Corium International, Inc.
Form 10-Q
February 12, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended December 31, 2015

OR

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

For the transition period from to .

Commission File Number: 001-36375

Corium International, Inc.

(Exact name of registrant as specified in its charter)

Delaware	38-3230774

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

(Address of principal executive offices and zip code)

(650) 298-8255

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of February 10, 2016, there were approximately 22,220,350 shares of the Registrant's Common Stock outstanding.

Table of Contents

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	2
ITEM 1. FINANCIAL STATEMENTS	2
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	15
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	24
ITEM 4. CONTROLS AND PROCEDURES	24
PART II. OTHER INFORMATION	26
ITEM 1. LEGAL PROCEEDINGS	26
ITEM 1A. RISK FACTORS	26
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	62
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	62
ITEM 4. MINE SAFETY DISCLOSURES	62
ITEM 5. OTHER INFORMATION	63
ITEM 6. EXHIBITS	63
SIGNATURES	64

Table of Contents

PART I

ITEM 1.FINANCIAL STATEMENTS

CORIUM INTERNATIONAL, INC.

CONDENSED BALANCE SHEETS

(in thousands, except share amounts)

	As of December 31, 2015 (Unaudited)	As of September 30, 2015 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 63,028	$ 72,218
Accounts receivable	3,122	4,461
Unbilled accounts receivable	883	812
Inventories, net	2,864	2,902
Prepaid expenses and other current assets	1,058	1,367
Total current assets	70,955	81,760
Property and equipment, net	11,603	11,593
Debt financing costs, net	706	554
Intangible assets, net	6,944	6,837
TOTAL ASSETS	$ 90,208	$ 100,744
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,746	$ 3,952
Accrued expenses and other current liabilities	3,096	4,091
Long-term debt, current portion	58	57
Capital lease obligations, current portion	694	820
Recall liability, current portion	760	760
Deferred contract revenues, current portion	104	134
Total current liabilities	7,458	9,814
Long-term debt, net of current portion	50,234	49,807
Capital lease obligations, net of current portion	—	72
Recall liability, net of current portion	2,039	2,229
Deferred contract revenues, net of current portion	3,500	3,500
Total liabilities	63,231	65,422
Commitments and contingencies		

Stockholders' equity:		
Common stock, par value of $0.001 per share, 150,000,000 shares authorized; 22,219,413 and 22,160,991 shares issued and outstanding as of December 31, 2015 and September 30, 2015	22	22
Additional paid-in capital	167,140	166,085
Accumulated deficit	(140,185)	(130,785)
Total stockholders' equity	26,977	35,322
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 90,208	$ 100,744

(1) Derived from the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

See accompanying notes to condensed financial statements.

Table of Contents

CORIUM INTERNATIONAL, INC.

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(in thousands, except share and per share data)

(Unaudited)

	Three Months Ended December 31,	
	2015	2014
Revenues:		
Product revenues	$ 5,972	$ 6,539
Contract research and development revenues	1,270	2,930
Other revenues	295	297
Total revenues	7,537	9,766
Costs and operating expenses:		
Cost of product revenues	4,298	4,087
Cost of contract research and development revenues	3,056	3,717
Research and development expenses	4,457	4,197
General and administrative expenses	3,017	2,687
Amortization of intangible assets	159	161
Loss on disposal and sale and leaseback of equipment	—	7
Total costs and operating expenses	14,987	14,856
Loss from operations	(7,450)	(5,090)
Interest income	30	2
Interest expense	(1,977)	(1,669)
Loss before income taxes	(9,397)	(6,757)
Income tax expense	3	2
Net loss and comprehensive loss	$ (9,400)	$ (6,759)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.42)	$ (0.37)
Weighted average shares used in computing net loss per share attributable to common stockholders, basic and diluted	22,188,332	18,034,689

See accompanying notes to condensed financial statements

Table of Contents

CORIUM INTERNATIONAL, INC.

Condensed Statement of Stockholders' Equity

(in thousands, except share data)

(Unaudited)

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance - September 30, 2015	22,160,991	$ 22	$ 166,085	$ (130,785)	$ 35,322
Issuance of common stock under Employee Stock Purchase Plan	56,758	—	268	—	268
Issuance of common stock upon exercise of stock options	1,664	—	9	—	9
Stock-based compensation expense	—	—	778	—	778
Net loss and comprehensive loss	—	—	—	(9,400)	(9,400)
Balance - December 31, 2015	22,219,413	$ 22	$ 167,140	$ (140,185)	$ 26,977

See accompanying notes to condensed financial statements.

Table of Contents

CORIUM INTERNATIONAL, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended December 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss and comprehensive loss	$ (9,400)	$ (6,759)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization of property and equipment	479	553
Loss on disposal and sale and leaseback of equipment	—	7
Amortization of intangible assets	159	161
Noncash amortized debt issue costs on long-term debt and capital leases	48	45
Noncash amortized discount on long-term debt and capital leases	6	7
Stock-based compensation expense	778	688
Changes in operating assets and liabilities:		
Accounts receivable	1,339	106
Unbilled accounts receivable	(71)	151
Inventories, net	38	(874)
Prepaid expenses and other current assets	534	308
Accounts payable	(1,453)	1,077
Accrued expenses and other current liabilities	(554)	(1,163)
Deferred contract revenues	(30)	3
Recall liability	(190)	(196)
Net cash used by operating activities	(8,317)	(5,886)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(467)	(328)
Payments for patents and licensing rights	(266)	(198)
Net cash used by investing activities	(733)	(526)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	—	10,000
Payment of transaction costs associated with issuance of long-term debt and capital leases	(200)	(150)
Principal payments on long-term debt	(18)	(16)
Principal payments on capital lease obligations	(199)	(187)
Proceeds from exercise of stock options	9	9
Proceeds from issuance of common stock under Employee Stock Purchase Plan	268	298
Net cash provided (used) by financing activities	(140)	9,954
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,190)	3,542
CASH AND CASH EQUIVALENTS — Beginning of period	72,218	36,395

CASH AND CASH EQUIVALENTS — End of period	$ 63,028	$ 39,937
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 1,481	$ 1,252
Cash paid for income taxes	$ 3	$ 1
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Property and equipment purchases included in accounts payable	$ 220	$ 46
Issuance of payment-in-kind notes in lieu of cash interest payments	$ 441	$ 365
Unpaid deferred offering costs	$ 225	$ —

See accompanying notes to condensed financial statements.

Table of Contents

CORIUM INTERNATIONAL, INC.

Notes to the Condensed Financial Statements

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

Organization

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

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

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

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and follow the requirements of the Securities and Exchange Commission (the "SEC") for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted. The interim balance sheet as of December 31, 2015 and the statements of operations and comprehensive loss for the three months ended December 31, 2015 and 2014, statement of stockholders' equity for the three months ended December 31, 2015 and statements of cash flows for the three months ended December 31, 2015 and 2014 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments necessary to present fairly the Company's financial position as of December 31, 2015 and its results of operations and cash flows for the three months ended December 31, 2015 and 2014. The financial data and the other financial information contained in these notes to the financial statements related to the three month periods are also unaudited. The results of operations for the three months ended

December 31, 2015 are not necessarily indicative of the results to be expected for the year ending September 30, 2016 or for any future annual or interim period. The balance sheet as of September 30, 2015 has been derived from the audited financial statements at that date but does not include all of the information required by U.S. GAAP for complete financial statements.

The accompanying condensed financial statements and related financial information should be read in conjunction with the audited financial statements and the related notes thereto for the year ended September 30, 2015 included in the Company's Annual Report on Form 10-K, which was filed with the SEC on December 16, 2015.

There have been no material changes to the significant accounting policies previously disclosed in the Company's audited financial statements for the year ended September 30, 2015.

Table of Contents

Use of Estimates

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

Concentration of Credit Risk

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

For the three months ended December 31, 2015, three partners accounted for 85% of the Company’s revenues and 81% of accounts receivable as of December 31, 2015. These same partners accounted for 84% of accounts receivable as of September 30, 2015. For the three months ended December 31, 2014, four partners accounted for 89% of the Company’s revenues.

