25,500
Total purchase price	$25,500

Unaudited pro forma information for the transaction is not presented, because the effects of such transaction are considered immaterial to the Company.

Acquisition of Cholic Acid

On January 12, 2015, the Company announced the signing of a definitive agreement under which it acquired the exclusive right to purchase from Asklepion, all worldwide rights, titles, and ownership of Cholbam (cholic acid) for the treatment of bile acid synthesis defects, if approved by the FDA. Under the terms of the agreement, Retrophin paid Asklepion an upfront payment of $5.0 million and agreed to pay milestones based on FDA approval and net product sales, plus tiered royalties on future net sales of Cholbam.

On March 18, 2015, the Company announced that the FDA had approved Cholbam capsules, the first FDA approved treatment for pediatric and adult patients with bile acid synthesis disorders due to single enzyme defects, and for patients with peroxisomal disorders (including Zellweger spectrum disorders). As a result of the approval, Retrophin exercised its right to purchase from Asklepion all worldwide rights, titles, and ownership of Cholbam and related assets. The FDA also granted Asklepion a Pediatric Priority Review Voucher ("PRV"), awarded to encourage development of new drugs

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and biologics for the prevention and treatment of rare pediatric diseases. A Pediatric PRV is transferable and provides the bearer with FDA priority review classification for a new drug application. The Pediatric PRV was transferred to Retrophin under the original terms of the agreement with Asklepion.

On March 31, 2015, the Company completed its acquisition from Asklepion of all worldwide rights, titles and ownership of Cholbam, including all related contracts, data assets, intellectual property, regulatory assets and the Pediatric PRV, in exchange for a cash payment of $28.4 million, in addition to approximately 661,279 shares of the Company's common stock (initially valued at $9 million at the time of the definitive agreement with Asklepion, and $15.8 million at the acquisition completion date). The Company is also required to pay contingent consideration consisting of milestones and tiered royalties with a present value of $39.1 million.

The original asset value of the Pediatric PRV was recognized at $96.3 million. In this valuation process, we considered various factors which included data from recent sales of similar vouchers. The consideration paid to Asklepion did not value the Pediatric PRV because the issuance of a Pediatric PRV is extremely rare. Therefore when the FDA granted the Pediatric PRV with the Cholbam approval, a bargain purchase gain resulted.

The acquisition was accounted for under the purchase method of accounting in accordance with ASC 805. The fair value of assets acquired and liabilities assumed was based upon a valuation and the Company's estimates. Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows from acquired product rights to Cholbam, the Pediatric PRV, trade names and developed technologies, present value and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

The purchase included $83.2 million of intangible assets with definite lives related to product rights with values of $75.9 million for the U.S. and $7.3 million for the international rights. The useful lives related to the acquired product rights are expected to be approximately 10 years.

The contingent consideration of $39.1 million recorded during the year ended December 31, 2015 was related to an agreement to pay an additional cash amount based on the product performance through 2025. The accrued contingent consideration was recorded as a liability at acquisition-date fair value using the income approach with assumed discount rates of 19.0% over the applicable term. The undiscounted amount the Company could pay under the contingent consideration agreement as of December 31, 2015 was up to $16.3 million.

Service fees with a net present value of $2.9 million were recorded during the year ended December 31, 2015. The net present value is based upon $4.0 million in total payments over a four year period starting as of the acquisition date.

As part of the business combination the Company recorded a deferred tax liability of $39.9 million. The deferred tax liability was derived from the difference in the Company's book basis and tax basis in the assets acquired of $88.5 million. The tax rate utilized was 45.4%.

The purchase price allocation of $91.3 million as of the acquisition completion date of March 31, 2015 was as follows (in thousands):

Cash paid upon consummation	$33,430
Present value of contingent consideration and service fees	42,010
Fair Value of 661,279 shares issued to Asklepion	15,844
Total Purchase Price	$91,284
Fair Value of Assets Acquired and Liabilities Assumed	
Acquired product rights: Cholbam (Intangible Asset)	$83,200
Pediatric Priority Review Voucher	96,250
Inventory	777
Deferred tax liability	(39,880)
Total Allocation of Purchase Price	$140,347
Bargain Purchase Gain	(49,063)
Total Purchase Price	$91,284

NOTE 6. MARKETABLE SECURITIES

The Company's marketable securities as of September 30, 2016 and December 31, 2015 were comprised of available-for-sale marketable securities which are carried at fair value, with the unrealized gains and losses reported in accumulated other comprehensive income. Realized gains and losses and declines in value judged to be other-than-temporary, if any, on available-for-sale securities are included in other income or expense. Interest and dividends on securities classified as available-for-sale are included in interest income. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and accretion is included in interest income. During the nine months ended September 30, 2016, investment activity for the Company included $92.6 million in maturities and purchases of $152.0 million, all relating to debt based marketable securities.

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Marketable securities consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Marketable other than equity securities:		
Commercial paper	$ 37,251	$31,864
Corporate debt securities	173,669	125,547
Securities of government sponsored entities	39,488	34,388
Total Marketable Securities:	$ 250,408	$191,799

The following is a summary of short-term marketable securities classified as available-for-sale as of September 30, 2016 (in thousands):

	Remaining Contractual Maturity (in years)	Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Estimated Fair Value
Marketable other than equity securities:					
Commercial paper	Less than 1	$37,302	$ —	$ (51)	$37,251
Corporate debt securities	Less than 1	96,929	18	(57)	96,890
Securities of government-sponsored entities	Less than 1	9,500	—	—	9,500
Total maturity less than 1 year		143,731	18	(108)	143,641
Corporate debt securities	1 to 2	76,909	24	(154)	76,779
Securities of government-sponsored entities	1 to 2	30,012	—	(24)	29,988
Total maturity 1 to 2 years		106,921	24	(178)	106,767
Total available-for-sale securities		$250,652	$ 42	$ (286)	$250,408

The following is a summary of short-term marketable securities classified as available-for-sale as of December 31, 2015 (in thousands):

	Remaining Contractual Maturity (in years)	Amortized Cost	Unrealized Gains	Unrealized Losses	Aggregate Estimated Fair Value
Marketable Other than Equity Securities:					
Commercial paper	Less than 1	$31,899	$ 6	$ (41)	$31,864
Corporate debt securities	Less than 1	69,859	—	(164)	69,695
Total maturity less than 1 year		101,758	6	(205)	101,559
Corporate debt securities	1 to 2	56,162	—	(310)	55,852
Securities of government-sponsored entities	1 to 2	34,522	2	(136)	34,388
Total maturity 1 to 2 years		90,684	2	(446)	90,240
Total available-for-sale securities		$192,442	$ 8	$ (651)	$191,799

The primary objective of the Company’s investment portfolio is to enhance overall returns while preserving capital and liquidity. The Company’s investment policy limits interest-bearing security investments to certain types of instruments issued by institutions with primarily investment grade credit ratings and places restrictions on maturities and concentration by asset class and issuer.

The Company reviews the available-for-sale investments for other-than-temporary declines in fair value below cost basis each quarter and whenever events or changes in circumstances indicate that the cost basis of an asset may not be recoverable. This evaluation is based on a number of factors, including the length of time and the extent to which the fair value has been below the cost basis and adverse conditions related specifically to the security, including any changes to the credit rating of the security, and the intent to sell, or whether the Company will more likely than not be required to sell the security before recovery of its amortized cost basis. The assessment of whether a security is other-than-temporarily impaired could change in the future due to new developments or changes in assumptions

related to any particular security. As of September 30, 2016 and December 31, 2015, the Company believed the cost basis for available-for-sale investments was recoverable in all material respects.

NOTE 7. DERIVATIVE FINANCIAL INSTRUMENTS

Since 2013, the Company has issued five tranches of common stock purchase warrants to secure financing, remediate covenant violations and provide consideration for credit facility amendments extinguished in 2015.

The Company accounts for derivative financial instruments in accordance with FASB ASC 815-40, Derivative and Hedging – Contracts in Entity's Own Equity, pursuant to which instruments which do not have fixed settlement provisions are deemed to be derivative instruments. The Company's warrants are classified as liability instruments due to an anti-dilution provision that provides for a reduction to the exercise price of the warrants if the Company issues additional equity or equity linked instruments in the future at an effective price per share less than the exercise price then in effect.

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The warrants are re-measured at each balance sheet date based on estimated fair value. Changes in estimated fair value are recorded as non-cash adjustments within other income (expenses), net, in the Company's accompanying Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). The Company recorded a loss on the change in the estimated fair value of warrants of $10.1 million and $4.8 million for the three and nine months ended September 30, 2016, respectively, and a gain on the change in the estimated fair value of warrants of $30.0 million and a loss on the change in the estimated fair value of warrants of $36.2 million for the three and nine months ended September 30, 2015, respectively.

The Company calculated the fair value of the warrants using the Monte Carlo Simulation as of September 30, 2016 and December 31, 2015, using the following assumptions:

	September 30, 2016	December 31, 2015
Fair value of common stock	$ 22.38	$ 19.29
Remaining life of the warrants (in years)	1.4 - 3.3 years	2.1 - 4.0 years
Risk-free interest rate	.66-.89%	1.11-1.59%
Expected volatility	55-80%	75-85%
Dividend yield	— %	— %

Expected volatility is based on analysis of the Company's volatility, as well as the volatilities of guideline companies. The risk free interest rate is based on the U.S. Treasury security rates for the remaining term of the warrants at the measurement date.

NOTE 8. FAIR VALUE MEASUREMENTS

Financial Instruments and Fair Value

The Company accounts for financial instruments in accordance with ASC 820, Fair Value Measurements and Disclosures ("ASC 820"). ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; and

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

The valuation techniques used to measure the fair value of the Company's marketable securities and all other financial instruments, all of which have counterparties with high credit ratings, were valued based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data. Based on the fair value hierarchy, the Company classified marketable securities within Level 2.

In estimating the fair value of the Company's derivative liabilities, the Company used the Monte Carlo Simulation as of September 30, 2016 and December 31, 2015. Based on the fair value hierarchy, the Company classified the derivative liability within Level 3.

In estimating the fair value of the Company's contingent consideration, the Company used the comparable uncontrolled transaction ("CUT") method for royalty payments based on projected revenues. Based on the fair value hierarchy, the Company classified contingent consideration within Level 3 because valuation inputs are based on projected revenues discounted to a present value.

Financial instruments with carrying values approximating fair value include cash and cash equivalents, accounts receivable, notes receivable, and accounts payable, due to their short term nature. We estimate the fair value of convertible debt is $74.7 million, considering factors such as market conditions, prepayment and make-whole provisions, variability in pricing from multiple lenders and term of debt.

The following table presents the Company's assets and liabilities, measured and recognized at fair value on a recurring basis, classified under the appropriate level of the fair value hierarchy as of September 30, 2016 (in thousands):

	As of September 30, 2016			
	Total carrying and estimated fair value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Asset:				
Marketable securities, available-for-sale	$250,408	$ —	$ 250,408	$ —
Liabilities:				
Derivative liability related to warrants	$28,960	$ —	$ —	$ 28,960
Business combination-related contingent consideration	$81,940	$ —	$ —	$ 81,940

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The following table presents the Company's asset and liabilities, measured and recognized at fair value on a recurring basis, classified under the appropriate level of the fair value hierarchy as of December 31, 2015 (in thousands):

	As of December 31, 2015			
	Total carrying and estimated fair value	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Asset:				
Marketable securities, available-for-sale	$191,799	$ —	$ 191,799	$ —
Liabilities:				
Derivative liability related to warrants	$38,810	$ —	$ —	$ 38,810
Business combination-related contingent consideration	$59,021	$ —	$ —	$ 59,021

The following table sets forth a summary of changes in the estimated fair value of the Company's derivative financial instruments-warrants liability for the nine months ended September 30, 2016 (in thousands):

	Fair Value Measurements of Common Stock Warrants Using Significant Unobservable Inputs (Level 3)
Balance at January 1, 2016	$ 38,810
Reclassification of derivative liability to equity upon exercise of warrants	(14,699)
Change in estimated fair value of liability classified warrants	4,849
Balance at September 30, 2016	$ 28,960

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. At each reporting period, the Company performs a detailed analysis of the assets and liabilities that are subject to ASC 820. See Note 7 for further discussion of derivative financial instruments relating to warrants.

The following table sets forth a summary of changes in the estimated fair value of the Company's business combination-related contingent consideration for the nine months ended September 30, 2016 (in thousands):

	Fair Value Measurements of Acquisition-Related Contingent Consideration (Level 3)
Balance at January 1, 2016	$ 59,021
Increase from revaluation of contingent consideration	10,741
Acquisition of L-UDCA	25,000
Contractual payments	(3,149)
Contractual payments accrued at September 30, 2016	(9,756)

Foreign currency impact	83
Balance at September 30, 2016	$ 81,940

The fair value of contingent consideration liabilities was determined by applying a form of the income approach (a level 3 input), based upon the probability-weighted projected payment amounts discounted to present value at a rate appropriate for the risk of achieving the performance targets. The key assumptions included in the calculations were the earn-out period payment probabilities, projected revenues, discount rate and the timing of payments. The present value of the expected payments considers the time at which the obligations are expected to be settled and a discount rate that reflects the risk associated with the performance payments.

During the three and nine month periods ended September 30, 2016, the Company incurred charges of $5.3 million and $10.7 million, respectively, in operating expenses on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the revaluation of the contingent consideration liabilities. For the three month period ended September 30, 2016, $1.6 million, $1.8 million and $1.9 million are related to the increase in contingent consideration liabilities for the products Chenodal, Cholbam and product candidate L-UDCA, respectively. For the nine month period ended September 30, 2016, $4.4 million, $4.4 million and $1.9 million are related to the increase in contingent consideration liabilities for the products Chenodal, Cholbam and product candidate L-UDCA, respectively. In each case, the value increased due to changes in the estimated timing of payments. During the three and nine month periods ended September 30, 2015, the Company incurred charges of $6.9 million and $7.0 million, respectively, in operating expenses on the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss).

NOTE 9. INTANGIBLE ASSETS

As of September 30, 2016, the net book value of amortizable intangible assets was approximately $183.3 million.

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The following table sets forth amortizable intangible assets as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Finite-lived intangible assets	$212,722	$179,096
Less: accumulated amortization	(29,424)	(17,560)
Net carrying value	$183,298	$161,536

The following table summarizes amortization expense for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Research and development	$82	$200	$245	$614
Selling, general and administrative	3,987	3,675	11,619	8,803
Total amortization expense	$4,069	$3,875	$11,864	$9,417

NOTE 10. CONVERTIBLE NOTES PAYABLE

On May 29, 2014, the Company entered into a Note Purchase Agreement relating to a private placement by the Company of $46.0 million aggregate principal senior convertible notes due in 2019 (the “Notes”) which are convertible into shares of the Company’s common stock at an initial conversion price of $17.41 per share. The conversion price is subject to customary anti-dilution protection. The Notes bear interest at a rate of 4.5% per annum, payable semiannually in arrears on May 15 and November 15 of each year. The Notes mature on May 30, 2019 unless earlier converted or repurchased in accordance with the terms, and there are no contractual payments due prior to that date. At September 30, 2016 and December 31, 2015, the aggregate carrying value of the Notes was $44.3 million and $43.8 million, respectively.

As of March 31, 2016, the Company retrospectively adopted FASB ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs." This ASU amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of as a deferred charge. At September 30, 2016 and December 31, 2015 the debt issuance costs related to the Notes was $0.1 million.

NOTE 11. ACCRUED EXPENSES

Accrued expenses at September 30, 2016 and December 31, 2015 consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Government rebates payable	$ 4,470	$ 3,158
Compensation related costs	6,387	7,143
Legal fees [1]	4,050	882
Accrued royalties and contingent consideration	13,194	4,688
Research and development	6,694	4,281
Selling, general and administrative	1,417	2,704
Miscellaneous accrued	4,164	964
	$ 40,376	$ 23,820

(1) Included in 2016 balance is $3.2 million, the cash portion of the legal fee settlement. See Note 13 for details.