Comprehensive Income (Loss)

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

2. Fair Value Measurements

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

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

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

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

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

Table of Contents

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

	As of December 31, 2015			
	Level I	Level II	Level III	Total
Financial Assets:				
Money market funds	$ 62,811	$ —	$ —	$ 62,811

	As of September 30, 2015			
	Level I	Level II	Level III	Total
Financial Assets:				
Money market funds	$ 71,970	$ —	$ —	$ 71,970

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

	As of December 31, 2015		
	Carrying Value	Fair Value	Difference
Long-term debt	$ 50,292	$ 50,375	$ 83

	As of September 30, 2015	
	Carrying	Fair

	Value	Value	Difference
Long-term debt	$ 49,864	$ 49,967	$ 103

3. Inventories

Inventories consist of the following (in thousands):

	As of December 31, 2015	As of September 30, 2015
Raw materials	$ 1,512	$ 1,573
Work in process	742	852
Finished goods	706	612
Total inventories, cost	2,960	3,037
Less inventory reserves	(96)	(135)
Total inventories, net	$ 2,864	$ 2,902

Table of Contents

4. Long-Term Debt

Outstanding long-term debt consists of the following (in thousands):

	As of December 31, 2015	As of September 30, 2015
Term loan agreement expiring June 30, 2019, less discount of $54 and $58 as of December 31, 2015 and September 30, 2015. See terms of the agreement below.	$ 49,740	$ 49,295
Notes payable to lessor for tenant improvements. The note calls for monthly payments of principal and interest of $3 at an interest rate of 7% and is due April 2017	59	66
Notes payable to lessor for tenant improvements. The note calls for monthly payments of principal and interest of $6 at an interest rate of 7% and is due November 2024	493	503
Total	50,292	49,864
Less current portion	58	57
Long-term portion	$ 50,234	$ 49,807

On July 13, 2012, the Company completed a $35.0 million term loan agreement with CRG, a structured debt and equity investment management firm. In August 2012 and December 2012, the Company drew down $29.0 million and $6.0 million under this agreement. On November 14, 2014, the agreement was amended to, among other things, increase the principal amount available under the term loan by $10.0 million, extend the interest-only period to June 30, 2018, and extend the maturity from June 30, 2017 to June 30, 2019. The amended agreement provides for a maximum borrowing of $45.0 million, excluding PIK notes, as defined below. The amended agreement requires interest to be paid quarterly at a simple annual rate of 15%, and all outstanding principal be repaid in four equal quarterly payments beginning on June 30, 2018, with interest continuing to accrue on the unpaid principal at a simple annual rate of 15%. In addition, the amended agreement contains a provision whereby the Company can, at each quarterly payment due date prior to June 30, 2018, choose to convert that portion of each quarterly interest obligation equal to 3.5% of the then-outstanding principal into additional notes (payment-in-kind (“PIK”) notes). Amounts outstanding under the term loan agreement are collateralized by all of the Company’s assets. The amended agreement also provides for a prepayment penalty, the amount of which varies with the date on which prepayment is made, if the Company chooses to repay principal prior to June 30, 2018 or upon other specified events, including a change of control. On December 4, 2014, the Company borrowed the remaining $10.0 million of principal provided for in the amended agreement. As of December 31, 2015 and September 30, 2015, the Company had converted $4.8 million and $4.4 million of interest into PIK notes, each of which added to the then-outstanding principal, and is included in the balances shown as of those dates. As of December 31, 2015, the principal amount outstanding under the term loan agreement, including all PIK notes, was $49.8 million.

The term loan agreement was amended in November 2015 to modify the financial covenants for minimum annual revenues (beginning with the 12 months ended June 30, 2016) and minimum liquidity, with which the Company has been in continuous compliance since the inception of the loan.

Table of Contents

5. Collaboration and Partner Arrangements

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

	Three Months Ended December 31,	
	2015	2014
Teva	$ 1,518	$ 1,904
Par	1,814	2,308
P&G	3,087	3,677
Other	1,118	1,877
Total revenues	$ 7,537	$ 9,766

Included in total revenues above are royalties and profit sharing totaled $0.7 million and $0.6 million for the three months ended December 31, 2015 and 2014.

6. Warrants

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

As of December 31, 2015 and September 30, 2015, warrants to purchase 51,386 shares of common stock, on an as-converted basis, were outstanding with a weighted-average exercise price of $9.26 per share. All of the common stock warrants are exercisable at any time up to ten years from issuance. The fair value of these warrants was recorded in stockholders’ equity upon issuance.

7. Convertible Preferred Stock, Common Stock and Stockholders' Equity

Convertible Preferred Stock

The Company was authorized to issue up to 5.0 million shares of preferred stock as of December 31, 2015 and September 30, 2015 with a par value of $0.001 per share. No preferred stock was outstanding as of those dates.

Common Stock

The Company was authorized to issue up to 150.0 million shares of common stock as of December 31, 2015 and September 30, 2015 with a par value of $0.001 per share. As of December 31, 2015, there were 22,219,413 shares of common stock outstanding and as of September 30, 2015, there were 22,160,991 shares of common stock outstanding.

Controlled Equity Offering

In December 2015, the Company entered into a Controlled Equity OfferingSM Sales Agreement with Cantor Fitzgerald & Co., as agent ("Cantor Fitzgerald"), pursuant to which the Company may offer and sell, from time to time through Cantor Fitzgerald, shares of its common stock, par value $0.001 per share, with aggregate proceeds of up to $20.0 million. The offer and sale of these shares will be made pursuant to a shelf registration statement on Form S-3 and the related prospectus (File No. 333-204025) filed by the Company with the SEC on May 8, 2015 and declared effective by the SEC on May 21, 2015, as supplemented by a prospectus supplement dated and filed with the SEC on December 30, 2015. The Company will pay Cantor Fitzgerald a commission of 3.0% of the aggregate gross proceeds from any shares sold by Cantor Fitzgerald. During the three months ended December 31, 2015, the Company did not sell any shares under this sales agreement.

Table of Contents

8. Stock-Based Compensation

Equity Incentive Plans

As of December 31, 2015 and September 30, 2015, the Company had three equity incentive plans, all of which are sponsored by the Company. On March 20, 2014, the Company's board of directors approved the adoption of the 2014 Equity Incentive Plan (the "2014 Plan"). Under the 2014 Plan, the Company had initially reserved a total of 1.0 million shares of common stock plus the remaining unissued shares under the Company's 2012 Equity Incentive Plan (the "2012 Plan"), which was adopted in November 2012 and was replaced by the 2014 Plan. The Company also sponsored the 2002 Stock Option Plan that expired in 2012. On January 1 of each year during the ten-year term of the 2014 Plan, the number of shares of common stock issuable under the 2014 Plan will be automatically increased by an amount equal to up to 4% of the number of shares of common stock outstanding as of the preceding December 31, or such lesser number agreed to by the Company’s board of directors. On January 16, 2015, the Company’s board of directors authorized an increase of 722,834 shares to be added to the total number of shares of common stock issuable under the 2014 Plan. As of December 31, 2015 and September 30, 2015, the Company had reserved 3,743,709 and 3,745,373 shares of common stock for issuance pursuant to the Corium Plans and had 251,392 and 830,396 shares of common stock available for grant pursuant to the 2014 Plan. The term “Corium Plans” refers to the 2014 Plan, the 2012 Plan and the 2002 Stock Option Plan.

Stock Option Summary

The exercise price of each option issued under the Corium Plans is required to be no less than the fair market value of the Company's common stock on the date of the grant. The maximum term of the options is ten years and the vesting period is typically four years.

A summary of stock option activity under the Corium Plans during the three months ended December 31, 2015 is as follows:

	Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)
Balance - September 30, 2015	2,914,977	$ 4.04	6.94	$ 15,482

Granted	593,200	$ 7.81		
Exercised	(1,664)	$ 5.31		
Forfeited / Cancelled	(44,196)	$ 4.32		
Balance - December 31, 2015	3,462,317	$ 4.68	7.23	$ 11,909
Options exercisable - December 31, 2015	1,840,258	$ 3.04	5.69	$ 9,342
Options vested and expected to vest - December 31, 2015	3,300,208	$ 4.56	7.13	$ 11,763

All outstanding options under the Corium Plans as of December 31, 2015 have an exercise price between $2.12 and $14.12 per share.

Table of Contents

Restricted Stock Unit Summary

The Company grants restricted stock unit awards under the 2014 Plan that typically vest over a four-year period. For the three months ended December 31, 2015, the Company granted 30,000 restricted stock unit awards at a grant date fair value of $7.94. All restricted stock units were unvested as of December 31, 2015. The Company did not grant any restricted stock units during the three months ended December 31, 2014.

As of December 31, 2015, there was a total of $0.2 million of unrecognized employee stock-based compensation expense, net of estimated forfeitures, related to unvested restricted stock units, which is expected to be recognized on a straight-line basis over a weighted-average period of approximately 4.1 years

2014 Employee Stock Purchase Plan

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

The 2014 ESPP is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code of 1986 with the purpose of providing employees with an opportunity to purchase the Company's common stock through accumulated payroll deductions. As of December 31, 2015 and September 30, 2015, the total reserve available for issuance pursuant to the 2014 ESPP was 315,771 and 372,529 shares of common stock.

For the three months ended December 31, 2015 and 2014, the Company recorded stock-based compensation expense of $77,000 and $164,000 and issued 56,758 and 61,042 shares of common stock to employees related to the 2014 ESPP.

Stock-Based Compensation Expense

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

	Three months ended December 31,	
	2015	2014
Cost of product revenues	$ 75	$ 102
Cost of contract research and development revenues	43	57
Research and development	157	126
General and administrative	503	403
Total stock-based compensation	$ 778	$ 688

As of December 31, 2015, there was a total of $7.1 million of unrecognized employee stock-based compensation expense, net of estimated forfeitures, related to unvested stock option awards, which is expected to be recognized on a straight-line basis over a weighted-average period of approximately 2.8 years.

Table of Contents

9. Product Recall Liability

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

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

During the three months ended December 31, 2015 and 2014, the Company made settlement payments of $0.2 million and $0.2 million.