NOTE 12. EARNINGS (LOSS) PER SHARE

Basic and diluted net earnings (loss) per common share is calculated by dividing net income (loss) applicable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration of common stock equivalents. The Company’s potentially dilutive shares, which include outstanding stock options, restricted stock units, warrants and shares issuable upon conversion of the Notes, are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive.

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Basic and diluted net earnings (loss) per share is calculated as follows (net income amounts are stated in thousands):

	Three Months Ended September 30, 2016			September 30, 2015		
	Shares	Net Income	EPS	Shares	Net Income	EPS
Basic Earnings per Share	36,980,356	$(37,113)	$(1.00)	35,741,877	$105,578	$2.95
Dilutive shares related to warrants	—	—		2,053,934	—	
Change in fair value of derivative instruments	—	—		—	(29,991)	
Convertible debt	—	—		2,642,160	518	
Restricted stock	—	—		409,166	—	
Stock options	—	—		1,905,722	—	
Dilutive net earnings (loss) per share	36,980,356	$(37,113)	$(1.00)	42,752,859	$76,105	$1.78

	Nine Months Ended September 30, 2016			September 30, 2015		
	Shares	Net Income	EPS	Shares	Net Income	EPS
Basic net earnings (loss) per share	36,728,911	$(39,300)	$(1.07)	32,650,408	$119,706	$3.67
Convertible debt	—	—		2,642,160	1,553	
Restricted stock	—	—		331,073	—	
Stock options	—	—		1,176,895	—	
Dilutive net earnings (loss) per share	36,728,911	$(39,300)	$(1.07)	36,800,536	$121,259	$3.30

For the three and nine months ended September 30, 2016 and 2015, the following shares were excluded because they were anti-dilutive (share amounts in millions):

	Three Months Ended September 30, 2016	September 30, 2015	Nine Months Ended September 30, 2016	September 30, 2015
Restricted stock units	0.3	—	0.3	—
Convertible debt	2.6	—	2.6	—
Options	6.7	1.8	6.1	1.1
Warrants	1.8	—	1.8	2.7
Total anti-dilutive shares	11.4	1.8	10.8	3.8

NOTE 13. COMMITMENTS AND CONTINGENCIES

Leases and Sublease Agreements

California Offices

San Diego Office

On September 15, 2016 the Company signed a lease for the second floor of 3721 Valley Centre Drive in San Diego, California. This location will become the Company's headquarters in December 2016, when renovations are expected to be completed. Lease commencement is based upon occupation of the premises which is estimated to be December 16, 2016. For GAAP, lease commencement is the day the Company takes control of the premises, which was September 15, 2016. The Company rents this office space for approximately $1.1 million per annum plus escalations. The lease is expected to expire 91 months from the first full month of occupation, or July 31, 2024. The Company negotiated a tenant allowance of $1.5 million paid by the landlord to help with the renovations of the facility.

On September 8, 2014, the Company entered into a lease agreement for its current corporate headquarters located in San Diego, California. The Company rents this office space for approximately $0.5 million per annum plus escalations. The lease commenced on October 1, 2014 and expires on December 31, 2017.

Carlsbad Office - Vacated

In October 2014, the Company ceased use of this facility and all employees moved into the current headquarters facility in San Diego, California. As a result of vacating this location, the Company recorded a loss of $0.2 million in the year ended December 31, 2014. The Company's lease for the two suites which encompass this facility expires on June 30, 2017. The Company has sublet the two suites through the expiration of the lease.
Massachusetts Office

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On July 31, 2014, the Company entered into a sublease agreement for office space located in Cambridge, Massachusetts. The Company rents this office space for approximately $0.8 million per annum. The sublease expires on December 31, 2016.

New York Office

On December 30, 2015, the Company amended the lease agreement for its offices in New York, New York to extend the lease term through November 2018. The Company rents this office space for approximately $0.5 million per annum plus escalations.

Research Collaboration and Licensing Agreements

As part of the Company's research and development efforts, the Company enters into research collaboration and licensing agreements with unrelated companies, scientific collaborators, universities, and consultants. These agreements contain varying terms and provisions which include fees and milestones to be paid by the Company, services to be provided, and ownership rights to certain proprietary technology developed under the agreements. Some of these agreements contain provisions which require the Company to pay royalties, in the event the Company sells or licenses any proprietary products developed under the respective agreements.

Contractual Commitments

The following table summarizes our principal contractual commitments, excluding open orders that support normal operations, as of September 30, 2016 (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases	$10,663	$1,288	$3,138	$1,218	$5,019
Note payable, including contractual interest	52,037	2,070	49,967	—	—
Sales support services	3,158	416	833	1,909	—
Product supply contracts	1,117	867	250	—	—
	$66,975	$4,641	$54,188	$3,127	$5,019

Legal Proceedings

On September 19, 2014, purported shareholders of the Company sued Martin Shkreli, the Company’s former Chief Executive Officer, in federal court in the Southern District of New York (Donoghue v. Retrophin, Inc., Case No. 14-cv-7640). The Company is a nominal defendant in this action. The plaintiffs sought, on behalf of the Company, disgorgement of short-swing profits from Mr. Shkreli under section 16(b) of the Securities Exchange Act of 1934 (15 U.S.C. 78(p)(b)). The Court has approved a settlement between the parties, under which Mr. Shkreli is obligated to pay $2.025 million to the Company and an additional $0.6 million to Plaintiffs to compensate them for their legal fees. Mr. Shkreli defaulted on the judgment and the Company and the Plaintiffs took steps to collect it. The Company did not record anything related to the judgment on its financial statements for 2015. Any related amounts received will be recorded against equity when collected. On February 18, 2016, Mr. Shkreli sought leave from the Court to move for a protective order to block the enforcement of the judgment. The Company and Plaintiffs’ counsel also sought leave to file motions in connection with their enforcement efforts. On March 16, 2016, the Court granted the parties leave to file their respective motions and ordered that all enforcement efforts be stayed for thirty days. On May 24, 2016, Plaintiffs’ counsel informed the Court that the parties had entered into an agreement under which Plaintiffs’ counsel were to be paid in full, and that pursuant to that agreement they had no further stake in the matter and would not participate in future case events. Under that agreement, the Company paid $8,249 to Plaintiffs’ counsel to compensate them for certain disbursements which Plaintiffs’ counsel had made in connection with their efforts to enforce the judgment, and the Company also assumed control over all restraining notices and subpoenas previously served by Plaintiffs’ counsel. At a status conference on June 10, 2016, the Court ordered Mr. Shkreli and the Company to keep the Court updated on the progress of their settlement negotiations. To date, none of the parties have filed any of the motions which they previously sought leave to file. The Company and Mr. Shkreli have entered into a binding term sheet with respect to a settlement, under which the $2.025 million judgment against Mr. Shkreli would offset and satisfy certain existing legal fees that Mr. Shkreli claimed should be advanced to him by the Company, as described more fully below.

In January 2015, the Company received a subpoena relating to a criminal investigation by the U.S. Attorney for the Eastern District of New York. The subpoena requested information regarding, among other things, the Company's relationship with Mr. Shkreli and individuals or entities that had been investors in investment funds previously managed by Mr. Shkreli. The Company has been informed that it is not a target of the U.S. Attorney's investigation, and is cooperating with the investigation. On December 17, 2015, an indictment against the Company's former Chief Executive Officer, Martin Shkreli, and its former outside counsel, Evan Greebel, was unsealed in the United States District Court for the Eastern District of New York. A superseding indictment reflecting additional charges was filed on June 3, 2016. The Company has also been cooperating with a parallel investigation by the U.S. Securities and Exchange Commission (the "SEC"). On December 17, 2015, the SEC filed a civil complaint against Mr. Shkreli, Mr. Greebel, MSMB Capital Management LLC, and MSMB Healthcare Management LLC in the United States District Court for the Eastern District of New York. In connection with these proceedings, Mr. Shkreli, as well as a number of other current and former directors, officers and employees, have sought advancement of their legal fees from the Company. Mr. Shkreli, in particular, claims that the Company owes him in excess of $5 million in legal fees that he has incurred defending these actions. The Company disputed its obligation to pay the amount in full. The Company and Mr. Shkreli have entered into a binding term sheet with respect to a settlement under which the Company will advance $2.8 million in legal fees to Mr. Shkreli's counsel, representing a portion of the existing legal fees related to these proceedings that Mr. Shkreli claims should be

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advanced. The Company will also undertake an obligation to advance an additional $2 million in future legal fees in the event the matter proceeds to trial. The Company expects to receive payment from its directors' and officers' insurance carriers for a portion of the legal fees it advances, although the amount it will receive from the insurance carriers is not currently estimable. In addition, the legal fees the Company advances will be subject to reimbursement by Mr. Shkreli under Delaware law in the event it is ultimately determined that Mr. Shkreli is not entitled to be indemnified by the Company in these proceedings.

On August 17, 2015, the Company filed a lawsuit in federal district court for the Southern District of New York against Martin Shkreli, asserting that he breached his fiduciary duty of loyalty during his tenure as the Company's Chief Executive Officer and a member of its Board of Directors (Retrophin, Inc. v. Shkreli, 15-CV-06451(NRB)). On August 19, 2015, Mr. Shkreli served a demand for JAMS arbitration on Retrophin, claiming that Retrophin had breached his December 2013 employment agreement. In response to Mr. Shkreli's arbitration demand, the Company has asserted counterclaims in the arbitration that are substantially similar to the claims it previously asserted in the federal lawsuit against Mr. Shkreli. The parties have selected an arbitration panel. On Mr. Shkreli's application, and with the Company's consent, the federal Court has granted a stay of the federal lawsuit pending a determination by the arbitration panel whether the Company's counterclaims will be litigated in the arbitration, as the Company is seeking. On April 22, 2016, the arbitration panel granted the parties' request for a stay of the proceedings pending settlement discussions. In connection with these proceedings, Mr. Shkreli has sought advancement of his legal fees from the Company relating to his defense of the Company's claims against him. Mr. Shkreli claims that he has to date incurred in excess of $2.8 million in fees, including fees incurred in negotiating with the Company over advancement. The Company disputed its obligation to pay the amount in full. The Company and Mr. Shkreli have entered into a binding term sheet with respect to a settlement under which the significant majority of the existing legal fees related to these proceedings that Mr. Shkreli claims should be advanced will be offset and satisfied by the $2.025 million judgment against Mr. Shkreli in the Donoghue v. Retrophin, Inc. case described above. The Company will advance $0.4 million in legal fees to Mr. Shkreli's counsel, representing a portion of the remaining existing legal fees related to these proceedings that Mr. Shkreli claims should be advanced. The legal fees the Company advances will be subject to reimbursement by Mr. Shkreli under Delaware law in the event it is ultimately determined that Mr. Shkreli is not entitled to be indemnified by the Company in these proceedings.

In July 2016, the Company received a demand for payment from the United States Internal Revenue Service ("IRS") regarding a levy issued by the IRS in March 2016 with respect to unpaid federal income taxes personally owed by Mr. Shkreli for the year ended December 31, 2014, for approximately $4.0 million, which has since been reduced to $2.4 million. The levy sought to collect any property or rights to property (such as money, credits and bank deposits) in the Company's possession that belong to or are owed to Mr. Shkreli. The Company believes that it is uncertain, as a matter of law, whether and how the tax levy applies to the Company's advancement obligations to Mr. Shkreli. The Company currently believes the IRS will not enforce the tax levy against the Company once the IRS receives certain payments from Mr. Shkreli. The Company's settlement with Mr. Shkreli enables the delivery of these payments to the IRS. Once these payments are received and the IRS has confirmed the tax levy has been satisfied, the remaining terms of the settlement will become effective. The settlement will satisfy the Company's obligation in full to provide advancement or indemnification for existing legal fees in the proceedings described above.

As of September 30, 2016, the Company has recorded expenses related to the settlement of approximately $5.2 million on its Condensed Consolidated Statements of Operations and Comprehensive Income (Loss), of which approximately $3.2 million consists of cash payments. The remainder consists of the $2.025 million offset judgment against Mr. Shkreli in the Donoghue v. Retrophin, Inc. case described above. The expense does not include the additional $2 million in future legal fees that the Company will be obligated to advance in the event the criminal and SEC actions involving Mr. Shkreli proceed to trial. Although the Company expects to receive payment from its directors' and officers' insurance carriers for a portion of the legal fees it will advance as part of the contemplated settlement, the Company has not yet recorded any gain contingency for such payments as the amount it will receive from the insurance carriers is not currently estimable. While the Company believes the contemplated settlement is probable, it has not yet been finalized, and therefore the settlement may not be consummated on the currently anticipated terms, if at all.

From time to time the Company is involved in legal proceedings arising in the ordinary course of business. The Company believes there is no litigation pending that could have, individually or in the aggregate, a material adverse effect on its results of operations or financial condition.

NOTE 14. SHARE BASED COMPENSATION

Restricted Shares

Service and Performance Based Restricted Stock Units

The following table summarizes the Company's restricted stock activity during the nine months ended September 30, 2016:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value
Outstanding December 31, 2015	429,666	$ 20.38
Granted	245,000	17.52
Vested	(120,501)	18.49
Forfeited/canceled	(54,835)	15.39
Outstanding September 30, 2016	499,330	$ 19.98

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At September 30, 2016, unamortized stock compensation for restricted stock awards was $6.7 million, with a weighted-average recognition period of 1.1 years.

Performance Based Restricted Stock Awards

During the nine months ended September 30, 2016, the Company granted 130,000 performance based restricted stock awards, included in the Restricted Stock Awards table above.

Stock Options

The following table summarizes stock option activity during the nine months ended September 30, 2016:

	Shares Underlying Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2015	5,665,584	$ 17.05	8.75	$ 31,542
Granted	1,685,250	16.72		
Exercised	(220,109)	10.11		
Forfeited/canceled	(273,450)	20.61		
Outstanding at September 30, 2016	6,857,275	$ 17.05	8.13	$ 49,301

At September 30, 2016, unamortized stock compensation for stock options was $42.5 million, with a weighted-average recognition period of 2.0 years.

At September 30, 2016, outstanding options to purchase 3.4 million shares of common stock were exercisable with a weighted-average exercise price per share of $14.41.

Share Based Compensation

The following table sets forth total non-cash stock-based compensation by operating statement classification for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Research and development	$2,934	$2,692	$8,061	$6,660
Selling, general & administrative	4,814	5,489	13,973	12,088
Total	$7,748	$8,181	$22,034	$18,748

Exercise of Warrants

During the three and nine months ended September 30, 2016, the Company issued 882,533 and 897,533 shares of common stock, respectively, upon the exercise of warrants for cash received by the Company in the amount of $5.9 million and $6.0 million, respectively. The Company reclassified $14.5 million and $14.7 million, respectively, of derivative liability to equity for the value of these warrants on the date of exercise. The warrants were revalued immediately prior to exercise and the change in the fair value of $2.9 million for both periods was recorded as other expense in the consolidated financial statements of the Company.

At September 30, 2016 and December 31, 2015, warrants to purchase 1,768,015 and 2,665,548 shares of common stock, respectively, were outstanding.

NOTE 15. INVENTORY

Inventory, net of reserves, consisted of the following at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Raw materials	$ 778	$ 289
Finished goods	2,475	2,247
Total inventory	$ 3,253	$ 2,536

The inventory reserve was $0.6 million and $0.3 million at September 30, 2016 and December 31, 2015, respectively.

NOTE 16. RECEIVABLES
Accounts Receivables

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Accounts receivable, net of reserves for prompt pay discounts and doubtful accounts, was $15.0 million and $12.5 million at September 30, 2016 and December 31, 2015, respectively. The total reserves for both periods were immaterial.

Notes Receivables

The notes receivable arose from the Company's sale of a Pediatric PRV in July 2015 to Sanofi for $245.0 million. $150.0 million was received upon closing, and $47.5 million is due on each of the first and second anniversaries of the closing. In accordance with GAAP, the Company recorded the future short term and long term notes receivable at their present value of $46.2 million and $44.9 million, respectively, at the date of the sale using a discount rate of 2.8%. The accretion on the notes receivable totaled $0.3 million and $1.6 million for the three and nine month periods ending September 30, 2016, respectively, and is recorded in interest expense, net, in the Consolidated Statements of Operations and Comprehensive Income (Loss).

The first anniversary payment was received on July 2, 2016. The present value of the remaining notes receivable is $46.5 million and is recorded in current assets at September 30, 2016. At December 31, 2015, notes receivable was recorded in long term assets with a present value of $45.6 million. There are no indications for impairment as of September 30, 2016 and December 31, 2015.

NOTE 17. SUBSEQUENT EVENT

On November 1, 2016, the Company signed a legal settlement with its former Chief Executive Officer ("CEO") relating to his claims for advancement of legal fees relating to his defense for actions while employed by the Company. See Note 13 for further discussion.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto as of and for the year ended December 31, 2015 and the related Management’s Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission (SEC) on February 26, 2016, and amended on March 2, 2016. Past operating results are not necessarily indicative of results that may occur in future periods.

Forward-Looking Statements

The information in this discussion contains forward-looking statements and information within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which are subject to the “safe harbor” created by those sections. These forward-looking statements include, but are not limited to, statements concerning our strategy, future operations, future financial position, future revenues, projected costs, prospects and plans and objectives of management. The words “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “projects,” “will,” “would” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. These forward-looking statements involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements, including, without limitation, the risks set forth in Part II, Item IA, “Risk Factors” in this Quarterly Report on Form 10-Q and in our other filings with the SEC. The forward-looking statements are applicable only as of the date on which they are made, and we do not assume any obligation to update any forward-looking statements.

Overview

We are a fully integrated biopharmaceutical company with approximately 135 employees headquartered in San Diego, California dedicated to delivering life-changing therapies to people living with rare diseases who have few, if any, treatment options. Our approach centers on our pipeline, featuring clinical-stage assets and pre-clinical discovery programs targeting rare diseases with significant unmet medical needs. Our research and development efforts are supported by revenues from the Company's marketed products, Chenodal®, Cholbam® and Thiola®. In addition we

regularly evaluate and, where appropriate, act on opportunities to expand our product pipeline through licenses and acquisitions of products in areas that will serve patients with serious, catastrophic or rare diseases and that we believe offer attractive growth characteristics.

We currently sell the following three products:

- Chenodal® (chenodeoxycholic acid) is approved in the United States for the treatment of patients suffering from gallstones in whom surgery poses an unacceptable health risk due to disease or advanced age. Chenodal has also been the standard of care for cerebrotendinous xanthomatosis ("CTX") patients for more than three decades and we are currently pursuing adding this indication to the label.
- Cholbam® (cholic acid) is approved in the United States for the treatment of bile acid synthesis disorders due to single enzyme defects and is further indicated for adjunctive treatment of patients with peroxisomal disorders.
- Thiola® (tiopronin) is approved in the United States for the prevention of cystine (kidney) stone formation in patients with severe homozygous cystinuria.

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On September 7, 2016, we announced positive top-line results from the Phase 2 DUET study of sparsentan in patients with focal segmental glomerulosclerosis (FSGS). In the DUET study, the mean reduction of proteinuria from baseline after eight weeks of treatment for all patients treated with 200, 400, and 800 mg/day of sparsentan (n=64) was 44.8 percent, compared to a mean reduction of proteinuria for all patients receiving 300 mg/day of irbesartan (n=32) of 18.5 percent (p=0.006). Further, the mean reduction of proteinuria from baseline after eight weeks of treatment for all patients treated with 400 mg and 800 mg doses of sparsentan (n=51) was 47.4 percent, compared to a mean proteinuria reduction of 19.0 percent for patients receiving 300 mg of irbesartan (n=25) in these two dose cohorts (p=0.011). The comparison of individual sparsentan dose cohorts to irbesartan showed clear signals of relative improvement, but did not reach statistical significance.

Top-line results suggest sparsentan was generally safe and well-tolerated in the DUET study. One serious adverse event, anemia, classified as potentially related to treatment, occurred in the sparsentan group but did not result in study discontinuation during the eight-week blinded treatment period. There were no withdrawals due to fluid retention during the eight-week blinded treatment period. All patients who completed the eight-week treatment period entered the ongoing open label extension study, and the vast majority of these patients continue to receive therapy.

On June 20, 2016 we announced the signing of a definitive agreement to purchase the rights, titles, and ownership of a liquid formulation of ursodeoxycholic acid (L-UDCA or ursodiol) from Asklepion Pharmaceuticals, LLC. We intend to file a New Drug Application with the U.S. Food and Drug Administration for the liquid formulation of L-UDCA for the treatment of primary biliary cholangitis ("PBC") in 2017. The total purchase price of the acquisition was $25.5 million. See Note 5 for further discussion.

Products and Research and Development Programs

Products on the Market:

Chenodal (chenodiol tablets)

Chenodal is a synthetic oral form of chenodeoxycholic acid, a naturally occurring primary bile acid synthesized from cholesterol in the liver, indicated for the treatment of radiolucent stones in well-opacifying gallbladders in patients in whom selective surgery would be undertaken except for the presence of increased surgical risk due to systemic disease or age.

Chenodal administration is known to reduce biliary cholesterol and the dissolution of radiolucent gallstones through suppression of hepatic synthesis of cholesterol, cholic acid and deoxycholic acid in the bile pool. Chenodal was first approved by the Food and Drug Administration (the "FDA") in 1983 for the management of gallstones but its marketing was later discontinued due to lack of commercial success. In 2009, Nexgen Pharma's Abbreviated

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New Drug Application, or ANDA, for Chenodal was approved by the FDA for the treatment of gallstones; Chenodal is manufactured for Manchester Pharmaceuticals LLC ("Manchester") under this ANDA. Manchester subsequently obtained Orphan Drug Designation for Chenodal for the treatment of CTX, a rare autosomal recessive lipid storage disease, in 2010.

While Chenodal is not labeled for CTX, it has been used as the standard of care for over three decades. We are working to obtain FDA approval of Chenodal for the treatment of CTX. The prevalence of CTX is estimated in the literature to be as high as 1 in 70,000 in the overall population. Pathogenesis of CTX involves deficiency of the enzyme 27-hydroxylase (encoded by the gene CYP27A1), a rate-limiting enzyme in the synthesis of primary bile acids, including CDCA, from cholesterol. The disruption of primary bile acid synthesis in CTX leads to toxic accumulation of cholesterol and cholestanol in most tissues. Most patients present with intractable diarrhea, premature cataracts, tendon xanthomas, atherosclerosis, and cardiovascular disease in childhood and adolescence. Neurological manifestations of the disease, including dementia and cognitive and cerebellar deficiencies, emerge during late adolescence and adulthood. Oral administration of CDCA has been shown to normalize primary bile acid synthesis in patients with CTX.

Cholbam

The FDA approved Cholbam capsules in March 2015, the first FDA approved treatment for pediatric and adult patients with bile acid synthesis disorders due to single enzyme defects, and for adjunctive treatment of patients with peroxisomal disorders (including Zellweger spectrum disorders). The effectiveness of Cholbam has been demonstrated in clinical trials for bile acid synthesis disorders and the adjunctive treatment of peroxisomal disorders. Approximately 30 patients have transitioned from the open label extension trial to commercial product. The estimated incidence of bile acid synthesis disorders due to single enzyme defects is 1 to 9 per million live births.

Kolbam, the branded name of Cholbam in Europe, is indicated in Europe for the treatment of inborn errors of primary bile acid synthesis, encompassing select single enzyme defects, in infants from one month of age for continuous lifelong treatment through adulthood, encompassing the following single enzyme defects:

- sterol 27-hydroxylase (presenting as cerebrotendinous xanthomatosis, CTX) deficiency;
- 2- (or alpha-) methylacyl-CoA racemase (AMACR) deficiency; and
- cholesterol 7 alpha-hydroxylase (CYP7A1) deficiency.

Thiola (Tiopronin)

Thiola is approved by the FDA for the treatment of cystinuria, a rare genetic cystine transport disorder that causes high cystine levels in the urine and the formation of recurring kidney stones. The resulting long-term damage can cause loss of kidney function in addition to substantial pain and loss of productivity associated with renal colic, stone passage and multiple potential surgical procedures. The prevalence of cystinuria in the United States is estimated to be 10,000 to 12,000, indicating that there may be as many as 4,000 to 5,000 individuals affected with cystinuria severe enough to make them candidates for Thiola.

Product Candidates:

Sparsentan

Sparsentan, also known as RE-021, is an investigational therapeutic agent which acts as both a potent angiotensin receptor blocker (“ARB”), as well as a selective endothelin receptor antagonist (“ERA”), with in vitro selectivity toward endothelin receptor type A. We have secured a license to sparsentan from Ligand Pharmaceuticals, Inc. and Bristol-Myers Squibb Company (who referred to it as DARA). We are developing sparsentan as a treatment for FSGS, which is a leading cause of end-stage renal disease and Nephrotic Syndrome (“NS”). There are no FDA approved pharmacological treatments for FSGS and the off-label armamentarium is limited to ACE/ARBs, steroids, and immunosuppressant agents, which are effective in only a subset of patients. We estimate that there are at least 40,000 FSGS patients in the United States. In the third quarter of 2016, we announced positive top-line data from the Phase 2 DUET study of sparsentan for the treatment of FSGS. We will work with the FDA in the near future to determine the most expeditious path forward to gain approval for sparsentan. Sparsentan was granted orphan drug designation in the U.S. and EU in January 2015 and November 2015, respectively.

RE-024

We are developing RE-024, a novel small molecule, as a potential treatment for PKAN. PKAN is a genetic neurodegenerative disorder that is typically diagnosed in the first decade of life. Consequences of PKAN include dystonia, dysarthria, rigidity, retinal degeneration, and severe digestive problems. PKAN is estimated to affect 1 to 3 persons per million. There are currently no viable treatment options for patients with PKAN. RE-024 is a phosphopantothenate replacement therapy that aims to restore levels of this key substrate in PKAN patients. Certain international health regulators have approved the initiation of dosing RE-024 in PKAN patients under physician-initiated studies in accordance with local regulations in their respective countries. The Company filed a U.S. IND for RE-024 with the FDA in the first quarter of 2015 to support the commencement of a Company-sponsored Phase 1 study, which was successfully completed during 2015. The FDA granted RE-024 orphan drug designation in May 2015 and fast track designation by the FDA in June 2015. On February 24, 2016, we announced RE-024 was granted orphan drug designation from the European Commission. The Company continues discussion with the FDA and the EMA regarding the initiation of a potential registration-enabling efficacy trial in PKAN patients.

L-UDCA

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Liquid ursodeoxycholic acid is a liquid formulation of ursodeoxycholic acid being developed for the treatment of a rare liver disease called PBC. The Company expects to file a New Drug Application with the FDA in 2017, and if approved, plans to make L-UDCA commercially available to the subset of PBC patients who have difficulty swallowing. There are no liquid formulations of ursodeoxycholic acid currently approved by the FDA.

RE-034

RE-034 is a synthetic hormone analog of the first 24 amino acids of the 39 amino acids contained in adrenocorticotropic hormone ("ACTH") incorporated into a novel formulation developed by the Company. RE-034 exhibits similar physiological actions as endogenous ACTH by binding to all five melanocortin receptors (pan-MCR), resulting in its anti-inflammatory and immunomodulatory effects. Retrophin has successfully manufactured RE-034 at proof-of-concept scale using a novel formulation process that allows modulation of the release of the active ingredient from the site of administration. The Company is exploring strategic options for development of RE-034, including the evaluation of external partnership and out-licensing opportunities.

Preclinical:

NGLY1

The Company entered into a research collaboration with the Grace Science Foundation and the Warren Family Research Center for Drug Discovery and Development at the University of Notre Dame for the development of a novel therapeutic for patients with NGLY1 deficiency, a rare genetic disorder. NGLY1 deficiency is believed to be caused by a deficiency in an enzyme called N-glycanase-1, which is encoded by the gene NGLY1. The condition is characterized by a variety of symptoms, including global developmental delay, movement disorder, seizures, and ocular abnormalities. Under this collaboration, the Grace Science Foundation is providing support and funding to Retrophin to enable discovery efforts that aim to validate and address a new molecular target that may be relevant to NGLY1 deficiency. The Warren Family Research Center for Drug Discovery and Development at the University of Notre Dame is providing funding and in-kind research support to help Retrophin advance this program.

Results of Operations

Results of operations for the three and nine month periods ended September 30, 2016 compared to the three and nine month periods ended September 30, 2015.

Net Product Sales:

The following table provides information regarding net product sales (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
Net product sales	$33,945	$28,005	$5,940	$96,265	$69,444	$26,821

The increase in sales for the three and nine months ended September 30, 2016 over the prior year is due to increased patient counts for Chenodal and Thiola, and our acquisition of Cholbam on March 31, 2015.

Operating Expenses:

The following table provides information regarding operating expenses (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
Cost of goods sold	$1,573	$513	$1,060	$3,351	$1,424	$1,927
Research and development	18,428	14,064	4,364	50,775	34,974	15,801
Selling, general and administrative	23,848	22,308	1,540	66,178	56,856	9,322
Legal fee settlement	5,212	—	5,212	5,212	—	5,212
Change in fair value of contingent consideration	5,256	6,906	(1,650)	10,741	7,026	3,715
Impairment of intangible assets	—	4,710	(4,710)	—	4,710	(4,710)
	$54,317	$48,501	$5,816	$136,257	$104,990	$31,267

Research and development expenses

We make significant investments in research and development in support of our development programs. Research and development costs are expensed as incurred and primarily include salary and benefit costs, fees paid to clinical

research organizations, and supply costs.

The increase in research and development costs of $4.4 million for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015 is primarily due to support of on-going clinical and non-clinical efforts for sparsentan and RE-024 of $4.2 million and share-based compensation expense of $0.2 million.

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The increase in research and development costs of $15.8 million for the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015 is due to support of on-going clinical and non-clinical efforts for sparsentan and RE-024 of $14.1 million, salaries and share-based compensation expense of $1.1 million, and other increases due to the advancement and ramp up of clinical and preclinical research of $0.6 million.

Selling, general and administrative expenses

Selling, general and administrative expenses primarily include salary and benefit costs for employees included in our sales, marketing, finance, information technology, legal and administrative functions, outside legal and professional services, amortization and facilities costs.

The increase in selling, general and administrative expenses of $1.5 million for the three months ended September 30, 2016 as compared to the three months ended 2015, is primarily due to an increase in sales and marketing programs of $1.3 million, higher professional fees of $0.5 million and higher information technology ("IT") costs of $0.5 million, offset by lower compensation costs of $0.8 million. These increased expenses are a result of the planned build out of the Company's sales force and sales support services.

The increase in selling, general and administrative expenses of $9.3 million for the nine months ended September 30, 2016 as compared to the nine months ended 2015, is primarily due to an increase in personnel and related compensation of $4.2 million as a result of the planned build out of the Company's sales force and sales support services, amortization expense of $2.6 million from acquired assets, sales and marketing support and promotional materials of $3.6 million, increased IT software, data warehousing and other IT costs of $1.2 million, and higher foreign operations expenses related to increased activity of $0.7 million offset by the settlement of an open account payable with our former outside legal counsel of $3.0 million.