10. Net Loss and Net Loss per Share Attributable to Common Stockholders

The following table sets forth the computation of the Company's basic and diluted net loss per share attributable to common stockholders during the three months ended December 31, 2015 and 2014 (in thousands, except share and per share data):

	Three Months Ended December 31,	
	2015	2014
Basic and diluted net loss per share		
Net loss attributable to common stockholders, basic and diluted	$ (9,400)	$ (6,759)
	22,188,332	18,034,689

Weighted average shares used in computing net loss per share attributable to common stockholders, basic and diluted		
Net loss per share attributable to common stockholders, basic and diluted	$ (0.42)	$ (0.37)

The following outstanding shares of common stock equivalents were excluded from the computation of the diluted net loss per share attributable to common stockholders for the periods presented because including them would have been antidilutive:

	Three Months Ended December 31,	
	2015	2014
Stock options to purchase common stock	3,462,317	2,754,789
Unvested restricted stock unit awards	30,000	—
Shares authorized under the 2014 ESPP	315,771	248,985
Common stock warrants	51,386	128,582

Table of Contents

11. Income Taxes

The Company did not record a provision for Federal income taxes for the three months ended December 31, 2015 because it expects to generate a net operating loss for the year ending September 30, 2016. The income tax expense of $3,000 for the three months ended December 31, 2015 represents minimum statutory payments due in the states in which the Company is subject to taxation. The Company's deferred tax assets continue to be fully offset by a valuation allowance.

12. Segment and Enterprise-Wide Information

The Company's chief operating decision maker is its President and Chief Executive Officer. The President and Chief Executive Officer reviews the Company's operating results on an aggregate basis for purposes of allocating resources and evaluating financial performance. The Company has one business activity and there are no segment managers who are held accountable for operations or operating results for levels or components. Accordingly, the Company has a single reporting segment and operating unit structure.

All of the Company's revenues are derived from partners located primarily in North America and all long-lived assets are located in the United States.

13. Subsequent Events

On January 11, 2016, pursuant to the provisions of the respective plans, the board of directors authorized and approved the registration of 888,776 additional shares of the Company's common stock subject to issuance by the Company under the 2014 Plan and 257,631 additional shares of the Company's common stock subject to issuance by the Company under the 2014 ESPP.

On February 12, 2016, the Company entered into a lease agreement pursuant to which the Company will lease approximately 48,240 square feet of space, which will replace the Company's current headquarters. The lease agreement provides for a term of ten years, commencing on or about August 1, 2016. The Company has an option to extend the term of the lease agreement for an additional seven years. Pursuant to the lease agreement, annual base rent will be approximately $72,360 per month for the first twelve months following the commencement of the term, $110,952 per month for the next twelve months and will increase by approximately 3% annually thereafter.

14

Table of Contents

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 the (1) unaudited condensed financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, and (2) the audited financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the fiscal year ended September 30, 2015 included in the Annual Report on Form 10-K for the year ended September 30, 2015, and filed with SEC on December 16, 2015. This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). These statements are often identified by the use of words such as "believe," "may," "will," "potentially," "estimate," "continue," "anticipate," "intend," "c "would," "project," "plan," "expect," "seek" and similar expressions or variations. Such forward looking statements may inclu but are not limited to, our plans and strategy for our business, and are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, and those discussed in the section titled "Risk Factors", set forth in Part II, Item 1A of this Form 10-Q and in our other SEC filings. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. Our fiscal year ends September 30. Throughout this discussion and analysis, references to "fiscal," "fiscal year" or "fiscal years" refer to years ended September 30.

Company Overview

We are a commercial stage biopharmaceutical company focused on the development, manufacture and commercialization of specialty pharmaceutical products that leverage our broad experience in transdermal and transmucosal delivery systems. Together with our partners, we have successfully developed seven marketed products in the prescription drug and consumer markets, and we are the sole commercial supplier of each of those products for our marketing partners. We use our novel transdermal and transmucosal approaches to bring new products to markets that present significant opportunities. Our development platforms enable transdermal delivery of large molecules, or biologics, including vaccines, peptides and proteins, as well as small molecules that are otherwise difficult to deliver in a transdermal dosage form. Our pipeline includes two partnered products that are the subject of applications for approval by the U.S. Food and Drug Administration (the "FDA"). In addition, we have several partner- and self-funded programs at earlier stages.

We have built significant know-how and experience in the development, scale-up and manufacture of complex specialty products, and have formed relationships with our partners that include both the development of new product formulations and our manufacture of the resulting products. All of our current products are distributed, promoted and marketed by our partners. Our partners include The Procter & Gamble Company ("P&G"), Par Pharmaceutical, Inc. ("Par"), Teva Pharmaceuticals USA, Inc. ("Teva"), Agile Therapeutics, Inc. ("Agile") and Aequus Pharmaceuticals, Inc.

("Aequus"), as well as several other multinational pharmaceutical companies. Most of these entities have substantially greater financial and operating resources than we do, including global operations. We have never had, nor do we currently have, our own sales force or marketing capabilities. We do not control the market prices that our marketing partners set for our products and, consequently, we do not control the market shares or rates of adoption for our current products.

Our partnership with Teva began in 2004, with Teva's predecessor, Barr Laboratories. Together with Barr, we developed Clonidine TDS, which Teva commercially launched in 2010. Teva currently sells Clonidine TDS throughout North America.

Our partnership with Par is the result of a Federal Trade Commission (the "FTC")-mandated divestiture of Fentanyl transdermal delivery systems ("TDS") from Actavis, Inc. in connection with the merger of Actavis with

Table of Contents

Watson Pharmaceuticals. We began the development of Fentanyl TDS with Abrika LLLP in May 2002, and Abrika was subsequently acquired by Actavis in 2007. Actavis commercially launched Fentanyl TDS in 2007. Par currently sells Fentanyl TDS throughout the United States.

Our partnership with P&G began in 2005 with the development of the various products under the Crest Whitestrips label, which P&G commercially launched in 2009. P&G currently sells Crest Whitestrips in North America and internationally.

The following table identifies: (1) products we have developed that are marketed by our partners, (2) products we have developed with our partners that are in clinical trials and that our partners have permitted us to disclose, (3) products in our proprietary pipeline, and (4) products currently awaiting FDA approval.

Partner	Product/Candidate	Application	Status
Teva	Clonidine TDS	Hypertension	Marketed
Par	Fentanyl TDS	Pain	Marketed
P&G	Crest Whitestrips (5 Products)	Teeth Whitening	Marketed
Agile	Twirla	Contraception	Phase 3
Self-funded	MicroCor hPTH(1-34)	Osteoporosis	Phase 2a Completed
Self-funded	Donepezil TDS	Alzheimer's	Phase 1
Aequus	Aripiprazole TDS	Neurological Disorders	Phase 1
Self-funded	Memantine TDS	Alzheimer's	Phase 1
Self-funded	Ropinirole TDS	Parkinson's	Preclinical
Self-funded	MicroCor Zolmitriptan	Migraine	Preclinical
Self-funded	MicroCor Fentanyl	Breakthrough Pain	Feasibility
Teva	ANDA	Motion Sickness	ANDA Filed

In addition to commercialized products, we have a number of products in late stages of development. The most advanced clinical stage product in our pipeline is Twirla, also referred to as AG200-15, which is in Phase 3 development by our partner Agile. Twirla is a combination hormonal contraceptive patch designed to deliver two hormones, ethinyl estradiol and levonorgestrel, at levels comparable to low-dose oral contraceptives, through the skin in an easy-to-use format over seven days. Agile has filed a New Drug Application (“NDA”) for approval of this product by the FDA, which is required before marketing a new drug in the United States. The FDA has indicated that Agile’s NDA was not sufficient for approval as originally submitted. Agile is conducting a confirmatory Phase 3 clinical trial based on this guidance, and intends to submit the results of the additional Phase 3 clinical trial to the FDA.

We are developing several additional products utilizing our proprietary technologies that we advanced into human clinical trials during calendar 2015. In February 2015, we commenced Phase 2a trials for MicroCor hPTH(1-34), which utilizes our MicroCor technology to deliver parathyroid hormone, a peptide for treating osteoporosis that is currently available only in an injectable form that requires refrigeration. The interim, topline results of that successful

study were reported in July 2015. Our programs in Alzheimer's and Parkinson's diseases have advanced into clinical testing. We are actively pursuing two product candidates for the transdermal treatment of Alzheimer's disease, incorporating donepezil and memantine, two of the drugs already approved by the FDA for the treatment of Alzheimer's disease. The donepezil and memantine candidates entered into Phase 1 clinical trials in the fourth fiscal quarter of 2015, and we announced interim results for the donepezil trial in February 2016. Additionally, we are pursuing a program for the transdermal treatment of Parkinson's disease, also incorporating a drug already approved by the FDA, ropinirole, and this product candidate will be ready to advance into human clinical trials in calendar year 2016.

In April 2015, we entered into an agreement with Aequus to develop new transdermal products with an initial focus on neurological disorders. The initial project under this collaboration is a multi-day transdermal formulation of aripiprazole, a drug already approved by the FDA for the treatment of a variety of conditions, including Schizophrenia, Major Depressive Disorder, Bipolar 1 Disorder and irritability associated with Autistic Disorder in pediatric patients. Aequus initiated a Phase 1 bioavailability clinical trial for this product in the fourth calendar quarter of 2015. We also

Table of Contents

have ongoing feasibility agreements with several pharmaceutical and biotechnology companies involving our MicroCor technology, and are currently in active discussions with other parties for additional feasibility and partnering projects.