Legal fee settlement

Legal fee settlement of $5.2 million in the third quarter of 2016 relates to amounts the company is obligated to advance for legal fees to the Company's former Chief Executive Officer in defense of ligation for his actions while holding that title. See Note 13 to FInancial Statements for discussion.

Change in the valuation of contingent consideration

During the three and nine month periods ended September 30, 2016, the Company incurred charges of $5.3 million and $10.7 million, respectively, for the change in the valuation of contingent consideration, shown in operating expenses on the Condensed Consolidated Statements of Operations and Comprehensive Income (Loss). For the three month period ended September 30, 2016, $1.6 million, $1.8 million and $1.9 million is related to the increase in contingent consideration liabilities for the products Chenodal, Cholbam and product candidate L-UDCA, respectively. For the nine month period ended September 30, 2016, $4.4 million, $4.4 million and $1.9 million is related to the increase in contingent consideration liabilities for the products Chenodal, Cholbam and product candidate L-UDCA, respectively. The value increased due to changes in the estimated timing of payments. During the three and nine month periods ended September 30, 2015, the Company incurred charges of $6.9 million and $7.0 million, respectively, for the change in the valuation of contingent consideration, shown in operating expenses on the Condensed Consolidated Statement of Operations and Comprehensive Income (Loss).

Other Income/Expenses:

The following table provides information regarding other income (loss), net (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
Other income, net	$151	$(314)	$465	$156	$35	$121
Interest expense, net	(299)	(695)	396	(609)	(7,415)	6,806
Finance expense	—	—	—	—	(600)	600
Change in fair value of derivative instruments	(10,126)	29,991	(40,117)	(4,849)	(36,180)	31,331
Debt early payment penalty	—	—	—	—	(2,250)	2,250
Loss on extinguishment of debt	—	(4,151)	4,151	—	(4,151)	4,151
Litigation settlement gain	—	—	—	—	15,500	(15,500)
Gain on sale of assets	—	140,004	(140,004)	—	140,004	(140,004)

Bargain purchase gain	—	—	—	—	49,063	(49,063)
	$(10,274)	$164,835	$(175,109)	$(5,302)	$154,006	$(159,308)

Interest expense, net

Interest expense, net, decreased by $0.4 million for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. This decrease was due primarily to an increase in interest income from investments in the current year.

Interest expense, net, decreased by $6.8 million for the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015 due to a reduction of interest expense of $2.7 million on the credit facility (extinguished in the third quarter of 2015), $1.1 million related to

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warrants issued for remediation of debt covenant violations (warrants issued in the first quarter of 2015), lower amortization of debt discount of $0.7 million, and increased interest income in the nine months ended September 30, 2016 of $2.3 million, of which $1.0 million related to interest on notes receivable and $1.3 million related to interest on investments.

Change in fair value of derivative instruments

For the three and nine months ended September 30, 2016, the Company recognized a loss of $10.1 million and $4.8 million, respectively. For the three and nine months ended September 30, 2016, the loss resulted from increases in the stock price during the reporting period.

For the three and nine months ended September 30, 2015, the Company recognized a gain of $30.0 million and a loss of $36.2 million, respectively, due to volatility in the Company's stock price.

Litigation Settlement Gain

For the nine months ended September 30, 2015, the Company recognized a gain of $15.5 million related to a litigation settlement in which the Company alleged that Questcor violated antitrust laws in connection with its acquisition of rights to the drug Synacthen.

Gain on sale of assets

For the three and nine months ended September 30, 2015, the Company recognized a gain of $140.0 million on the sale of the Pediatric PRV to Sanofi.

Bargain Purchase Gain

For the nine months ended September 30, 2015, the Company recognized a bargain purchase gain on the acquisition of Cholbam.

Income Tax Benefit:

In the third quarter of 2016, the Company recorded tax expense of $6.5 million, primarily relating to the limitation of utilization of United States federal orphan drug and research and development tax credits.

Liquidity and Capital Resources

We believe that our available cash and short-term investments as of the date of this filing will be sufficient to fund our anticipated level of operations for at least the next 12 months. Management believes that our operating results will vary from quarter to quarter and year to year depending upon various factors including revenues, general and administrative expenses, and research and development expenses.

The Company had the following financial performance at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Cash & Cash Equivalents	$ 23,895	$ 37,805
Marketable securities	250,408	191,799
Accumulated Deficit	(104,453)	(65,153)
Stockholders' Equity	307,595	299,971
Net Working Capital	$ 256,596	$ 214,951
Net Working Capital Ratio	3.98	3.47

Convertible Notes Payable

On May 29, 2014, the Company entered into a Note Purchase Agreement relating to a private placement by the Company of $46.0 million aggregate principal senior convertible notes due in 2019 which are convertible into shares of the Company’s common stock at an initial conversion price of $17.41 per share. The conversion price is subject to customary anti-dilution protection. The Notes bear interest at a rate of 4.5% per annum, payable semiannually in arrears on May 15 and November 15 of each year. The Notes mature on May 30, 2019 unless earlier converted or repurchased in accordance with the terms. The aggregate carrying value of the Notes was $44.3 million and $43.8 million, at September 30, 2016 and December 31, 2015, respectively.

Cash Flows from Operating Activities

Cash provided by operating activities was $5.2 million for the nine months ended September 30, 2016 compared to $2.2 million provided in the nine months ended September 30, 2015. After disregarding non-cash changes such as

derivative liability fluctuations, share based compensation, bargain purchase gain adjustments, and deferred tax asset reserves, the increase of $3.0 million was primarily due to increases in operating assets and liabilities.

Cash Flows from Investing Activities

Cash used in investing activities for the nine months ended September 30, 2016 was $20.2 million compared to $19.9 million provided by investing activities for the nine months ended September 30, 2015. The change in cash is primarily due to the sale of the Pediatric PRV in 2015 and the maturity of the related note receivable in 2016. The Company received $148.4 million at the close of the sale and $47.5 million on the first anniversary of the close. The proceeds from the sale were invested in marketable securities in both 2015 and 2016. Included in the 2016 marketable securities activity is the maturity and reinvestment of proceeds of debt instruments purchased in the prior year.

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Cash Flows from Financing Activities

For the nine months ended September 30, 2016, cash provided by financing activities was $1.2 million compared to $100.4 million provided by financing activities during the nine months ended September 30, 2015. In 2015, cash of $140 million, net of fees, was provided from the Company's follow-on public offering. A portion of this cash was used to extinguish $45 million in outstanding debt.

Funding Requirements

We believe that our available cash and short-term investments as of the date of this filing will be sufficient to fund our anticipated level of operations for at least the next 12 months. This belief is based on many factors, however some factors are beyond our control. Factors that may affect financing requirements include, but are not limited to:

- revenue growth of our marketed products;
- the rate of progress and cost of our clinical trials, preclinical studies and other discovery and research and development activities;
- the timing of, and costs involved in, seeking and obtaining marketing approvals for our products, and in maintaining quality systems standards for our products;
- our ability to manufacture sufficient quantities of our products to meet expected demand;
- the costs of preparing, filing, prosecuting, maintaining and enforcing any patent claims and other intellectual property rights, litigation costs and the results of litigation;
- our ability to enter into collaboration, licensing or distribution arrangements and the terms and timing of these arrangements;
- the potential need to expand our business, resulting in additional payroll and other overhead expenses;
- the potential acquisition or in-licensing of other products or technologies; and
- the emergence of competing technologies or other adverse market or technological developments.

Future capital requirements will also depend on the extent to which we acquire or invest in additional complementary businesses, products and technologies.

Other Matters

Adoption of New Accounting Standards

See Note 3 to our unaudited Condensed Consolidated Financial Statements in this report for a discussion of adoption of new accounting standards.

Recently Issued Accounting Pronouncements

See Note 3 to our unaudited Condensed Consolidated Financial Statements in this report for a discussion of recently issued accounting pronouncements.

Off Balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We invest our excess cash and marketable securities primarily in United States government backed securities, asset-backed securities, and debt instruments of financial institutions and corporations with investment-grade credit ratings. These instruments have various short and long-term maturities, not exceeding two years. We do not utilize derivative financial instruments, derivative commodity instruments, or other market risk sensitive instruments, positions or transactions. Accordingly, we believe that, while the instruments held are subject to changes in the financial standing of the issuer of such securities, we are not subject to any material risks arising from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices or other market changes that affect market risk sensitive investments. A hypothetical 1% adverse move in interest rates along the entire interest rate yield curve would decrease our available for sale marketable securities by approximately $2.5 million if the Company were to sell the securities.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports required by the Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the timelines specified in the SEC’s rules and forms, and that such information is accumulated and

communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of

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achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

An evaluation was also performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of any change to our internal control over financial reporting that occurred during the quarter covered by this report and that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our evaluation did not identify significant changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that occurred during the quarter ended September 30, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this Item is incorporated herein by reference to Notes to unaudited Condensed Consolidated Financial Statements--Note 13 Commitments and Contingencies: Legal Proceedings in Part I, Item 1, of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

The following risk factors do not reflect any material changes to the risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, other than the revisions to the risk factors set forth below with an asterisk (*) next to the title. The following information sets forth risk factors that could cause our actual results to differ materially from those contained in forward-looking statements we have made in this Quarterly Report on Form 10-Q and those we may make from time to time. If any of the following risks actually occur, our business, operating results, prospects or financial condition could be harmed. Additional risks not presently known to us, or that we currently deem immaterial, may also affect our business operations.

Risks Related to the Commercialization of Our Products

The commercial success of Chenodal, Cholbam and Thiola depends on them being considered to be effective drugs with advantages over other therapies.

The commercial success of our products Chenodal, Cholbam and Thiola depends on them being considered to be effective drugs with certain advantages over other therapies. A number of factors, as discussed in greater detail below, may adversely impact the degree of acceptance of these products, including their efficacy, safety, price and benefits over competing therapies, as well as the reimbursement policies of third-party payers, such as government and private insurance plans.

If unexpected adverse events are reported in connection with the use of any of these products, physician and patient acceptance of the product could deteriorate and the commercial success of such product could be adversely affected. We are required to report to the FDA events associated with our products relating to death or injury. Adverse events could result in additional regulatory controls, such as a requirement for costly post-approval clinical studies or revisions to our approved labeling which could limit the indications or patient population for a product or could even lead to the withdrawal of a product from the market.

If physicians, patients and third-party payers do not accept our products, we may be unable to generate significant revenues.

Our drugs may not gain or maintain market acceptance among physicians and patients. Effectively marketing our products and any of our drug candidates, if approved, requires substantial efforts, both prior to launch and after approval. Physicians may elect not to prescribe our drugs, and patients may elect not to request or take them, for a variety of reasons including:

- lower demonstrated efficacy, safety and/or tolerability compared to other drugs;

- prevalence and severity of adverse side-effects;
- lack of cost-effectiveness;
- lack of coverage and adequate reimbursement availability from third-party payers;
- a decision to wait for the approval of other therapies in development that have significant perceived advantages over our drug;
- convenience and ease of administration;
- other potential advantages of alternative treatment methods; and

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- ineffective marketing and/or distribution support.

If our drugs fail to achieve or maintain market acceptance, we will not be able to generate significant revenues.

*Changes in reimbursement practices of third-party payers could affect the demand for our products and the prices at which they are sold.

The business and financial condition of healthcare-related businesses will continue to be affected by efforts of governments and third-party payers to contain or reduce the cost of healthcare through various means. In the United States and some foreign jurisdictions, there have been a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could prevent or delay marketing approval for sparsentan, RE-024 and L-UDCA, or any other product candidate that we develop, restrict or regulate post-approval activities and affect our ability to profitably sell sparsentan, RE-024 and L-UDCA or any other product candidate for which we obtain marketing approval.

Our products are sold to patients whose healthcare costs are met by third-party payers, such as government programs, private insurance plans and managed-care programs. These third-party payers are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement for medical products and services. Levels of reimbursement, if any, may be decreased in the future, and future healthcare reform legislation, regulations or changes to reimbursement policies of third party payers may otherwise adversely affect the demand for and price levels of our products, which could have a material adverse effect on our sales and profitability.

Economic, social, and congressional pressure may result in individuals and government entities increasingly seeking to achieve cost savings through mechanisms that limit coverage or payment for our products. For example, state Medicaid programs are increasingly requesting manufacturers to pay supplemental rebates and requiring prior authorization for use of drugs. Managed care organizations continue to seek price discounts and, in some cases, to impose restrictions on the coverage of particular drugs. Government efforts to reduce Medicaid expenses may lead to increased use of managed care organizations by Medicaid programs. This may result in managed care organizations influencing prescription decisions for a larger segment of the population and a corresponding constraint on prices and reimbursement for our products.

We may not be able to rely on orphan drug exclusivity for Cholbam/Kolbam or any of our products.

Regulatory authorities in some jurisdictions, including the United States and Europe, may designate drugs for relatively small patient populations as orphan drugs. We have obtained orphan designation for Cholbam/Kolbam in the U.S. and EU. Generally, if a product with an orphan drug designation subsequently receives the first marketing approval for the indication for which it has such designation, that product is entitled to a period of marketing exclusivity, which precludes the applicable regulatory authority from approving another marketing application for the same drug for the same indication for that time period. The applicable period is seven years in the United States and ten years in Europe. Even though we have been awarded orphan drug exclusivity for Cholbam in the United States, we may not be able to maintain it. For example, if a competitive product that contains the same active moiety and treats the same disease as our product is shown to be clinically superior to our product, any orphan drug exclusivity we have obtained will not block the approval of such competitive product and we may effectively lose orphan drug exclusivity. Similarly, if a competitive product that contains the same active moiety and treats the same disease as our product candidate is approved for orphan drug exclusivity before our product candidate, we may not be able to obtain approval for our product candidate until the expiration of the competitive product’s orphan drug exclusivity unless our product candidate is shown to be clinically superior to the competitive product.

Additional competitors could enter the market, including with generic versions of our products, and sales of our affected products may decline materially.

Under the Hatch-Waxman Amendments of the Federal Food, Drug, and Cosmetic Act (the "FDC Act"), a pharmaceutical manufacturer may file an abbreviated new drug application ("ANDA"), seeking approval of a generic copy of an approved innovator product or an NDA under Section 505(b)(2) that relies on the FDA’s prior findings of safety and effectiveness in approving the innovator product. A Section 505(b)(2) NDA may be for a new or improved version of the original innovator product. The Hatch-Waxman Amendments also provide for certain periods of regulatory exclusivity, which preclude FDA approval (or in some circumstances, FDA acceptance) of an ANDA or Section 505(b)(2) NDA. In addition, the FDC Act provides, subject to certain exceptions, a period during which an

FDA-approved drug may be afforded orphan drug exclusivity. In addition to the benefits of regulatory exclusivity, an innovator NDA holder may have patents claiming the active ingredient, product formulation or an approved use of the drug, which would be listed with the product in the FDA publication, “Approved Drug Products with Therapeutic Equivalence Evaluations,” known as the “Orange Book.” If there are patents listed in the Orange Book, a generic or Section 505(b)(2) applicant that seeks to market its product before expiration of the patents must include in the ANDA what is known as a “Paragraph IV certification,” challenging the validity or enforceability of, or claiming non-infringement of, the listed patent or patents. Notice of the certification must be given to the innovator, too, and if within 45 days of receiving notice the innovator sues to enforce its patents, approval of the ANDA is stayed for 30 months, or as lengthened or shortened by the court.

Chenodal and Thiola are subject to immediate competition from compounded and generic entrants, as the ANDA and NDA for these drug products have no remaining patent or nonpatent exclusivity. If a generic version is approved, sales of our product would be negatively impacted, which could have a material adverse impact on our sales and profitability.

We are dependent on third parties to manufacture and distribute our pharmaceutical products who may not fulfill their obligations.