Components of Statements of Operations

Revenues

During the three months ended December 31, 2015 and 2014, we recognized revenues in three categories: product revenues, contract research and development revenues, and other revenues.

Product Revenues —Product revenues consist of product sales to our partners and royalties and profit sharing from products that have been sold by our partners. Clonidine TDS, Fentanyl TDS and Crest Whitestrips provided all of our product revenues during the three months ended December 31, 2015 and 2014.

Our product revenues from Clonidine TDS consisted of revenues from the sale of products manufactured and shipped to Teva, along with profit sharing from the net profits earned by Teva on the product. For the three months ended December 31, 2015, product revenues related to Clonidine TDS increased, compared to the same period in 2014, due to an increase in unit volumes as well as an increase in our profit sharing. We expect our product revenues from Clonidine TDS during fiscal 2016 to be lower than they were during fiscal 2015 due to the impact of additional competition. Teva is currently in the process of acquiring the generic business of Allergan (formerly Actavis). If this transaction is consummated, it is possible that the FTC could require that Teva divest certain products, which could include the Clonidine TDS product that we manufacture for Teva. If a party acquiring the product following such a divestiture has less market power than Teva, it may result in a loss of market share and reduced pricing, which we expect could result in a decrease in our revenues. In addition, it will be difficult to predict the impact of such a divestiture on our results of operations until any transition period is complete.

Our product revenues from Fentanyl TDS consisted of revenues from the sale of products manufactured and shipped to Par, along with a royalty on Par's net sales of the product. Product revenues related to Fentanyl TDS declined for the three months ended December 31, 2015, compared to the same period in 2014This decline was a result of an amendment to our agreements with Par in June 2015, which amended the pricing and payment provisions and other business terms in exchange for, among other things, the termination of Par's exclusive rights to products other than the fentanyl reservoir patch, an AB-rated generic equivalent to DURAGESIC®, currently being manufactured by us for Par. The amended terms also include the elimination of the royalty obligations on new purchase orders and establish mutually agreeable transfer pricing. We expect that our product revenues from Fentanyl TDS will continue to decline in fiscal 2016 as a result of the terms of this amendment and the continued increase in competition from other generic companies.

Product revenues from Crest Whitestrips consisted of revenues from the sale of products manufactured and shipped to P&G. Revenues from these products decreased for the three months ended December 31, 2015, compared to the same period in 2014, due to a decrease in the volume of orders. We expect product sales from P&G to increase in fiscal 2016 as demand for current products increase and as new products may be launched.

Contract Research and Development Revenues —We also generate revenues from agreements with our partners for the research, development and scale-up activities of new products. The terms of our agreements with these partners may include nonrefundable upfront payments, partial or complete reimbursement of research and development costs, and milestone payments. Our contract research and development revenues for the three months ended December 31, 2015 were primarily derived from: our development of new drug products for Teva, one of which is currently in the late stages of development; our co-development arrangements for new drug products; and our development activities related to Twirla. We believe contract research and development revenues will grow as we continue to advance our existing partner-funded and co-funded programs into later and more complex stages of development, and as we add new product programs with new and existing partners. Contract research and development revenues for each program will, however, generally decrease as each product nears regulatory approval.

Table of Contents

Other Revenues —Other revenues consists primarily of income derived from certain aspects of our arrangements with our partners, whereby a portion of the revenues received under these agreements is treated for accounting purposes as rental income from embedded leases associated with these relationships. Other revenues have not been, and are not expected to be, a significant portion of our revenues.

See "—Results of Operations" below for a more detailed discussion of revenues.

Costs and Expenses

Cost of Product Revenues —The primary components of our cost of product revenues are materials, personnel costs, depreciation, facilities costs, other overhead costs, and infrastructure expenses associated with the manufacturing of our products. Our manufacturing overhead costs are significant, and are currently allocated among our products at rates consistent with current unit production volumes. As the number of units we manufacture increases, our overhead costs should increase less rapidly due to economies of scale, resulting in lower per-unit costs associated with higher unit production volumes. Conversely, if total unit production volumes decrease, which is expected to continue to be the case in fiscal 2016, the cost of product revenues, measured as a percentage of product revenues, may increase as we lose economies of scale, unless offset by other savings.

Cost of Contract Research and Development Revenues —We incur expenses related to our contract research and development revenues from our partner-funded and co-funded product development agreements. These expenses consist primarily of personnel costs, materials, supplies, and overhead costs. We expense all contract research and development costs, including costs to be subsequently reimbursed under development contracts, in the periods in which they are incurred. Our costs of contract research and development revenues will fluctuate depending on the timing and stage of our various partner arrangements. In certain cases, contract research and development costs exceed contract research and development revenues, either due to timing differences between expenses and revenues or due to the nature of the underlying contracts. We enter into certain research and development arrangements that we do not expect to be profitable because we expect the long-term benefits of those arrangements to outweigh the short-term costs. Furthermore, we have entered, and expect to continue to enter, into other research and development arrangements in which we will share the costs of development (co-development) with our partner, resulting in our costs significantly exceeding our revenues on such projects.

Research and Development Expenses —Research and development expenses include costs incurred to develop our proprietary products using our transdermal drug delivery technologies. These costs consist of personnel costs, materials and supplies, overhead and facility costs, preclinical and nonclinical development costs, clinical trial and related clinical manufacturing costs, contract services, and other outside costs. We expense all research and development costs in the periods in which they are incurred. We expect our research and development expenses to increase in future periods as we continue to invest in research and development activities related to clinical

development of our proprietary pipeline, including our products targeting the treatment of Osteoporosis, Alzheimer's and Parkinson's diseases, as well as other future development programs. See "—Results of Operations" below for more detailed discussion of research and development expenses.

General and Administrative Expenses —General and administrative expenses consist primarily of personnel costs, including stock-based compensation, for employees in our administration, finance, business development, human resources and information technology functions. Other expenses include professional fees for accounting and legal services, and costs of consultants and other outside services. We expect that our general and administrative expenses will increase with growth in our revenues and the continued development of our product pipeline.

Interest Income— Interest income consists primarily of interest earned on our cash and cash equivalents balances.

Table of Contents

Interest Expense— Interest expense consists primarily of the interest charges associated with our long-term debt and our capital lease obligations. Our interest expense is paid periodically in cash, except when an allowable portion of the interest due is converted at our election into PIK notes. For further discussion, see "—Liquidity and Capital Resources—Description of Certain Indebtedness."

Results of Operations

Comparison of the Three Months Ended December 31, 2015 and 2014

(In thousands, except percentages)	Three Months Ended December 31, 2015	2014	Change $	%
Revenue:				
Product revenues	$ 5,972	$ 6,539	$ (567)	(9) %
Contract research and development revenues	1,270	2,930	(1,660)	(57)%
Other revenues	295	297	(2)	(1) %
Total revenues	7,537	9,766	(2,229)	(23)%
Costs and operating expenses:				0
Cost of product revenues	4,298	4,087	211	5 %
Cost of contract research and development revenues	3,056	3,717	(661)	(18)%
Research and development expenses	4,457	4,197	260	6 %
General and administrative expenses	3,017	2,687	330	12 %
Amortization of intangible assets	159	161	(2)	(1) %
Loss on disposal and sale and leaseback of equipment	—	7	(7)	nm %
Total costs and operating expenses	14,987	14,856	131	1 %
Loss from operations	(7,450)	(5,090)	(2,360)	(46)%
Interest income	30	2	28	nm %
Interest expense	(1,977)	(1,669)	(308)	(18)%
Loss before income taxes	(9,397)	(6,757)	(2,640)	(39)%
Income tax expense	3	2	(1)	nm
Net loss and comprehensive loss	$ (9,400)	$ (6,759)	$ (2,641)	(39)%

Revenues

Product revenues decreased $0.6 million, or 9%, for the three months ended December 31, 2015 compared to the same period in 2014. The decrease was primarily driven by a decrease in product revenues from Fentanyl TDS primarily as a result of an amendment to the agreements with our marketing partner that affected our product pricing.

Contract research and development revenues decreased $1.7 million, or 57%, for the three months ended December 31, 2015 compared to the same period in 2014, primarily because several programs currently are in the later stages of development where development activities tend to be lower. In addition, the decrease in contract research and development revenues was a result of a $0.7 million decrease in revenues related to a development of a new product for an existing partner, a $0.7 million decrease in revenues from our co-development programs, including a $0.4 million decrease related to a co-development program that was terminated during fiscal 2015, and a $0.3 million decrease related to P&G development programs.

Cost of Product Revenues

Cost of product revenues increased $0.2 million, or 5%, for the three months ended December 31, 2015 compared to the same period in 2014, primarily as a result of an increase in raw materials, direct labor and overhead

Table of Contents

costs associated with Fentanyl TDS. The increase in cost of product revenues in relation to the decrease in product revenues is a result of the amendment to the agreements related to Fentanyl TDS, which affected our product pricing and resulted in higher costs for the product compared to revenue.