We have no manufacturing capabilities and rely on third party manufacturers who are sole source suppliers for manufacturing of Chenodal, Thiola, and Cholbam. The facilities used by our third party manufacturers must be approved by the FDA, or in the case of Kolbam in the European Union, the European Medicines Agency. Our dependence on third parties for the manufacture of our products may harm our profit margin on the sale of products and our ability to deliver products on a timely and competitive basis. If our third party manufacturers are unable to manufacture to specifications or in

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compliance with applicable regulatory requirements, our ability to commercialize our products will be adversely impacted and could affect our ability to gain market acceptance for our products and negatively impact our revenues.
We currently have no in-house distribution channels for Chenodal, Thiola or Cholbam and we are dependent on a third-party distributor, Dohmen Life Sciences Services, to distribute such products. We rely on this distributor for all of our proceeds from sales of Chenodal, Thiola and Cholbam in the United States. The outsourcing of our distribution function is complex, and we may experience difficulties that could reduce, delay or stop shipments of such products. If we encounter such distribution problems, and we are unable to quickly enter into a similar agreement with another distributor on substantially similar terms, distribution of Chenodal, Thiola and/or Cholbam could become disrupted, resulting in lost revenues, provider dissatisfaction, and/or patient dissatisfaction.
Governments outside the United States tend to impose strict price controls and reimbursement approval policies, which may adversely affect our prospects for generating revenue.
In some countries, particularly European Union countries, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time (6 to 12 months or longer) after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost effectiveness of our product candidate to other available therapies. If reimbursement of our products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our prospects for generating revenue, if any, could be adversely affected and our business may suffer.
If we are unable to establish sales and marketing capabilities or enter into agreements with third parties to market and sell our product candidates, we may be unable to generate product revenue.
Risks Related to the Development of our Product Candidates
*Our clinical trials may fail to demonstrate the safety and efficacy of our product candidates which could prevent or significantly delay their regulatory approval.
Our efforts to develop certain of our product candidates are at an early stage. Success in preclinical testing and early clinical trials does not ensure that later clinical trials will be successful, and initial results from a clinical trial do not necessarily predict final results. We cannot assure that any future clinical trials of sparsentan, RE-024 and/or L-UDCA will ultimately be successful.
Before obtaining regulatory approval to conduct clinical trials of our product candidates, we must conduct extensive preclinical tests to demonstrate the safety of our product candidates in animals. Preclinical testing is expensive, difficult to design and implement, and can take many years to complete. A failure of one or more of our preclinical studies can occur at any stage of testing.
We will only obtain regulatory approval to commercialize a product candidate if we can demonstrate to the satisfaction of the FDA, and in the case of foreign commercialization, to the applicable foreign regulatory authorities, in well-designed and conducted clinical trials, that our product candidates are safe and effective and otherwise meet the appropriate standards required for approval for a particular indication.
While positive Phase 2 data has been obtained from the DUET clinical study, there can be no assurance that the DUET Phase 2 clinical study data for sparsentan will support an application for approval by the FDA or that the FDA will accept a proteinuria endpoint. Likewise, there can be no assurance that any future clinical study for RE-024 will demonstrate that RE-024 is safe and effective for treating PKAN or that the data obtained from any such clinical trials will support an application for approval by the FDA.
Clinical trials can be lengthy, complex and extremely expensive processes with uncertain results. Our product candidates are intended to treat FSGS and PKAN, each of which is a rare disease. Given that these development candidates are still undergoing required testing, we may not be able to initiate or continue clinical trials if we are unable to locate a sufficient number of eligible patients willing and able to participate in the clinical trials required by the FDA or foreign regulatory agencies. Our inability to enroll a sufficient number of patients for any of our current or future clinical trials would result in significant delays or may require us to abandon one or more clinical trials altogether. To date, we are not aware of any pharmaceutical product to treat PKAN or FSGS that has been approved by the FDA or EMA specifically for the treatment of these indications. As a result, we cannot be sure what endpoints the FDA and/or EMA will require us to measure in later-stage clinical trials of our product candidates.

We may experience numerous unforeseen events during, or as a result of, preclinical testing and the clinical trial process that could delay or prevent our ability to obtain regulatory approval or commercialize our product candidates, including:

- our preclinical tests or clinical trials may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional preclinical testing or clinical trials or we may abandon projects that we expect to be promising;
- regulators may require us to conduct studies of the long-term effects associated with the use of our product candidates;
- regulators or institutional review boards may not authorize us to commence a clinical trial or conduct a clinical trial at a prospective trial site;
- the FDA or any non-United States regulatory authority may impose conditions on us regarding the scope or design of our clinical trials or may require us to resubmit our clinical trial protocols to institutional review boards for re-inspection due to changes in the regulatory environment;
- the number of patients required for our clinical trials may be larger than we anticipate or participants may drop out of our clinical trials at a higher rate than we anticipate;

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- our third-party contractors or clinical investigators may fail to comply with regulatory requirements or fail to meet their contractual obligations to us in a timely manner;
- we might have to suspend or terminate one or more of our clinical trials if we, regulators or institutional review boards determine that the participants are being exposed to unacceptable health risks;
- regulators or institutional review boards may require that we hold, suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements;
- the cost of our clinical trials may be greater than we anticipate;
- the supply or quality of our product candidates or other materials necessary to conduct our clinical trials may be insufficient or inadequate or we may not be able to reach agreements on acceptable terms with prospective clinical research organizations; and
- the effects of our product candidates may not be the desired effects or may include undesirable side effects or the product candidates may have other unexpected characteristics.

If we are required to conduct additional clinical trials or other testing of our product candidates beyond those that we currently contemplate, if we are unable to successfully complete our clinical trials or other testing, if the results of these trials or tests are not positive or are only modestly positive or if there are safety concerns, we may:

- be delayed in obtaining, or may not be able to obtain, marketing approval for one or more of our product candidates;
- obtain approval for indications that are not as broad as intended or entirely different than those indications for which we sought approval; and
- have the product removed from the market after obtaining marketing approval.

Our product development costs will also increase if we experience delays in testing or approvals. We do not know whether any preclinical tests or clinical trials will be initiated as planned, will need to be restructured or will be completed on schedule, if at all. Significant preclinical or clinical trial delays also could shorten the patent protection period during which we may have the exclusive right to commercialize our product candidates. Such delays could allow our competitors to bring products to market before we do and impair our ability to commercialize our products or product candidates.

In addition, we depend on independent clinical investigators and contract research organizations (“CROs”) to conduct our clinical trials under agreements with us. The CROs play a significant role in the conduct of our clinical trials. Failure of the CROs to meet their obligations could adversely affect clinical development of our product candidates. The independent clinical investigators are not our employees and we cannot control the timing or amount of resources they devote to our studies. If their performance is substandard, it could delay or prevent approval of our FDA applications.

FDA approval for a product requires substantial or extensive preclinical and clinical data and supporting documentation. The approval process may take years and may involve on-going requirements as well as post marketing obligations. For example, we have certain postmarketing requirements and commitments associated with Cholbam. FDA approval once obtained, may be withdrawn. If the regulatory approval for Thiola, Chenodal and/or Cholbam are withdrawn for any reason, it would have a material adverse impact on our sales and profitability. Further, we face risks relating to the postmarking obligations and commercial acceptance of Cholbam, which was approved by the FDA on March 17, 2015.

*We face substantial risks related to the commercialization of our product candidates.

We have invested a significant portion of our efforts and financial resources in the development and acquisition of our most advanced product candidates, sparsentan, RE-024 and L-UDCA. Our ability to generate product revenue from these development stage compounds, which we do not expect will occur for at least the next several years, if ever, may depend heavily on the successful development and commercialization of these product candidates. The successful commercialization of our future product candidates will depend on several factors, including the following:

- obtaining supplies of sparsentan, RE-024, L-UDCA and subsequent product candidates for completion of our clinical trials on a timely basis;
- successful completion of pre-clinical and clinical studies;
- obtaining marketing approvals from the FDA and similar regulatory authorities outside the United States;

- establishing commercial-scale manufacturing arrangements with third-party manufacturers whose manufacturing facilities are operated in compliance with cGMP regulations;
- launching commercial sales of the product, whether alone or in collaboration with others;
- acceptance of the product by patients, the medical community and third-party payers;
- reimbursement from medical, medicaid or private payers;
- competition from other companies;
- successful protection of our intellectual property rights from competing products in the United States and abroad; and
- a continued acceptable safety and efficacy profile of our product candidates following approval.

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Our product candidates may cause undesirable side effects or have other properties that could delay or prevent their regulatory approval or commercialization.

Undesirable side effects caused by our product candidates could interrupt, delay or halt clinical trials and could result in the denial of regulatory approval by the FDA or other regulatory authorities for any or all targeted indications, and in turn prevent us from commercializing our product candidates and generating revenues from their sale.

In addition, if any of our product candidates receive marketing approval and we or others later identify undesirable side effects caused by the product:

- regulatory authorities may require the addition of restrictive labeling statements;
- regulatory authorities may withdraw their approval of the product; and
- we may be required to change the way the product is administered or conduct additional clinical trials.

Any of these events could prevent us from achieving or maintaining market acceptance of the affected product or could substantially increase the costs and expenses of commercializing the product candidate, which in turn could delay or prevent us from generating significant revenues from its sale or adversely affect our reputation.

*We may not be able to obtain orphan drug exclusivity for our product candidates. If our competitors are able to obtain orphan drug exclusivity for their products that are the same drug as our product candidates, we may not be able to have competing products approved by the applicable regulatory authority for a significant period of time.

Regulatory authorities in some jurisdictions, including the United States and Europe, may designate drugs for relatively small patient populations as orphan drugs. Although we have obtained orphan designation for sparsentan and RE-024, there can be no assurance that there will be any benefits associated with such designation.

Generally, if a product with an orphan drug designation subsequently receives the first marketing approval for the indication for which it has such designation, that product is entitled to a period of marketing exclusivity, which precludes the applicable regulatory authority from approving another marketing application for the same drug for the same indication for that time period. The applicable period is seven years in the United States and ten years in Europe.

Even if we have orphan drug exclusivity, we may not be able to maintain it. For example, if a competitive product that contains the same active moiety and treats the same disease as our product candidate is shown to be clinically superior to our product candidate, any orphan drug exclusivity we have obtained will not block the approval of such competitive product and we may effectively lose what had previously been orphan drug exclusivity. Similarly, if a competitive product that contains the same active moiety and treats the same disease as our product candidate is approved before our product candidate is approved, we may not be able to obtain approval for our product candidate until the expiration of the competitive product's orphan drug exclusivity unless our product candidate is shown to be clinically superior to the competitive product.

Risks Related to our Products and Product Candidates

*Our products may not achieve or maintain expected levels of market acceptance or commercial success.

The success of our products is dependent upon achieving and maintaining market acceptance. Commercializing products is time consuming, expensive and unpredictable. There can be no assurance that we will be able to, either by ourselves or in collaboration with our partners or through our licensees, successfully commercialize new products or current products or gain market acceptance for such products. New product candidates that appear promising in development may fail to reach the market or may have only limited or no commercial success.

Further, the discovery of significant problems with a product similar to one of our products that implicate (or are perceived to implicate) an entire class of products could have an adverse effect on sales of the affected products. Accordingly, new data about our products, or products similar to our products, could negatively impact demand for our products due to real or perceived side effects or uncertainty regarding efficacy and, in some cases, could result in product withdrawal.

Our current products and any products that we bring to the market, including sparsentan, RE-024 and L-UDCA if they receive marketing approval-may not gain market acceptance by physicians, patients, third-party payers, and others in the medical community. If these products do not achieve an adequate level of acceptance, we may not generate significant product revenue and we may not become profitable. The degree of market acceptance of our product candidates, if approved for commercial sale, will depend on a number of factors, including:

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the prevalence and severity of any side effects, including any limitations or warnings contained in a product's approved labeling;
- the efficacy and potential advantages over alternative treatments;
- the pricing of our product candidates;
- relative convenience and ease of administration;
- the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;
- the strength of marketing and distribution support and timing of market introduction of competitive products;
- publicity concerning our products or competing products and treatments; and
- sufficient third-party insurance coverage or reimbursement.

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Even if a potential or current product displays a favorable efficacy and safety profile in preclinical and clinical trials, market acceptance of the product will not be known until after it is launched. Our efforts to educate patients, the medical community, and third-party payers on the benefits of our product may require significant resources and may never be successful. Such efforts to educate the marketplace may require more resources than are required by the conventional marketing technologies employed by our competitors.

*If the market opportunities for our products and product candidates are smaller than we believe they are, our revenues may be adversely affected and our business may suffer.

Certain of the diseases that our current and future product candidates are being developed to address, such as FSGS and PKAN, are relatively rare. Our projections of both the number of people who have these diseases, as well as the subset of people with these diseases who have the potential to benefit from treatment with our product candidates, may not be accurate.

Currently, most reported estimates of the prevalence of FSGS and PKAN are based on studies of small subsets of the population of specific geographic areas, which are then extrapolated to estimate the prevalence of the diseases in the broader world population. As new studies are performed the estimated prevalence of these diseases may change. There can be no assurance that the prevalence of FSGS and PKAN in the study populations accurately reflect the prevalence of these diseases in the broader world population. If our estimates of the prevalence of FSGS or PKAN or of the number of patients who may benefit from treatment with sparsentan and RE-024 prove to be incorrect, the market opportunities for our product candidates may be smaller than we believe they are, our prospects for generating revenue may be adversely affected and our business may suffer.

We do not currently have patent protection for certain of our products and product candidates. If we are unable to obtain and maintain protection for the intellectual property relating to our technology and products, the value of our technology and products will be adversely affected.

Our success will depend in large part on our ability to obtain and maintain protection in the United States and other countries for the intellectual property covering, or incorporated into, our technology and products. The patent situation in the field of biotechnology and pharmaceuticals generally is highly uncertain and involves complex legal, technical, scientific and factual questions. We may not be able to obtain additional issued patents relating to our technology or products. Even if issued, patents issued to us or our licensors may be challenged, narrowed, invalidated, held to be unenforceable or circumvented, which could limit our ability to stop competitors from marketing similar products or reduce the term of patent protection we may have for our products. Changes in either patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property or narrow the scope of our patent protection. RE-024 is covered by our U.S. Patent No. 8,673,883, which was granted in 2014 and expires in 2033. In addition, our U.S. Patent No. 9,181,286, which was granted on November 10, 2015 and expires in 2033, covers the use of RE-024 for the treatment of PKAN. Sparsentan is covered by U.S. Patent No. 6,638,937, which expires in 2019 and to which we have an exclusive license. Our RE-034 formulation is covered by a PCT patent application we filed in February 2016, which claims priority to a U.S. provisional patent application we filed in February 2015.

For products we develop based on a new chemical entity not previously approved by the FDA, we expect that in addition to the protection afforded by our patent filings that we will be able to obtain either five years regulatory exclusivity via the provisions of the FDC Act or seven years regulatory exclusivity via the orphan drug provisions of the FDC Act. In addition, we may be able to obtain up to five years patent term extension (to compensate for regulatory approval delay) for a patent covering such a product.

The degree of future protection for our proprietary rights is uncertain, and we cannot ensure that:

- we or our licensors were the first to make the inventions covered by each of our pending patent applications;
- we or our licensors were the first to file patent applications for these inventions;
- others will not independently develop similar or alternative technologies or duplicate any of our technologies;
- any patents issued to us or our licensors that provide a basis for commercially viable products will provide us with any competitive advantages or will not be challenged by third parties;
- we will develop additional proprietary technologies that are patentable;
- we will file patent applications for new proprietary technologies promptly or at all;

- the claims we make in our patents will be upheld by patent offices in the United States and elsewhere;
- our patents will not expire prior to or shortly after commencing commercialization of a product; and
- the patents of others will not have a negative effect on our ability to do business.