Cost of Contract Research and Development Revenues

Cost of contract research and development revenues decreased $0.7 million, or 18%, for the three months ended December 31, 2015 compared to the same period in 2014, primarily as a result of a $0.5 million decrease related to our partnered development programs for an existing partner, a $0.6 million decrease in costs related to a co-development program that was terminated during fiscal 2015 and a $0.2 million decrease related to the Twirla program. The decreases in cost of contract research and development revenues were partially offset by a $0.3 million increase related to our various MicroCor contract feasibility programs and a $0.3 million increase in costs related to co-development programs.

While cost of contract research and development revenues decreased only 18% for the three months ended December 31, 2015 compared to the same period in 2014, contract research and development revenues decreased by 57%. The differences between contract research and development revenues and contract research and development costs are a function of the specific project activities undertaken in any given period, as well as the proportion of the expenses that are attributable to co-funded development programs. In addition, revenue recognition policies may restrict the recognition of certain revenues, while costs continue to be incurred in full, or, in some cases, may accelerate the recognition of revenues. As a result of these revenue timing and expense composition differences, any or all of our contract research and development projects may not be profitable in certain periods, but may be profitable in others. This relationship between changes in revenue and changes in related costs also reflects the increased activity under co-development programs where development costs are shared with our partner and, during periods of higher development activities, will result in higher costs which may not be reflected in revenues.

Research and Development Expenses

Research and development expenses increased $0.3 million, or 6%, for the three months ended December 31, 2015 compared to the same period in 2014, reflecting increased investment in our proprietary programs. This increase was primarily as a result of a $1.8 million increase in research and development funding for our product development programs for Alzheimer’s and Parkinson’s, including the advancement of several formulation candidates through pre-clinical evaluation and the commencement of the Phase 1 clinical studies of both Donepezil TDS and Memantine TDS. The increased investment is partially offset by a $1.5 million decrease in research and development spending on the MicroCor PTH and MicroCor-related projects as we completed our Phase 2a clinical study of MicroCor PTH in late fiscal 2015.

General and Administrative Expenses

General and administrative expenses increased $0.3 million, or 12%, for the three months ended December 31, 2015 compared to the same period in 2014, primarily as a result of an increase in salaries and benefits primarily related to the addition of new employees and an increase in stock-based compensation expense primarily related to the issuance of new stock options to employees and directors.

Interest Expense

Interest expense increased by $0.3 million, or 18%, for the three months ended December 31, 2015 compared to the same period in 2014, primarily due to the amendment of our term loan facility, whereby we borrowed an additional $10.0 million in December 2014.

Table of Contents

Liquidity and Capital Resources

With the exception of fiscal 2013, we have incurred losses from operations since fiscal 2006. For the three months ended December 31, 2015, we incurred a net loss of $9.4 million and used $8.3 million of cash in operating activities. As of December 31, 2015, we had working capital of $63.5 million and stockholders' equity of $27.0 million. Our principal sources of liquidity as of December 31, 2015 were cash and cash equivalents totaling $63.0 million. We hold our cash and cash equivalents in a variety of interest-earning instruments, including money market accounts.

We believe that our existing cash and cash equivalents will be sufficient to fund our operations through at least the next 12 months. We have based this estimate, however, on assumptions that may prove to be wrong, and we could spend our available financial resources much faster than we currently expect. In the event that additional financing is required from outside sources, we may not be able to raise such financing on terms acceptable to us or at all. If we are unable to raise additional capital when required or on acceptable terms, we may be required to significantly delay, scale back or discontinue one or more of our product development programs or commercialization efforts or other aspects of our business plans, and our business, operating results and financial condition would be adversely affected.

Description of Certain Indebtedness — We have several credit facilities under which we have borrowed funds, including a term loan with CRG, capital leases for equipment purchases, and notes payable with lessors for tenant improvements to our leased facilities. As of December 31, 2015, we were in compliance with all covenants under each of these credit facilities.

Our $35.0 million term loan agreement with CRG was amended in November 2014 to increase the principal amount of the term loan to $45.0 million, excluding all current and future PIK notes. The amended agreement extended the interest-only period to June 30, 2018, and continues to require that cash interest be paid quarterly at a simple annual rate of 15%, while continuing to permit us to convert that portion of each quarterly interest obligation equal to 3.5% of the then-outstanding principal, including all then-outstanding PIK notes, into additional PIK notes. This PIK note option applies to all interest due on or prior to June 30, 2018. Commencing on September 30, 2018, all then-outstanding principal, including the PIK notes, must be repaid quarterly in four equal installments, with interest continuing to accrue on the unpaid principal at a simple annual rate of 15%. The agreement has financial covenants, including a minimum annual revenues requirement and a minimum liquidity requirement. On November 11, 2015, the term loan agreement was further amended to modify the financial covenants with respect to the minimum annual revenues requirement (beginning with the 12 months ending June 30, 2016) and minimum liquidity requirement. We have been in continuous compliance with these financial covenants since the inception of the loan.

As of December 31, 2015, the principal amount outstanding under the term loan agreement, including all PIK notes, was $49.8 million. The amounts outstanding under the term loan agreement are collateralized by all of our assets and the agreement provides for a prepayment penalty if we choose to repay principal prior to maturity, or upon other specified events, including a change of control.

We also have several other credit facilities under which we have borrowed funds, including capital leases for equipment purchases and notes payable with lessors for tenant improvements made to leased facilities. For further details, see Note 8 to our financial statements contained in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015, which was filed with the SEC on December 16, 2015.

In connection with certain of our partner arrangements, our partners purchase equipment that we use in the production and development of their products. This reduces our need for financing and lowers the manufacturing cost of these products for these partners, but generally limits our ability to use this equipment for our own or other partners' products.

Table of Contents

Cash Flows

The following table summarizes our cash flows for the periods indicated (in thousands):

	Three Months Ended December 31,	
	2015	2014
Cash used by operating activities	$ (8,317)	$ (5,886)
Cash used by investing activities	(733)	(526)
Cash provided (used) by financing activities	(140)	9,954

Cash Flows from Operating Activities — Cash used by operating activities for the three months ended December 31, 2015 was $8.3 million, which was primarily driven by our net loss of $9.4 million. We continue to generate negative cash flows from operations as a result of research and development spending in excess of cash flows provided by our commercial activities. Depreciation, amortization, stock-based compensation and other non-cash expenses, totaling $1.5 million, were all consistent with normal operations other than the increase in stock-based compensation expense, as further discussed above under "—Results of Operations—General and Administrative Expenses." The $0.4 million cash used by net operating assets and liabilities was the result of offsetting sources and uses of cash, including:

- a $1.5 million use of cash from a decrease in accounts payable primarily resulting from lower level of research and development expenses, including clinical trial costs incurred but not paid as of December 31 2015;
- a $0.6 million use of cash from a decrease in accrued expenses and other current liabilities, resulting primarily from the payment of accrued incentive compensation during the three months ended December 31, 2015; and
- a $0.2 million use of cash from a decrease in the recall liability, primarily reflecting the ongoing payments made on a quarterly basis to reduce this liability, partially offset by:
- $1.3 million in cash provided by a decrease in accounts receivable, primarily related to decreased partner billing at December 31, 2015 compared to September 30, 2015; and
- $0.5 million in cash provided by a decrease in prepaid expenses and other current assets, primarily related to monthly amortization of prepaid insurance balances for the three months ended December 31, 2015.

Cash used by operating activities for the three months ended December 31, 2014 was $5.9 million, which was primarily driven by our net loss of $6.8 million. We generated negative cash flows from operations as a result of research and development spending in excess of cash flows generated from our commercial activities. Depreciation, amortization, stock-based compensation and other non-cash expenses, totaling $1.5 million, were all consistent with normal operations other than the increase in stock-based compensation expense, primarily due to the increase in value of our common stock from fiscal 2013 to fiscal 2014 as we continued to issue stock options to employees and directors. The $0.6 million cash used by net operating assets and liabilities was the result of offsetting sources and uses of cash, including:

- a $1.2 million use of cash in decreased accrued expenses and other current liabilities, which primarily relates to the payment of accrued incentive compensation during the three months ended December 31, 2014; and
- a $0.9 million use of cash from an increase in inventories, primarily reflecting an increase in finished goods inventory, as a result of an unplanned delay in shipping of one lot of Clonidine TDS from December 2014 to January 2015, partially offset by:
- $1.1 million in cash flow from an increase in accounts payable, primarily reflecting the increased spending on the MicroCor PTH program and the timing of purchases and vendor payments at the end of the quarter.

Cash Flows from Investing Activities — Cash used by investing activities for the three months ended December 31, 2015 was $0.7 million, consisting of capital expenditures of $0.5 million for equipment and leasehold

Table of Contents

improvements to support operations, and expenditures of $0.3 million relating to acquisition of patent and licensing rights.

Cash used by investing activities for the three months ended December 31, 2014 was $0.5 million, consisting of capital expenditures of $0.3 million for equipment and leasehold improvements to support operations, and expenditures of $0.2 million relating to capitalization of patent costs and licensing rights.

Cash Flows from Financing Activities — Cash used by financing activities for the three months ended December 31, 2015 was $0.1 million, consisting primarily of a $0.2 million use of cash for payment of transaction costs associated with an amendment of long-term debt and a $0.2 million use of cash for payments on capital lease obligations. The use of cash is partially offset by $0.3 million in cash provided by proceeds from the issuance of common stock under our 2014 ESPP.

Cash provided by financing activities for the three months ended December 31, 2014 was $10.0 million, consisting primarily of the proceeds from the amendment of, and draw down under, our term loan agreement with CRG in November 2014.

Contractual Obligations

As of December 31, 2015, there were no material changes in our commitments under contractual obligations, which are described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

On February 12, 2016, we entered into a new lease agreement. For further details, see Note 13 to our financial statements contained in this report on Form 10-Q.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements and do not have any holdings in variable interest entities.

Segment Information

We have one business activity and operate in one reportable segment.

Critical Accounting Policies and Estimates

Our condensed financial statements are prepared in accordance with U.S. GAAP. The preparation of these condensed financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. These estimates form the basis for judgments we make about the carrying values of our assets and liabilities, which are not readily apparent from other sources. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. We evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates.

We believe that the assumptions and estimates associated with revenue recognition, income taxes and stock-based compensation have the greatest potential impact on our condensed financial statements. Therefore, we consider these to be our critical accounting policies and estimates.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

Table of Contents

Income Taxes

There have been no material changes under income taxes as disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2015.

ITEM 3.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to certain market risks in the ordinary course of our business. These risks primarily include interest rate sensitivities as follows:

Interest Rate Risk

We had cash and cash equivalents of $63.0 million as of December 31, 2015. Our cash and cash equivalents are held in a variety of interest-earning instruments, including money market accounts. Such interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in interest income have not been significant. We also had total outstanding debt of $50.3 million as of December 31, 2015, of which $0.1 million was due within 12 months. The interest rate of our borrowings under the term loan agreement with CRG is fixed. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our financial statements.

The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. We do not enter into investments for trading or speculative purposes, and have not used any derivative financial instruments to manage our interest rate risk exposure. Due to the short-term nature of our investments, we have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates.

ITEM 4.CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Regulations under the Exchange Act require public companies, including us, to maintain "disclosure controls and procedures," which are defined in Rule 13a-15(e) and Rule 15d-15(e) to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer or persons performing similar functions, as appropriate to allow timely decisions regarding required or necessary disclosures. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. Based on the evaluation of the effectiveness of the disclosure controls and procedures by our management as of the end of the fiscal quarter covered by this Quarterly Report, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Table of Contents

Changes in Internal Control over Financial Reporting

Regulations under the Exchange Act require public companies, including our company, to evaluate any change in our "internal control over financial reporting" as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) of the Exchange Act. In connection with their evaluation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report, our Chief Executive Officer and Chief Financial Officer did not identify any change in our internal control over financial reporting during the fiscal quarter covered by this Quarterly Report that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II

ITEM 1.LEGAL PROCEEDINGS

From time to time, we are involved in various legal proceedings arising from the normal course of business activities. We are not presently a party to any litigation the outcome of which, we believe, if determined adversely against us, would individually or in the aggregate have a material adverse effect on our business, operating results, cash flows or financial condition.

ITEM 1A.RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information in this Quarterly Report on Form 10-Q, including our financial statements and related notes. The occurrence of any of the events or developments described in the following risk factors could have a material adverse effect on our business, financial condition, results of operations and prospects. In such an event, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business and Industry

We have limited operating revenues and a history of operational losses and may not achieve or sustain profitability.

We have incurred significant operating and net losses since our inception. In fiscal 2015, we recorded net revenues of $40.9 million and net loss of $28.5 million. For fiscal 2014, we recorded net revenues of $42.4 million and net loss of $9.9 million. For the three months ended December 31, 2015, we recorded net revenues of $7.5 million and net loss of $9.4 million. As of December 31, 2015, we had stockholders' equity of $27.0 million. We expect to continue to incur net operating losses for at least the next several years as we seek to advance our products through clinical development and regulatory approval, prepare for and, if approved, proceed to further commercialization, and expand our operations. Our ability to generate sufficient revenues from our existing products or from any of our product candidates in development, and to transition to profitability and generate consistent positive cash flow is uncertain, and we may continue to incur losses and negative cash flow and may never transition to profitability or positive cash flow. In particular, we expect our operating expenses and research and development expenses to continue to increase in the near term as we expand our operations as a public company and continue to invest in our proprietary technologies and products, and may not be able to generate sufficient revenues to offset this anticipated increase in

expenses.

We are dependent on the commercial success of our Clonidine TDS, Fentanyl TDS and Crest Advanced Seal Whitestrips, and although we are generating revenues from sales of our products, we expect a decline in revenues generated by our Clonidine TDS and Fentanyl TDS products.

We anticipate that, in the near term, our ability to become profitable will depend upon the commercial success of the products marketed by our partners. To date, we have generated limited revenues from sales of these products, and in addition, we have incurred liability in association with product recalls of Fentanyl TDS. Our Fentanyl TDS product revenues in fiscal 2015 and fiscal 2014 were $9.1 million and $11.7 million, respectively. Product revenues related to Fentanyl TDS declined in fiscal 2015, compared to fiscal 2014, as additional competitors entered the market in fiscal 2014, and we made corresponding reductions in our production output, which continued throughout fiscal 2015. Additionally, we recognized $1.8 million in non cash product revenues related to Fentanyl TDS in fiscal 2014, which had previously been deferred since 2007. In June 2015, we amended our agreements with Par, consisting of the Product Development, Collaboration and License Agreement and the Manufacturing and Supply Agreement for Transdermal Fentanyl, to amend the pricing and payment provisions and other business terms in exchange for, among other things, the termination of Par's exclusive rights to products other than the fentanyl reservoir patch, an AB-rated generic equivalent to DURAGESIC®, currently being manufactured by us for Par. The amended terms also include the

Table of Contents

elimination of the royalty obligations on new purchase orders and establish mutually agreeable transfer pricing. We expect that our product revenues from Fentanyl TDS will continue to decline in fiscal 2016 as a result of the terms of this amendment and the continued increase in competition from other generic companies. In addition, Fentanyl TDS relies on a reservoir patch design instead of a matrix patch design. Although both reservoir and matrix patches have been subject to safety concerns and recalls in the past, our current competitors, most of whom use a matrix patch, may raise questions about the design and safety of a reservoir patch and the FDA may decide that the current reservoir patch design is a less safe design and may require the use of matrix patch technology instead. This would result in a more substantial decrease in our revenues and harm our operating results.

Our product revenues from Clonidine TDS in fiscal 2015 and fiscal 2014 were $6.8 million and $10.8 million, respectively. These product revenues declined in fiscal 2015 compared to fiscal 2014 due to an additional competitor entering the market in the second half of fiscal 2014, which adversely impacted Teva's market share and pricing. Lower unit volumes and decreased unit pricing by Teva directly reduces our profit sharing. We expect our product revenues from Clonidine TDS during fiscal 2016 to be lower than they were during fiscal 2015 due to the continued impact of additional competition. In addition, the pending acquisition by Teva of the generic business of Allergen could result in a divestiture of the Clonidine TDS product as described in further detail in "—Continued consolidation in the pharmaceutical industry, and particularly in the generic pharmaceutical industry, could impact our existing partnerships, products and product candidates," which could impact our revenues.

In addition to the risks discussed elsewhere in this section, our ability to continue to generate revenues from our commercialized products will depend on a number of factors, including, but not limited to:

- achievement of broad market acceptance and coverage by third party payors for our products;
- the effectiveness of our partners' efforts in marketing and selling our products;
- the effects of competition and cost containment initiatives on product pricing by our partners;
- our ability to successfully manufacture commercial quantities of our products at acceptable cost levels and in compliance with regulatory requirements;
- the timing of new product launches;
- our ability to maintain a cost efficient organization and, to the extent we seek to do so, to partner successfully with additional third parties;
- our ability to expand and maintain intellectual property protection for our products successfully;
- the efficacy and safety of our products; and
- our ability to comply with regulatory requirements, which are subject to change.

Because of the numerous risks and uncertainties associated with our commercialization efforts, including our reliance on our partners for the marketing and distribution of our products, and other factors, we are unable to predict the extent to which we will continue to generate revenues from our products, or the timing for when or the extent to which we will become profitable. Even if we do achieve profitability, we may not be able to sustain or increase profitability on an ongoing basis.

Table of Contents

We depend on a few partners for a significant amount of our revenues, and if we lose any of our significant partners, our business could be harmed.

The majority of our revenues come from only a few partners. For fiscal 2015, three partners, P&G, Teva and Par, individually comprised approximately 28%, 30%, and 23%, respectively, of our total revenues, and for the three months ended December 31, 2015, the same three partners individually comprised approximately 41%, 20% and 24%, respectively. We expect that revenues from a limited number of partners will continue to account for a large portion of our revenues in the future. The loss by us of any of these partners or a material reduction in their purchases could harm our business, results of operations, financial condition and prospects. In addition, if any of these partners were to fail to pay us in a timely manner, it could harm our cash flow.

We or our partners may choose not to continue developing or commercialize a product or product candidate at any time during development or after approval, which would reduce or eliminate our potential return on investment for that product or product candidate.

We currently have seven products on the market, two of which are drugs approved under Abbreviated New Drug Application ("ANDAs"), and five consumer products. In addition, two drug product candidates that we have developed in partnership with other companies are the subject of pending applications for approval by the FDA and we have several self funded drug product candidates in preclinical and clinical stages of research and development.