We have negotiated a license agreement with Ligand Pharmaceuticals for the rights to sparsentan which we are initially developing for the treatment of FSGS. Further, this license subjects us to various commercialization, reporting and other obligations. If we were to default on our obligations, we could lose our rights to sparsentan. We cannot be certain when or if we will file for patent protection for different indications for sparsentan, if we would be successful in obtaining these patents, or if we would be able to enforce these patents. If we are unsuccessful in obtaining additional patents covering the use of sparsentan for treating FSGS, we may not be able to stop competitors from marketing sparsentan following the latter of expiration of our sparsentan composition of matter patent (i.e. U.S. Patent No. 6,638,937) and expiration of the regulatory exclusivity afforded to sparsentan upon NDA approval.

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Our patents also may not afford us protection against competitors with similar technology. Because patent applications in the United States and many other jurisdictions are typically not published until 18 months after filing, or in some cases not at all, and because publications of discoveries in the scientific literature often lag behind the actual discoveries, neither we nor our licensors can be certain that we or they were the first to make the inventions claimed in our or their issued patents or pending patent applications, or that we or they were the first to file for protection of the inventions set forth in these patent applications. If a third party has also filed a United States patent application prior to the effective date of the relevant provisions of the America Invents Act (i.e. before March 16, 2013) covering our product candidates or a similar invention, we may have to participate in an adversarial proceeding, known as an interference, declared by the USPTO to determine priority of invention in the United States. The costs of these proceedings could be substantial and it is possible that our efforts could be unsuccessful, resulting in a loss of our United States patent position.

We cannot assure you that third parties will not assert patent or other intellectual property infringement claims against us with respect to technologies used in our products. If patent infringement suits were brought against us, we may be unable to commercialize some of our products which could severely harm our business. Litigation proceedings, even if not successful, could result in substantial costs and harm our business.

*We expect to rely on orphan drug status to develop and commercialize certain of our product candidates, but our orphan drug designations may not confer marketing exclusivity or other expected commercial benefits.

We expect to rely on orphan drug exclusivity for sparsentan and RE-024 and potential future product candidates that we may develop. Orphan drug status confers seven years of marketing exclusivity in the United States under the FDC Act, and up to ten years of marketing exclusivity in Europe for a particular product in a specified indication. The FDA and EMA have granted orphan designation for sparsentan and RE-024 for the treatment of FSGS and PKAN, respectively. While we have been granted these orphan designations, we will not be able to rely on these designations to exclude other companies from manufacturing or selling these molecules for the same indication beyond these time frames. Furthermore, any marketing exclusivity in Europe can be reduced from ten years to six years if the initial designation criteria have significantly changed since the market authorization of the orphan product.

For any product candidate for which we have been granted orphan drug designation in a particular indication, it is possible that another company also holding orphan drug designation for the same product candidate will receive marketing approval for the same indication before we do. If that were to happen, our applications for that indication may not be approved until the competing company's period of exclusivity expires. Even if we are the first to obtain marketing authorization for an orphan drug indication in the United States, there are circumstances under which a competing product may be approved for the same indication during the seven-year period of marketing exclusivity, such as if the later product is shown to be clinically superior to our orphan product, or if the later product is deemed a different product than ours. Further, the seven-year marketing exclusivity would not prevent competitors from obtaining approval of the same product candidate as ours for indications other than those in which we have been granted orphan drug designation, or for the use of other types of products in the same indications as our orphan product.

Any drugs we develop may become subject to unfavorable pricing regulations, third-party reimbursement practices or healthcare reform initiatives, thereby harming our business.

In March 2010, President Obama signed the Health Care Reform Law, a sweeping law intended to broaden access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, add new transparency requirements for healthcare and health insurance industries, impose new taxes and fees on the health industry and impose additional health policy reforms. The Health Care Reform Law revised the definition of “average manufacturer price” for reporting purposes, which could increase the amount of Medicaid drug rebates to states. Further, the law imposes a significant annual fee on companies that manufacture or import certain branded prescription drug products. It is likely the Health Care Reform Law will continue to put pressure on pharmaceutical pricing, especially under the Medicare program, and may also increase regulatory burdens and operating costs.

If we are unable to obtain coverage and adequate reimbursement from governments or third-party payers for any products that we may develop or if we are unable to obtain acceptable prices for those products, our prospects for generating revenue and achieving profitability will suffer.

Our prospects for generating revenue and achieving profitability will depend heavily upon the availability of coverage and adequate reimbursement for the use of our approved product candidates from governmental and other third-party payers, both in the United States and in other markets. Reimbursement by a third-party payer may depend upon a number of factors, including the third-party payer's determination that use of a product is:

- a covered benefit under its health plan;
- safe, effective and medically necessary;
- appropriate for the specific patient;
- cost-effective; and
- neither experimental nor investigational.

Obtaining reimbursement approval for a product from each government or other third-party payer is a time consuming and costly process that could require us to provide supporting scientific, clinical and cost effectiveness data for the use of our products to each payer. We may not be able to provide data sufficient to gain acceptance with respect to reimbursement or we might need to conduct post-marketing studies in order to demonstrate the cost-effectiveness of any future products to such payers' satisfaction. Such studies might require us to commit a significant amount of management time and financial and other resources. Even when a payer determines that a product is eligible for reimbursement, the payer may impose coverage limitations that preclude payment for some uses that are approved by the FDA or non-United States regulatory authorities, also prior authorization for a product may be acquired. In addition, there is a risk that full reimbursement may not be available for high-priced products. Moreover, eligibility for coverage

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does not imply that any product will be reimbursed in all cases or at a rate that allows us to make a profit or even cover our costs. Interim payments for new products, if applicable, may also not be sufficient to cover our costs and may not be made permanent. A primary trend in the United States healthcare industry and elsewhere is toward cost containment. We expect recent changes in the Medicare program and increasing emphasis on managed care to continue to put pressure on pharmaceutical product pricing.

Further, there has been increasing legislative and enforcement interest in the United States with respect to drug pricing practices, including several recent U.S. Congressional inquiries and proposed bills designed to, among other things, increase drug pricing transparency, review relationships between pricing and manufacturer patient assistance programs, and reform government program drug reimbursement methodologies. Any reduction in reimbursement from Medicare, Medicaid or other government-funded programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability or commercialize our drugs. Additionally, we are currently unable to predict what additional legislation or regulation, if any, relating to the healthcare industry may be enacted in the future or what effect recently enacted federal legislation or any such additional legislation or regulation would have on our business.

*We face potential product liability exposure far in excess of our limited insurance coverage.

The use of any of our potential products in clinical trials, and the sale of any approved products, may expose us to liability claims. These claims might be made directly by consumers, health care providers, pharmaceutical companies or others selling our products. We have obtained limited product liability insurance coverage for our clinical trials in the amount of $10 million per occurrence and $10 million in the aggregate. However, our insurance may not reimburse us or may not be sufficient to reimburse us for any expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive, and we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses due to liability. We intend to expand our insurance coverage to include the sale of commercial products if we obtain marketing approval for product candidates in development, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing. On occasion, juries have awarded large judgments in class action lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or series of claims brought against us would decrease our cash reserves and could cause our stock price to fall.

*We face substantial competition, which may result in others discovering, developing or commercializing products before or more successfully than we do. Our operating results will suffer if we fail to compete effectively.

Several of our competitors have substantially greater financial, research and development, distribution, manufacturing and marketing experience and resources than we do and represent substantial long-term competition for us. Other companies may succeed in developing and marketing products that are more effective and/or less costly than any products that may be developed and marketed by us, or that are commercially accepted before any of our products. Factors affecting competition in the pharmaceutical and drug industries vary, depending on the extent to which a competitor is able to achieve a competitive advantage based on its proprietary technology and ability to market and sell drugs. The industry in which we compete is characterized by extensive research and development efforts and rapid technological progress. Although we believe that our orphan drug status for Cholbam and proprietary position with respect to sparsentan, RE-024 and L-UDCA may give us a competitive advantage, new developments are expected to continue and there can be no assurance that discoveries by others will not render such potential products noncompetitive.

Our competitive position also depends on our ability to enter into strategic alliances with one or more large pharmaceutical and contract manufacturing companies, attract and retain qualified personnel, develop effective proprietary products, implement development and marketing plans, obtain patent protection, secure adequate capital resources and successfully sell and market our approved products. There can be no assurance that we will be able to successfully achieve all of the foregoing objectives.

Use of third parties to manufacture and distribute our products and product candidates may increase the risk that we will not have sufficient quantities of our product and product candidates or such quantities at an acceptable cost, and clinical development and commercialization of our product and product candidates could be delayed, prevented or

impaired.

We do not own or operate manufacturing facilities for clinical or commercial production of our products. We have limited personnel with experience in drug manufacturing and we lack the resources and the capabilities to manufacture any of our product candidates on a clinical or commercial scale. We outsource all manufacturing and packaging of our preclinical, clinical, and commercial products to third parties. The manufacture of pharmaceutical products requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. Manufacturers of pharmaceutical products often encounter difficulties in production, particularly in scaling up initial production and in maintaining required quality control. These problems include difficulties with production costs and yields and quality control, including stability of the product candidate.

We do not currently have any agreements with third-party manufacturers for the long-term commercial supply of any of our development stage product candidates. We may be unable to enter into agreements for commercial supply with third-party manufacturers, or may be unable to do so on acceptable terms. Even if we enter into these agreements, the manufacturers of each product candidate will be single source suppliers to us for a significant period of time. Reliance on third-party manufacturers entails risks to which we may not be subject if we manufactured our product candidates or products ourselves, including:

- reliance on the third party for regulatory compliance and quality assurance;
- limitations on supply availability resulting from capacity and scheduling constraints of the third parties;
- impact on our reputation in the marketplace if manufacturers of our products fail to meet the demands of our customers;
- the possible breach of the manufacturing agreement by the third party because of factors beyond our control; and

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- the possible termination or nonrenewal of the agreement by the third party, based on its own business priorities, at a time that is costly or inconvenient for us.

The failure of any of our contract manufacturers to maintain high manufacturing standards could result in injury or death of clinical trial participants or patients using products. Such failure could also result in product liability claims, product recalls, product seizures or withdrawals, delays or failures in testing or delivery, cost overruns or other problems that could seriously harm our business or profitability.

Our contract manufacturers will be required to adhere to FDA regulations setting forth cGMP. These regulations cover all aspects of the manufacturing, testing, quality control and recordkeeping relating to our product candidates and any products that we may commercialize. Our manufacturers may not be able to comply with cGMP regulations or similar regulatory requirements outside the United States. Our manufacturers are subject to unannounced inspections by the FDA, state regulators and similar regulators outside the United States. Our failure, or the failure of our third-party manufacturers, to comply with applicable regulations could result in sanctions being imposed on us, including fines, injunctions, civil penalties, failure of regulatory authorities to grant marketing approval of our product candidates, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of product candidates or products, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect regulatory approval and supplies of our product candidates.

Our product and any products that we may develop may compete with other product candidates and products for access to manufacturing facilities. There are a limited number of manufacturers that operate under cGMP regulations and that are both capable of manufacturing for us and willing to do so. If the third parties that we engage to manufacture products for our developmental or commercial products should cease to continue to do so for any reason, we likely would experience interruptions in cash flows and/or delays in advancing our clinical trials while we identify and qualify replacement suppliers, and we may be unable to obtain replacement supplies on terms that are favorable to us. Later relocation to another manufacturer will also require notification, review and other regulatory approvals from the FDA and other regulators and will subject our production to further cost and instability in the availability of our product candidates. In addition, if we are not able to obtain adequate supplies of our product candidates, or the drug substances used to manufacture them, it will be more difficult for us to sell our products and to develop our product candidates. This could greatly reduce our competiveness.

Our current and anticipated future dependence upon others for the manufacture of our product candidates may adversely affect our future profit margins and our ability to develop product candidates and commercialize any products that obtain regulatory approval on a timely and competitive basis.

Materials necessary to manufacture our products and product candidates may not be available on commercially reasonable terms, or at all, which may delay the development and commercialization of our products and product candidates.

We rely on the manufacturers of our products and product candidates to purchase from third-party suppliers the materials necessary to produce the compounds for our preclinical and clinical studies and rely on these other manufacturers for commercial distribution if we obtain marketing approval for any of our product candidates. Suppliers may not sell these materials to our manufacturers at the time we need them or on commercially reasonable terms and all such prices are susceptible to fluctuations in price and availability due to transportation costs, government regulations, price controls, and changes in economic climate or other foreseen circumstances. We do not have any control over the process or timing of the acquisition of these materials by our manufacturers. Moreover, we currently do not have any agreements for the commercial production of these materials. If our manufacturers are unable to obtain these materials for our preclinical and clinical studies, product testing and potential regulatory approval of our product candidates would be delayed, significantly impacting our ability to develop our product candidates. If our manufacturers or we are unable to purchase these materials after regulatory approval has been obtained for our product candidates, the commercial launch of our product candidates would be delayed or there would be a shortage in supply, which would materially affect our ability to generate revenues from the sale of our product candidates.

Risks Related to Our Business

*Our limited operating history makes it difficult to evaluate our current business and future prospects, and our profitability in the future is uncertain.

We face the problems, expenses, difficulties, complications and delays, many of which are beyond our control, associated with any business in its early stages and have a limited operating history on which an evaluation of our prospects can be made. Such prospects should be considered in light of the risks, expenses and difficulties frequently encountered in the establishment of a business in a new industry, characterized by a number of market entrants and intense competition, and in the shift from development to commercialization of new products based on innovative technologies.

We have experienced significant growth in the number of our employees and the scope of our operations. We began 2014 with 26 employees and currently have approximately 135 employees, having added sales and marketing, compliance and legal functions in addition to expansion of all functions to support a commercial organization. To manage our anticipated future growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Due to our limited resources, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The physical expansion of our operations may lead to significant costs and may divert our management and business development resources. Any inability on the part of our management to manage growth could delay the execution of our business plans or disrupt our operations.

Factors that may inhibit our efforts to commercialize our products without strategic partners or licensees include:

- our inability to recruit and retain adequate numbers of effective sales and marketing personnel;
- the inability of sales personnel to obtain access to or persuade adequate numbers of physicians to prescribe our products;

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- the lack of complementary products to be offered by our sales personnel, which may put us at a competitive disadvantage against companies with broader product lines;
- unforeseen costs associated with expanding our own sales and marketing team for new products or with entering into a partnering agreement with an independent sales and marketing organization; and
- efforts by our competitors to commercialize competitive products.

Moreover, though we generate revenues from product sales arrangements, we may incur significant operating losses over the next several years. Our ability to achieve profitable operations in the future will depend in large part upon successful in-licensing of products approved by the FDA, selling and manufacturing these products, completing development of our products, obtaining regulatory approvals for these products, and bringing these products to market. The likelihood of the long-term success of our company must be considered in light of the expenses, difficulties and delays frequently encountered in the development and commercialization of new drug products, competitive factors in the marketplace, as well as the regulatory environment in which we operate.

In addition, we may encounter unforeseen expenses, difficulties, complications, delays and other known and unknown factors.

*We will likely experience fluctuations in operating results and could incur substantial losses.

We expect that our operating results will vary significantly from quarter-to-quarter and year-to-year as a result of investments in research and development, specifically our clinical and preclinical development activities. We have not completed development of any drugs and we anticipate that our expenses will increase substantially as we:

- continue the open label portion of DUET and prepare a regulatory pathway for sparsentan;
- continue our ongoing clinical development of RE-024 for the treatment of PKAN;
- complete requirements for filing of L-UDCA;
- continue the research and development of additional product candidates;
- expand our sales and marketing infrastructure to commercialize Cholbam and any new products for which we may obtain regulatory approval; and
- expand operational, financial, and management information systems and personnel, including personnel to support product development efforts and our obligations as a public company.