At any time, we or our partners may decide to discontinue the development of a marketed product or drug product candidate or not to continue commercializing a marketed product or a drug product candidate for a variety of reasons, including the appearance of new technologies that make our product obsolete, the position of our partner in the market, competition from a competing product, failure of our partners to design and conduct successful clinical trials or obtain regulatory approval for our product candidates, or changes in or failure to comply with applicable regulatory requirements. If we terminate a program in which we have invested significant resources, we will not receive any return on our investment and we will have missed the opportunity to have allocated those resources to potentially more productive uses. If one of our partners terminates a development program or ceases to market an approved or commercial product, we will not receive any future milestone payments, royalties or transfer payments relating to that program or product under our partnership agreement with that party.

Our near term product revenue growth heavily relies on the success of the Twirla contraceptive patch.

The near term growth of our product revenues heavily relies on Agile's product candidate, the Twirla® contraceptive patch, also referred to as AG200 15, reaching the market in calendar 2017. Our collaboration partner Agile, who is responsible for funding and conducting all clinical trials for Twirla, has conducted Phase 3 clinical studies and filed an NDA with the FDA for Twirla in April 2012. The FDA issued a "Complete Response Letter" in February 2013, identifying certain issues, including a request for additional clinical data, which must be addressed before approval can be granted. Accordingly, Agile is conducting an additional Phase 3 clinical trial, which it expects will not be completed before the second half of 2016. We cannot assure you that Agile will be able to complete this additional Phase 3 trial or complete it in a timely manner, if at all, or ultimately obtain regulatory approval for the Twirla product. If Agile fails to achieve any of these critical activities, or experiences significant delays in doing so, our near term growth prospects would be limited, and would create uncertainty around the value and usefulness of our Twirla manufacturing facility and equipment.

Since 2003, we have devoted substantial resources to the development of the Twirla contraceptive patch in collaboration with Agile. The success of the Twirla product is a key component of our business growth over the next few years and we have projected we will receive revenues from manufacture of this product beginning in calendar 2017. The Twirla product requires a process step that has been incorporated into the commercial production line,

which involves the laser etching of label information on each patch. In addition to requiring an additional Phase 3 clinical study, the

Table of Contents

FDA has requested information relating to this laser etching process to demonstrate that it does not adversely affect the performance of the patch, which we have provided in response to this request. If this product is not approved and launched by calendar 2017, or at all, or is launched in smaller quantities, we will not realize our anticipated revenue growth in that time period. In addition, one of our three buildings in our manufacturing facility in Grand Rapids, Michigan has been built out for the anticipated commercial production of Twirla. Although some of the equipment used in that building may be repurposed for other uses with Agile's permission, it would be expensive and time consuming to do so. If Twirla is not approved, our business and financial prospects will be significantly harmed.

We are dependent on numerous third parties in our supply chain for the commercial supply of our products, and if we fail to maintain our supply relationships with these third parties, develop new relationships with other third parties or suffer disruptions in supply, we may be unable to continue to commercialize our products or to develop our product candidates.

We rely on a number of third parties for the supply of active ingredients and other raw materials for our products and the clinical supply of our product candidates. Our ability to commercially supply our products and to develop our product candidates depends, in part, on our ability to obtain successfully the active pharmaceutical ingredients used in the products, in accordance with regulatory requirements and in sufficient quantities for commercialization and clinical testing. If we fail to develop and maintain supply relationships with these third parties, we may be unable to continue to commercialize our products, or develop any other product candidates or our MicroCor systems.

We also rely on certain third parties as the current sole source of the materials they supply. Although many of these materials are produced in more than one location or are available from another supplier, if any of these materials becomes unavailable to us for any reason, we likely would incur added costs and delays in identifying or qualifying replacement materials and there can be no assurance that replacements would be available to us on acceptable terms, or at all. In certain cases we may be required to get regulatory approval to use alternative suppliers, and this process of approval could delay production of our products or development of product candidates indefinitely.

If our third party suppliers fail to deliver the required commercial quantities of sub components and starting materials, on a timely basis and at commercially reasonable prices, and we are unable to find one or more replacement suppliers capable of production at a substantially equivalent cost in substantially equivalent volumes and quality, and on a timely basis, the continued commercialization of our products and the development of our product candidates would be impeded, delayed, limited or prevented, which could harm our business, results of operations, financial condition and prospects.

We face intense competition, in both our delivery systems and products, including from generic drug products, and if our competitors market or develop alternative treatments that are approved more quickly or marketed more effectively than our product candidates or are demonstrated to be safer or more effective than our products, our commercial opportunities will be reduced or eliminated.

The pharmaceutical industry is characterized by rapidly advancing technologies, intense competition and a strong emphasis on developing proprietary therapeutics. We face competition from a number of sources, such as pharmaceutical companies, generic drug companies, biotechnology companies, drug delivery companies and academic and research institutions, many of which have greater financial resources, marketing capabilities, salesforces, manufacturing capabilities, research and development capabilities, experience in obtaining regulatory approvals for drug product candidates and other resources than us.

Many pharmaceutical companies are developing transdermal drug delivery systems, including 3M, Johnson & Johnson, Lohmann Therapie-Systeme, Mylan, Hisamitsu, and Allergan. In the field of microneedle transdermal systems, other participants include 3M, Zosano, Theraject, Fujifilm and several academic institutions. Several of these

29

Table of Contents

competitors may also partner with larger pharmaceutical companies, which could provide them with significantly increased resources to develop and market their products.

We also face competition from third parties in obtaining allotments of fentanyl and other controlled substances under applicable annual quotas of the Drug Enforcement Administration (the "DEA"), recruiting and retaining qualified personnel, establishing clinical trial sites and enrolling patients in clinical trials, and in identifying and acquiring or in licensing new products and product candidates.

Our competitors may develop products that are more effective, better tolerated, subject to fewer or less severe side effects, more useful, more widely prescribed or accepted, or less costly than ours. For each product we commercialize, sales and marketing efficiency are likely to be significant competitive factors. We do not have internal sales or marketing departments, and there can be no assurance that we can develop or contract out these capabilities in a manner that will be cost efficient and competitive with the sales and marketing efforts of our competitors, especially because some or all of those competitors could expend greater economic resources than we do and/or employ third party sales and marketing channels. Such competition can lead to reduced market share for our products and contribute to downward pressure in our pricing, which could harm our business, results of operations, financial condition and prospects.

Continued consolidation in the pharmaceutical industry, and particularly in the generic pharmaceutical industry, could impact our existing partnerships, products and product candidates and cause disruption in our business.

Our Fentanyl TDS and Clonidine TDS products, as well as several of our product candidates, compete within the pharmaceutical industry, and particularly within the generic pharmaceutical industry. There are a limited number of companies with sufficient scale and commercial reach to effectively market these products. Recent trends in this industry are toward additional market consolidation, further concentrating financial, technical and market strength and increasing competitive pressure in the industry. For example, Teva is currently in the process of acquiring the generic business of Allergan (formerly Actavis). If this transaction is consummated, it is possible that the FTC could require that Teva divest certain products, which could include the Clonidine TDS product that we manufacture for Teva. If the party acquiring the product following such a divestiture has less market power than Teva, it may result in a loss of market share and reduced pricing. In addition, it will be difficult to predict the impact of such a divestiture on our results of operations until any transition period is complete. For other products and product candidates, increased consolidation could lead to other divestitures, more intense competition and pricing pressure. Any of these events could result in a substantial decrease in our revenues and harm our operating results.

We face product liability exposure, and if successful claims are brought against us, we may incur substantial liability if our insurance coverage for those claims is inadequate.

The commercial use of our products and clinical use of our product candidates expose us to the risk of product liability claims. This risk exists even if a product is approved for commercial sale by the FDA and manufactured in facilities licensed and regulated by the FDA, such as the case with Fentanyl TDS and Clonidine TDS, or an applicable foreign regulatory authority. Our products and product candidates are designed to affect important bodily functions and processes. Any side effects, manufacturing defects, misuse or abuse associated with our products or our product candidates could result in injury to a patient or even death. We have had 19 past legal proceedings related to Fentanyl TDS, all of which have been settled and dismissed with prejudice. We cannot offer any assurance that we will not face other product liability suits in the future, nor can we assure you that our insurance coverage will be sufficient to cover our liability under any such cases.

Fentanyl TDS is an opioid pain reliever that contains fentanyl, which is a regulated "controlled substance" under the Controlled Substances Act of 1970 (the "CSA"), and could result in harm to patients relating to its potent effects as an

opioid drug and its potential for abuse. In addition, a liability claim may be brought against us even if our

Table of Contents

products or product candidates merely appear to have caused an injury. Product liability claims may be brought against us by consumers, health care providers, pharmaceutical companies or others selling or otherwise coming into contact with our products or product candidates, among others. If we cannot successfully defend ourselves against product liability claims we will incur substantial liabilities and reputational harm. In addition, regardless of merit or eventual outcome, product liability claims may result in:

- the inability to commercialize our products or, if approved, our product candidates;
- decreased demand for our products or, if approved, product candidates;
- impairment of our business reputation;
- product recall or withdrawal from the market;
- withdrawal of clinical trial participants;
- costs of related litigation;
- distraction of management's attention from our primary business;
- substantial monetary awards to patients or other claimants; and/or
- loss of revenues.