To attain and sustain profitability, we must succeed in developing and commercializing drugs with significant market potential. This will require us to be successful in a range of challenging activities, including the discovery of product candidates, successful completion of preclinical testing and clinical trials of our product candidates, obtaining regulatory approval for these product candidates and manufacturing, marketing and selling those products for which we may obtain regulatory approval. We are only in the preliminary stages of these activities. We may not be successful enough in these activities to generate revenues that are substantial enough to achieve profitability. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to become or remain profitable could depress the market price of our common stock and could impair our ability to raise capital, expand our business, diversify our product offerings or continue our operations. A decline in the market price of our common stock may also cause a loss of a part or all of your investment.

Negative publicity regarding any of our products could impair our ability to market any such product and may require us to spend time and money to address these issues.

If any of our products or any similar products distributed by other companies prove to be, or are asserted to be, harmful to consumers and/or subject to FDA enforcement action, our ability to successfully market and sell our products could be impaired. Because of our dependence on patient and physician perceptions, any adverse publicity associated with illness or other adverse effects resulting from the use or misuse of our products or any similar products distributed by other companies could limit the commercial potential of our products and expose us to potential liabilities.

*We may not have sufficient insurance to cover our liability in any current or future litigation claims either due to coverage limits or as a result of insurance carriers seeking to deny coverage of such claims.

We face a variety of litigation-related liability risks. Our certificate of incorporation, bylaws, other applicable agreements, and/or Delaware law require us to indemnify (and advance expenses to) our current and past directors and officers and employees from reasonable expenses related to the defense of any action arising from their service to us,

including circumstances under which indemnification is otherwise discretionary. While our directors and officers are included in a director and officer liability insurance policy, which covers all our directors and officers in some circumstances, our insurance coverage does not cover all of our indemnification obligations and may not be adequate to cover any indemnification or other claims against us. In addition, the underwriters of our present coverage may seek to avoid coverage in certain circumstances based upon the terms of the respective policies. If we incur liabilities that exceed our coverage under our directors and officers insurance policy or incur liabilities not covered by our insurance, we would have to self-fund any indemnification amounts owed to our directors and officers and employees in which case our results of operations and financial condition could be materially adversely affected. Further, if D&O insurance becomes prohibitively expensive to maintain in the future, we may be unable to renew such insurance on economic terms or unable renew such insurance at all. The lack of D&O insurance may make it difficult for us to retain and attract talented and skilled directors and officers to serve our company, which could adversely affect our business

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*We may need substantial funding and may be unable to raise capital when needed, which would force us to delay, reduce or eliminate our product development programs or commercialization efforts.

We expect our general, research and development expenses to increase in connection with our ongoing activities, particularly as we prepare for the regulatory path for sparsentan, complete requirements for filings of L-UDCA and future clinical studies of RE-024, and for any later-stage clinical trials of our product candidates. In addition, subject to obtaining regulatory approval of any of our product candidates, we expect to incur significant commercialization expenses for product sales and marketing, securing commercial quantities of product from our manufacturers, and product distribution. We currently have no additional commitments or arrangements for any additional financing to fund the research and development and commercial launch of our product candidates.

Management believes the Company's ability to continue its operations depends on its ability to sustain and grow revenue, results of operations and its ability to access capital markets when necessary to accomplish its strategic objectives. Management believes that we may incur losses in the immediate future. For the nine months ended September 30, 2016, the Company generated a positive cash flow from operations; however, we expect that our operating results will vary significantly from quarter-to-quarter and year-to-year as a result of investments in research and development, specifically our clinical and preclinical development activities. The Company expects to finance its cash needs from cash on hand and results of operations, and depending on results of operations we may either need additional equity or debt financing, or need to enter into strategic alliances on products in development to continue our operations until we can achieve sustained profitability and positive cash flows from operating activities. Additional funds may not be available to us when we need them on terms that are acceptable to us, or at all. If adequate funds are not available to us on a timely basis, we may be required to reduce or eliminate research development programs or commercial efforts.

Our future capital requirements will depend on many factors, including:

- the progress and results of our pre-clinical and clinical studies of sparsentan, RE-024 and L-UDCA and other drug candidates;
- the costs, timing and outcome of regulatory review of our product candidates;
- the number and development requirements of other product candidates that we pursue;
- the costs of commercialization activities, including product marketing, sales and distribution;
- the emergence of competing technologies and other adverse market developments;
- the costs of preparing, filing and prosecuting patent applications and maintaining, enforcing and defending intellectual property related claims;
- the extent to which we acquire or invest in businesses, products and technologies; and
- our ability to establish collaborations and obtain milestone, royalty or other payments from any such collaborators.

The market price for shares of our common stock may be volatile and purchasers of our common stock could incur substantial losses.

The price of our stock is likely to be volatile. The stock market in general, and the market for biotechnology companies in particular, have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. The market price for our common stock may be influenced by many factors, including:

- results of clinical trials of our product candidates or those of our competitors;
- our entry into or the loss of a significant collaboration;
- regulatory or legal developments in the United States and other countries, including changes in the health care payment systems;
- our ability to obtain and maintain marketing approvals from the FDA or similar regulatory authorities outside the United States;
- variations in our financial results or those of companies that are perceived to be similar to us;
- changes in the structure of healthcare payment systems;
- market conditions in the pharmaceutical and biotechnology sectors and issuance of new or changed securities analysts' reports or recommendations;
- general economic, industry and market conditions;

- results of clinical trials conducted by others on drugs that would compete with our product candidates;
- developments or disputes concerning patents or other proprietary rights;
- public concern over our product candidates or any products approved in the future;
- litigation;
- future sales or anticipated sales of our common stock by us or our stockholders; and
- the other factors described in this "Risk Factors" section.

In addition, the stock markets, and in particular, the NASDAQ Global Market, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many pharmaceutical companies. The realization of any of the above risks or any of a

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broad range of other risks, including those described in these “Risk Factors” could have a dramatic and material adverse impact on the market price of our common stock.

We may be unable to successfully integrate new products or businesses we may acquire.

We intend to expand our product pipeline by pursuing acquisition of pharmaceutical products. If an acquisition is consummated, the integration of the acquired business, product or other assets into our company may also be complex and time- consuming and, if such businesses, products and assets are not successfully integrated, we may not achieve the anticipated benefits, cost-savings or growth opportunities. Potential difficulties that may be encountered in the integration process include the following:

- integrating personnel, operations and systems, while maintaining focus on producing and delivering consistent, high quality products;
- coordinating geographically dispersed organizations;
- distracting employees from operations;
- retaining existing customers and attracting new customers; and
- managing inefficiencies associated with integrating the operations of the Company.

Furthermore, these acquisitions and other arrangements, even if successfully integrated, may fail to further our business strategy as anticipated, expose us to increased competition or challenges with respect to our products or geographic markets, and expose us to additional liabilities associated with an acquired business, product, technology or other asset or arrangement. Any one of these challenges or risks could impair our ability to realize any benefit from our acquisitions or arrangements after we have expended resources on them.

If we are unable to maintain an effective and specialized sales force, we will not be able to commercialize our products successfully.

In order to successfully commercialize our products, we have built a specialized sales force. Factors that may hinder our ability to successfully market and commercially distribute our products include:

- inability of sales personnel to obtain access to or convince adequate numbers of physicians to prescribe our products;
- inability to recruit, retain and effectively manage adequate numbers of effective sales personnel;
- lack of complementary products to be offered by sales personnel, which may put us at a competitive disadvantage relative to companies that have more extensive product lines; and
- unforeseen delays, costs and expenses associated with maintaining our sales organization.

If we are unable to maintain our sales force for our products, we may not be able to generate sufficient product revenue.

We will need to continue to expend significant time and resources to train our sales forces to be credible, persuasive and compliant in discussing our products with the specialists treating the patients indicated under the product’s label. In addition, if we are unable to effectively train our sales force and equip them with effective marketing materials our ability to successfully commercialize our products could be diminished, which would have a material adverse effect on our business, results of operations and financial condition.

*Product liability lawsuits against us could cause us to incur substantial liabilities and to limit commercialization of any products that we may develop.

Our business exposes us to potential liability risks inherent in the research, development, manufacturing and marketing of pharmaceutical products. If any of our product candidates in clinical trials or marketed products harm people we may be subject to costly and damaging product liability claims. We have clinical trial insurance and commercial product liability coverage. However, this insurance may not be adequate to cover all claims. We may be exposed to product liability claims and product recalls, including those which may arise from misuse or malfunction of, or design flaws in, such products, whether or not such problems directly relate to the products and services we have provided. If we cannot successfully defend ourselves against claims that our product candidates or products caused injuries, we will incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- decreased demand for any product candidates or products that we may develop;
- damage to our reputation;
- regulatory investigations that could require costly recalls or product modifications;

- withdrawal of clinical trial participants;
- costs to defend the related litigation;
- substantial monetary awards to trial participants or patients, including awards that substantially exceed our product liability insurance, which we would then be required to pay from other sources, if available, and would damage our ability to obtain liability insurance at reasonable costs, or at all, in the future;
- loss of revenue;
- the diversion of management's attention from managing our business; and

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- the inability to commercialize any products that we may develop.

We have liability insurance policies for our clinical trials in the geographies in which we are conducting trials. The amount of insurance that we currently hold may not be adequate to cover all liabilities that we may incur. Insurance coverage is increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost and we may not be able to obtain insurance coverage that will be adequate to satisfy any liability that may arise. On occasion, large judgments have been awarded in class action lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or a series of claims brought against us could cause our stock price to fall and, if judgments exceed our insurance coverage, could decrease our available cash and adversely affect our business.

We are involved in various litigation matters, any of which could result in substantial costs, divert management's attention and otherwise have a material adverse effect on our business, operating results or financial condition.

We are involved in various litigation matters, each described in Note 13 of the unaudited Condensed Consolidated Financial Statements included in this report. Although we intend to vigorously defend any claims for which we have been named as a defendant, there is no guarantee that we will be successful and we may have to pay damages awards or otherwise may enter into settlement arrangements in connection with such claims. Any such payments or settlement arrangements could have material adverse effects on our business, operating results or financial condition. Even if the pending claims are not successful, litigation with respect to such claims could result in substantial costs and significant adverse impact on our reputation and divert management's attention and resources, which could have a material adverse effect on our business, operating results or financial condition.

*We are subject to significant ongoing regulatory obligations and oversight, which may result in significant additional expense and may limit our commercial success.

We are subject to significant ongoing regulatory obligations, such as safety reporting requirements and additional post-marketing obligations, including regulatory oversight of the promotion and marketing of our products. In addition, the manufacture, quality control, labeling, packaging, safety surveillance, adverse event reporting, storage and recordkeeping for our products are subject to extensive and ongoing regulatory requirements. If we become aware of previously unknown problems with any of our products, a regulatory agency may impose restrictions on our products, our contract manufacturers or us. If we, our products and product candidates, or the manufacturing facilities for our products and product candidates fail to comply with applicable regulatory requirements, a regulatory agency, including the FDA, may send enforcement letters, mandate labeling changes, suspend or withdraw regulatory approval, suspend any ongoing clinical trials, refuse to approve pending applications or supplements filed by us, suspend or impose restrictions on manufacturing operations, request a recall of, seize or detain a product, seek criminal prosecution or an injunction, or impose civil or criminal penalties or monetary fines. In such instances, we could experience a significant drop in the sales of the affected products, our product revenues and reputation in the marketplace may suffer, and we could become the target of lawsuits.

We are also subject to regulation by national, regional, state and local agencies, including but not limited to the FDA, Centers for Medicare and Medicaid Services, Department of Justice, the Federal Trade Commission, the Office of Inspector General of the U.S. Department of Health and Human Services and other regulatory bodies. The FDC Act, Social Security Act, Public Health Service Act and other federal and state statutes and regulations govern to varying degrees the research, development, manufacturing and commercial activities relating to prescription pharmaceutical products, including preclinical testing, clinical research, approval, production, labeling, sale, distribution, post-market surveillance, advertising, dissemination of information, promotion, marketing, and pricing to government purchasers and government health care programs. Our manufacturing partners are subject to many of the same requirements. Companies may not promote drugs for “off-label” uses-that is, uses that are not described in the product’s labeling and that differ from those approved by the FDA or other applicable regulatory agencies. A company that is found to have improperly promoted off-label uses may be subject to significant liability, including civil and administrative remedies as well as criminal sanctions. In addition, management’s attention could be diverted from our business operations and our reputation could be damaged.

The federal health care program Anti-Kickback statute prohibits, among other things, knowingly and willfully offering, paying, soliciting, or receiving remuneration to induce or in return for purchasing, leasing, ordering or arranging for the purchase, lease or order of any health care item or service reimbursable under Medicare, Medicaid or

other federally financed healthcare programs. This statute has been interpreted broadly to apply to arrangements that pharmaceutical companies have with prescribers, purchasers and formulary managers, among others. Further, the Health Care Reform Law, among other things, amends the intent requirement of the federal anti-kickback statute so that a person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it. In addition, the Health Care Reform Law provides that the government may assert that a claim including items or services resulting from a violation of the federal anti-kickback statute constitutes a false or fraudulent claim for purposes of the civil False Claims Act. Although there are a number of statutory exceptions and regulatory safe harbors under the federal anti-kickback statute protecting certain common manufacturer business arrangements and activities from prosecution, the exceptions and safe harbors are drawn narrowly and an arrangement must meet all of the conditions specified in order to be fully protected from scrutiny under the federal anti-kickback statute. We seek to comply with the exceptions and safe harbors whenever possible, but our practices, such as our patient assistance programs and prompt pay discounts with certain customers, may not in all cases meet all of the criteria for protection from anti-kickback liability and may be subject to scrutiny.

The federal false claims laws, including the Federal False Claims Act, prohibit any person or entity from knowingly presenting, or causing to be presented, a false claim for payment to the federal government, or knowingly making, or causing to be made, a false statement to get a false claim paid. Many pharmaceutical and other health care companies have been investigated and have reached substantial financial settlements with the federal government under the Federal False Claims Act for a variety of alleged marketing activities, including providing free product to customers with the expectation that the customers would bill federal programs for the product; providing consulting fees, grants, free travel, and other benefits to physicians to induce them to prescribe the company’s products; and inflating prices reported to private price publication services, which may be used by states to set drug payment rates under government health care programs. Companies have been prosecuted for causing false claims to be submitted because of the marketing

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of their products for unapproved uses. Pharmaceutical and other health care companies have also been prosecuted on other legal theories of Medicare and Medicaid fraud.

Legislative and regulatory proposals have been made to expand post-approval requirements and restrict sales and promotional activities for pharmaceutical products. It is not clear whether additional legislative changes will be enacted, or whether the FDA regulations, guidance or interpretations will be changed, or what the impact of such changes on the marketing approvals of any Retrophin products, if any, may be. In addition, increased scrutiny by the U.S. Congress of the FDA's approval process may significantly delay or prevent marketing approval, as well as subject Retrophin to more stringent product labeling and post-marketing testing and other requirements.

Many states also have statutes or regulations similar to the federal Anti-Kickback Statute and False Claims Act and civil monetary penalty laws, which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, which apply regardless of the payer. In addition, several states require pharmaceutical companies to implement compliance programs or marketing codes as does the U.S. Department of Health and Human Services

We also could become subject to government investigations and related subpoenas. Such subpoenas are often associated with previously filed qui tam actions, or lawsuits filed under seal under the Federal False Claims Act. Qui tam actions are brought by private plaintiffs suing on behalf of the federal government for alleged violations of the Federal False Claims Act. The time and expense associated with responding to such subpoenas, and any related qui tam or other actions, may be extensive, and we cannot predict the results of our review of the responsive documents and underlying facts or the results of such actions. Responding to government investigations, defending any claims raised, and any resulting fines, restitution, damages and penalties, settlement payments or administrative actions, as well as any related actions brought by stockholders or other third parties, could have a material impact on our reputation, business and financial condition and divert the attention of our management from operating our business.

The number and complexity of both federal and state laws continues to increase, and additional governmental resources are being added to enforce these laws and to prosecute companies and individuals who are believed to be violating them. In particular, the Health Care Reform Law includes a number of provisions aimed at strengthening the government's ability to pursue anti-kickback and false claims cases against pharmaceutical manufacturers and other healthcare entities, including substantially increased funding for healthcare fraud enforcement activities, enhanced investigative powers, amendments to the federal False Claims Act that make it easier for the government and whistleblowers to pursue cases for alleged kickback and false claim violations and, for payments made on or after August 1, 2013, public reporting of payments by pharmaceutical manufacturers to physicians and teaching hospitals nationwide. While it is too early to predict the full effect these changes will have on our business, we anticipate that government scrutiny of pharmaceutical sales and marketing practices will continue for the foreseeable future and subject us to the risk of further government investigations and enforcement actions. Responding to a government investigation or enforcement action would be expensive and time-consuming, and could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

The U.S. Foreign Corrupt Practices Act, and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business. Our policies mandate compliance with these anti-bribery laws. We operate in parts of the world that have experienced governmental corruption to some degree and in certain circumstances, strict compliance with antibribery laws may conflict with local customs and practices or may require us to interact with doctors and hospitals, some of which may be state controlled, in a manner that is different than in the United States. We cannot assure you that our internal control policies and procedures will protect us from reckless or criminal acts committed by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business and result in criminal or civil penalties or remedial measures, any of which could have a material adverse effect on our business, financial condition and results of operations and could cause the market value of our common stock to decline.

In addition, we may be subject to data privacy and security regulation by both the federal government and the states in which we conduct our business. The Federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), as amended by the Health Information Technology for Economic and Clinical Health Act ("HITECH"), and their respective implementing regulations, imposes specified requirements relating to the privacy, security and transmission of individually identifiable health information.

Additionally, the federal Physician Payments Sunshine Act within the Health Care Reform Law, and its implementing regulations, require that certain manufacturers of drugs, devices, biologicals and medical supplies to report annually information related to certain payments or other transfers of value made or distributed to physicians and teaching hospitals, or to entities or individuals at the request of, or designated on behalf of, the physicians and teaching hospitals and to report annually certain ownership and investment interests held by physicians and their immediate family members. Moreover, the Drug Supply Chain Security Act imposes new obligations on manufacturers of pharmaceutical products related to product tracking and tracing. Legislative and regulatory proposals have been made to expand post-approval requirements and restrict sales and promotional activities for pharmaceutical products. We are not sure whether additional legislative changes will be enacted, or whether the current regulations, guidance or interpretations will be changed, or what the impact of such changes on our business, if any, may be. Several states now require pharmaceutical companies to report their expenses relating to the marketing and promotion of pharmaceutical products in those states and to report gifts and payments to certain individual health care providers in those states. Some of these states also prohibit certain marketing-related activities, including the provision of gifts, meals, and other items to certain health care providers.

If we or any of our partners fail to comply with applicable regulatory requirements, we or they could be subject to a range of regulatory actions that could affect our or our partners' ability to commercialize our products and could harm or prevent sales of the affected products, or could substantially increase the costs and expenses of commercializing and marketing our products. Any threatened or actual government enforcement action could also generate adverse publicity and require that we devote substantial resources that could otherwise be used in other aspects of our business. Compliance with applicable federal and state laws is difficult and time consuming, and companies that violate them may face substantial penalties. The potential sanctions include criminal fines, civil monetary penalties, administrative penalties, disgorgement, exclusion from participation in federal health care

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programs, imprisonment, injunctions, recall or seizure of products, and other sanctions. Because of the breadth of these laws, it is possible that some of our business activities could be subject to challenge under one or more of these laws. Such a challenge, irrespective of the underlying merits of the challenge or the ultimate outcome of the matter, could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

If we are not able to obtain and maintain required regulatory approvals, we will not be able to commercialize our products, and our ability to generate revenue will be materially impaired.

Our product candidates, once approved, and the activities associated with their manufacture, marketing, distribution, and sales are subject to extensive regulation by the FDA and other regulatory agencies in the United States and by comparable authorities in other countries. Failure to adhere to regulations set out by these bodies for one or more of our commercial products could prevent us from commercializing the product candidate in the jurisdiction of the regulatory authority. We have only limited experience in meeting the regulatory requirements incumbent on the sale of drugs in the United States and elsewhere, and expect to rely on third-parties to assist us in these processes. If these third parties fail to adequately adhere to the regulations governing drug distribution and promotion we may be unable to sell our products, which could have a material effect on our ability to generate revenue.

Our product candidates and the activities associated with their development and commercialization, including testing, manufacture, safety, efficacy, recordkeeping, labeling, storage, approval, advertising, promotion, sale and distribution, are subject to comprehensive regulation by the FDA and other regulatory agencies in the United States and by comparable authorities in other countries. Failure to obtain regulatory approval for a product candidate will prevent us from commercializing the product candidate in the jurisdiction of the regulatory authority. We have only limited experience in filing and prosecuting the applications necessary to obtain regulatory approvals and expect to rely on third-party contract research organizations to assist us in this process.

Securing FDA approval requires the submission of extensive preclinical and clinical data and supporting information to the FDA for each therapeutic indication to establish the product candidate’s safety and efficacy. Securing FDA approval also requires the submission of information about the product manufacturing process to, and successful inspection of manufacturing facilities by, the FDA. Our future products may not be effective, may be only moderately effective or may prove to have undesirable or unintended side effects, toxicities or other characteristics that may preclude our obtaining regulatory approval or prevent or limit commercial use.

Our product candidates may fail to obtain regulatory approval for many reasons, including:

- our failure to demonstrate to the satisfaction of the FDA or comparable regulatory authorities that a product candidate is safe and effective for a particular indication;
- the results of clinical trials may not meet the level of statistical significance required by the FDA or comparable regulatory authorities for approval;
- our inability to demonstrate that a product candidate’s benefits outweigh its risks;
- our inability to demonstrate that the product candidate presents an advantage over existing therapies;
- the FDA’s or comparable regulatory authorities’ disagreement with the manner in which we interpret the data from preclinical studies or clinical trials;
- failure of the third-party manufacturers with which we contract for clinical or commercial supplies to satisfactorily complete an FDA pre-approval inspection of the facility or facilities at which the product is manufactured to assess compliance with the FDA’s cGMP regulations to assure that the facilities, methods and controls are adequate to preserve the drug’s identity, strength, quality and purity; and
- a change in the approval policies or regulations of the FDA or comparable regulatory authorities or a change in the laws governing the approval process.

The process of obtaining regulatory approvals is expensive, often takes many years, if approval is obtained at all, and can vary substantially based upon a variety of factors, including the type, complexity and novelty of the product candidates involved. Changes in regulatory approval policies during the development period, changes in or the enactment of additional statutes or regulations, or changes in regulatory review for each submitted product application may cause delays in the approval or rejection of an application. The FDA and non-United States regulatory authorities have substantial discretion in the approval process and may refuse to accept any application or may decide that our data is insufficient for approval and require additional preclinical, clinical or other studies. In addition, varying

interpretations of the data obtained from preclinical and clinical testing could delay, limit or prevent regulatory approval of a product candidate. Any regulatory approval we ultimately obtain may be limited or subject to restrictions or post approval commitments that render the approved product not commercially viable. Any FDA or other regulatory approval of our product candidates, once obtained, may be withdrawn, including for failure to comply with regulatory requirements or if clinical or manufacturing problems follow initial marketing.

*Our internal computer systems, or those of our CROs or other contractors and vendors who host our applications or consultants, may fail or suffer security breaches, which could result in a material disruption of our product development programs.

Despite the implementation of security measures, our internal computer systems and those of our CROs and other contractors vendors who host our applications and consultants are vulnerable to damage or disruption from computer viruses, software bugs, unauthorized access including cyber-attack, natural disasters, terrorism, war, and telecommunication, equipment and electrical failures. While we have not, to our knowledge, experienced any significant system failure, accident or security breach to date, if such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our programs. For example, the loss of clinical trial data from completed or ongoing clinical trials for any of our product candidates could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce

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the data. To the extent that any disruption or security breach results in a loss of or damage to our data or applications, or inappropriate disclosure or theft of confidential or proprietary information, we could incur liability, the further development of our product candidates could be delayed, our competitive position could be compromised, or our business reputation could be harmed.

*We face risks related to research and the ability to develop new drugs.

Our growth and survival depends on our ability to consistently discover, develop and commercialize new products and find new and improve on existing technology and platforms. As such, if we fail to make sufficient investments in research, be attentive to consumer needs or do not focus on the most advanced technology, our current and future products could be surpassed by more effective or advanced products of other companies.

Risks Related to our Indebtedness and Investments

*Our indebtedness could adversely affect our financial condition.

As of September 30, 2016, we had approximately $46.0 million of total debt outstanding, classified as long term. The total debt outstanding relates to a Note Purchase Agreement dated May 29, 2014 for the private placement of $46.0 million aggregate senior secured notes (the “Notes”). As a result of our indebtedness, a portion of our cash flow will be required to pay interest and principal on the Notes if the Notes are not converted to shares of common stock prior to maturity. We may not generate sufficient cash flow from operations or have future borrowings available to enable us to repay our indebtedness or to fund other liquidity needs.

Our indebtedness pursuant to the Notes could have important consequences. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to any other debt we may incur in the future;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness and related interest, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- increase our cost of borrowing;
- place us at a competitive disadvantage compared to our competitors that may have less debt; and
- limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes.

We expect to use cash flow from operations and outside financings to meet our current and future financial obligations, including funding our operations, debt service and capital expenditures. Our ability to make these payments depends on our future performance, which will be affected by financial, business, economic and other factors, many of which we cannot control. Our business may not generate sufficient cash flow from operations in the future, which could result in our being unable to repay indebtedness, or to fund other liquidity needs. If we do not generate sufficient cash from operations, we may be forced to reduce or delay our business activities and capital expenditures, sell assets, obtain additional debt or equity capital or restructure or refinance all or a portion of our debt, including the Notes, on or before maturity. We cannot make any assurances that we will be able to accomplish any of these alternatives on terms acceptable to us, or at all. In addition, the terms of existing or future indebtedness may limit our ability to pursue any of these alternatives.

A default under the Notes may have a material adverse effect on our financial condition.

If an event of default under the Notes occurs, the principal amount of the Notes, plus accrued and unpaid interest (including additional interest, if any) may be declared immediately due and payable, subject to certain conditions set forth in the indenture governing such notes. Events of default include, but are not limited to:

- failure to pay (for more than 30 days) interest when due;
- failure to pay principal when due;
- failure to deliver shares of Common Stock upon conversion of a Note;
- failure to provide notice of a fundamental change;
- acceleration on other indebtedness of the Company in excess of $10 million (other than indebtedness that is non-recourse to the Company); or
- certain types of bankruptcy or insolvency involving the Company.

Accordingly, the occurrence of a default under the Notes, unless cured or waived, may have a material adverse effect on our results of operations.

The Notes are structurally subordinated to all obligations of our subsidiaries.

The Notes are our obligations and are structurally subordinated to all indebtedness and other obligations, including trade payables, of our subsidiaries. The effect of this structural subordination is that, in the event of a bankruptcy, liquidation, dissolution, reorganization or similar proceeding involving a

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subsidiary which is not a guarantor of the Notes, the assets of the affected entity could not be used to pay noteholders until after all other claims against that subsidiary, including trade payables, have been fully paid.

Provisions of the Notes could discourage an acquisition of us by a third party.

Certain provisions of the Notes could make it more difficult or more expensive for or prevent a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, holders of the Notes will have the right, at their option, to require us to repurchase all of their Notes or any portion of the principal amount of such Notes in integral multiples of $1,000. We may also be required to increase the conversion rate for conversions in connection with certain fundamental changes.

Conversion of the Notes may dilute the ownership interest of existing stockholders, including holders who had previously converted their Notes.

To the extent we issue shares of common stock upon conversion of the Notes, the conversion of some or all of the Notes will dilute the ownership interests of existing stockholders. Any sales in the public market of shares of the common stock issuable upon such conversion could adversely affect prevailing market prices of shares of our common stock. In addition, the existence of the Notes may encourage short selling by market participants because the conversion of the Notes could depress the price of shares of our common stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

On October 6, 2016, we announced the resignation of Alvin Shih, M.D. as our Executive Vice President of Research and Development, which became effective on October 31, 2016. On October 31, 2016, we entered into a Consulting Agreement with Dr. Shih pursuant to which Dr. Shih will provide us with consulting services with respect to research and development matters as requested from time to time. Pursuant to the Consulting Agreement, the consulting services to be provided by Dr. Shih will be treated the same as continued employment for purposes of further vesting of Dr. Shih’s equity grant under the 2014 Incentive Compensation Plan.

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Item 6. Exhibits

(a) Exhibits

3.1	Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to Amendment No. 2 to the Company's General Form for Registration of Securities on Form 10-12G, filed with the SEC on October 28, 2010).
3.2	Certificate of Amendment of Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on June 11, 2015).
3.3	Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed with the SEC on June 11, 2015).
4.1	Form of Warrant Certificate, dated June 30, 2014, issued to the Lenders under the Credit Agreement (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on July 7, 2014).
4.2	Form of Warrant issued to the purchasers in the private placement of 3,045,929 shares of common stock, dated February 14, 2013 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on February 19, 2013).
4.3	Form of Common Stock Purchase Warrant, dated August 15, 2013, issued to the purchasers of securities in the private placement of the Company closed on August 15, 2013 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed with the SEC on August 20, 2013).
4.4	Form of Note Purchase Agreement for principal senior convertible notes with an interest rate of 4.50% due 2019 ("2019 Notes"), dated May 29, 2014, by and among the Company and the investors identified therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the SEC on June 4, 2014).
4.5	Form of Indenture for 2019 Notes, dated May 30, 2014 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on June 4, 2014).
4.6	Form of Note for 2019 Notes, dated May 30, 2014 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed with the SEC on May 29, 2014).
4.7	Registration Rights Agreement, dated February 12, 2013, by and among the Company and the February 2013 Purchasers (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on February 19, 2013).
4.8	Registration Rights Agreement, dated August 15, 2013, by and among the Company and the August 2013 Purchasers (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed with the SEC on August 20, 2013).
4.9	First Amendment to Registration Rights Agreement, dated August 14, 2013, by and among the Company and the purchasers signatory thereto (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, filed with the SEC on August 20, 2013).
4.10	Form of Indenture for Senior Debt Securities (incorporated by reference to Exhibit 4.10 to the Company's Registration Statement on Form S-8, filed with the SEC on September 9, 2014).
4.11	Form of Indenture for Subordinated Debt Securities (incorporated by reference to Exhibit 4.11 to the Company's Registration Statement on Form S-8, filed with the SEC on September 9, 2014).
10.1	Employment Agreement, dated August 15, 2016, by and between Retrophin, Inc. and Neil McFarlane*
10.2	Amendment One to the Third Amendment to Trademark License and Supply Agreement, dated September 12, 2016, by and between the Company and Mission Pharmacal Company * †
31.1	Chief Executive Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Chief Financial Officer's Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1	Chief Executive Officer's Certification pursuant to Section 906 of the Sarbanes Oxley Act of 2002 *
32.2	Chief Financial Officer's Certification pursuant to Section 906 of the Sarbanes Oxley Act of 2002 *
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document
101.LAB XBRL Taxonomy Extension Label Linkbase Document
101.PRE Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

† Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted parties have filed separately with the SEC.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 4, 2016 RETROPHIN, INC.

By: /s/ Stephen Aselage
Name: Stephen Aselage
Title: Chief Executive Officer

By: /s/ Laura Clague
Name: Laura Clague
Title: Chief Financial Officer