We have obtained product liability insurance coverage separately for fentanyl and our other commercial products and clinical trials, with a $10 million per occurrence and a $20 million annual aggregate coverage limit. Our insurance coverage may not be sufficient to cover all of our product liability related expenses or losses and may not cover us for any expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive, and, in the future, we may not be able to maintain insurance coverage at a reasonable cost, in sufficient amounts or upon adequate terms to protect us against losses due to product liability. If we determine that it is prudent to increase our product liability coverage based on sales of our products, approval of other product candidates, or otherwise, we may be unable to obtain this increased product liability insurance on commercially reasonable terms or at all. Large judgments have been awarded in class action or individual lawsuits based on drugs that had unanticipated side effects, including side effects that are less severe than those of our products and our product candidates. A successful product liability claim or series of claims brought against us could cause our stock price to decline and, if judgments exceed our insurance coverage, could decrease our cash and could harm our business, results of operations, financial condition and prospects.

We have been subject to product recalls in the past, and may be subject to additional product recalls in the future that could harm our reputation and could negatively affect our business.

We may be subject to product recalls, withdrawals or seizures if any of the products we formulate, manufacture or sell fail to meet their specifications or are believed to cause injury or illness or if we are alleged to have violated governmental regulations in the manufacture, labeling, promotion, sale, or distribution of any of our products. In 2008 and 2010, Actavis voluntarily recalled certain lots of Fentanyl TDS due to imperfections in our manufacturing processes, including an issue that resulted in some patches that may have released the active ingredient at a faster rate than the rate provided in the product specifications. Any similar recall, withdrawal or seizure in the future, particularly if they involve our own proprietary product candidates, could materially and adversely affect consumer confidence in our brands and lead to decreased demand for our products. In addition, a recall, withdrawal or seizure of any of our products would

Table of Contents

require significant management attention, would likely result in substantial and unexpected expenditures, and would harm our business, financial condition, and results of operations.

If we or our partners are unable to achieve and maintain adequate levels of coverage and reimbursement for our products, or any future products we may seek to commercialize, their commercial success may be severely hindered.

For our products that are available only by prescription, successful sales by our partners depend on the availability of adequate coverage and reimbursement from third party payors. Patients who are prescribed medicine for the treatment of their conditions generally rely on third party payors to reimburse all or part of the costs associated with their prescription drugs. Adequate coverage and reimbursement from governmental healthcare programs, such as Medicare and Medicaid, and private third party payors is critical to new product acceptance. Coverage decisions may depend upon clinical and economic standards that disfavor new drug products when more established or lower cost therapeutic alternatives are already available or subsequently become available. If our products do not demonstrate superior efficacy profiles, they may not qualify for coverage and reimbursement. Even if we obtain coverage for a given product, the resulting reimbursement payment rates might not be adequate or may require co payments that patients find unacceptably high. Patients are unlikely to use our products unless coverage is provided and reimbursement is adequate to cover a significant portion of the cost of our products.

In addition, the market for our products will depend significantly on access to third party payors' drug formularies, or lists of medications for which third party payors provide coverage and reimbursement. The industry competition to be included in such formularies often leads to downward pricing pressures on pharmaceutical companies. Also, third party payors may refuse to include a particular branded drug in their formularies or otherwise restrict patient access to a branded drug when a less costly generic equivalent or other alternative is available.

Third party payors, whether foreign or domestic, or governmental or commercial, are developing increasingly sophisticated methods of controlling healthcare costs. In addition, in the United States, no uniform policy of coverage and reimbursement for drug products exists among third party payors. Therefore, coverage and reimbursement for drug products can differ significantly from payor to payor. As a result, the coverage determination process is often a time consuming and costly process that will require us to provide scientific and clinical support for the use of our products to each payor separately, with no assurance that coverage and adequate reimbursement will be obtained.

Further, we believe that future coverage and reimbursement will likely be subject to increased restrictions both in the United States and in international markets. Third party coverage and reimbursement for our products or any of our product candidates for which we may receive regulatory approval may not be available or adequate in either the United States or international markets, which could harm our business, results of operations, financial condition and prospects.

Most of our partners depend on wholesale pharmaceutical distributors for retail distribution of our products and, if our partners lose any of their significant wholesale pharmaceutical distributors, our business could be harmed.

The majority of our partners' pharmaceutical sales are to wholesale pharmaceutical distributors who, in turn, sell the products to pharmacies, hospitals and other customers. The loss of any of these wholesale pharmaceutical distributors' accounts or a material reduction in their purchases could have a material adverse effect on our business, results of operations, financial condition and prospects. In addition, these wholesale customers comprise a significant part of the distribution network for pharmaceutical products in the United States. This distribution network has undergone, and may continue to undergo, significant consolidation marked by mergers and acquisitions. As a result, a small number of large wholesale distributors control a significant share of the market. Consolidation of drug wholesalers has increased, and may continue to increase, competitive and pricing pressures on pharmaceutical products. We cannot assure you that we or our partners can manage these pricing pressures or that wholesaler purchases will not fluctuate

unexpectedly from period to period.

Table of Contents

Our results of operations may be adversely affected by demand fluctuations outside our ability to control or influence.

In general, our marketing partners are required to provide us with 12 month rolling forecasts of their demand on a quarterly basis, and are also required to place firm purchase orders with us based on the near term portion of those forecasts. If wholesaler or market demand for these products is lower than forecasted, our marketing partners or their wholesaler customers may accumulate excess inventory. Additionally, our marketing partners may price our products at levels that result in lost contract sales to their wholesaler customers. If such conditions persist, our marketing partners may sharply reduce subsequent purchase orders for a sustained period of time until such excess inventory is consumed, if ever. Significant and unplanned reductions in our manufacturing orders have occurred in the past and our results of operations were harmed. If such reductions occur again in the future, our revenues will be negatively impacted, we will lose our economies of scale, and our revenues may be insufficient to fully absorb our overhead costs, which could result in larger net losses. Conversely, if our marketing partners promote significantly increased demand, we may not be able to manufacture such unplanned increases in a timely manner, especially following prolonged periods of reduced demand. As we have no control over these factors, including our marketing partners' decisions on pricing, our purchase orders could fluctuate significantly from quarter to quarter, and the results of our operations could fluctuate accordingly.

Our MicroCor technology has not been incorporated into a therapeutic commercial product and is still at a relatively early stage of development.

Our MicroCor technology, utilizing proprietary microneedle arrays, has not been incorporated into a therapeutic commercial product and is still at a relatively early stage of development. We use this technology in several of our therapeutic candidates. Although we have conducted clinical trials for our product candidate MicroCor hPTH(1 34), additional studies are required for this product candidate and there is no guarantee that future clinical trials will prove the technology is effective or does not have harmful side effects. Any failures or setbacks in utilizing our MicroCor technology, including adverse effects resulting from the use of this technology in humans, could have a detrimental impact on our internal product candidate pipeline and our ability to enter into new corporate collaborations regarding this technology, which would harm our business and financial position. As of yet, no pharmaceutical product incorporating microneedle technology has been approved by the FDA for commercial sale.

In addition, our MicroCor product candidates have been manufactured in small quantities for preclinical studies and Phase 1 and Phase 2a clinical trials. As we prepare for later stage clinical trials and potential commercialization, we are taking steps to increase the scale of production of our MicroCor product candidates. In order to conduct larger or late stage scale clinical trials for a MicroCor product candidate and supply sufficient commercial quantities of the resulting drug product and its components, if that product candidate is approved for sale, we will need to manufacture it in larger quantities. We may not be able to increase successfully the manufacturing capacity for any of such product candidates in a timely or cost effective manner or at all. Significant scale up of manufacturing may require additional processes, technologies and validation studies, which are costly, may not be successful and which the FDA must review and approve. In addition, quality issues may arise during those scale up activities because of the inherent properties of a product candidate itself or of a product candidate in combination with other components added during the manufacturing and packaging process, or during shipping and storage of the finished product or active pharmaceutical ingredients. If we are unable to successfully scale up the manufacture of any of our MicroCor product candidates in sufficient quality and quantity, the development of that product candidate and regulatory approval or commercial launch for any resulting drug products may be delayed, or there may be a shortage in supply, either of which could significantly harm our business.

If we are not able to establish collaborations, we may have to alter our development and commercialization plans.

The development and potential commercialization of our product candidates will require substantial additional cash to fund expenses. For some of our product candidates, we may decide to collaborate with pharmaceutical and biotechnology companies for the development and potential commercialization of those product candidates. For example, although we have self-funded Phase 1 and Phase 2a clinical trials for MicroCor hPTH(1 34), we are currently

Table of Contents

evaluating whether to continue self-funding the next phase of clinical development for this product candidate or to find a partner or partners who will invest in the later stages of clinical product development. We plan to find a partner or partners to commercialize MicroCor hPTH(1-34).

We face significant competition in seeking appropriate collaborators. Whether we reach a definitive agreement for a collaboration will depend, among other things, upon our assessment of the collaborator's resources and experience, the terms and conditions of the proposed collaboration and the proposed collaborator's evaluation of a number of factors. Those factors may include the design or results of clinical trials, the likelihood of approval by the FDA or other regulatory authorities, the potential market for the subject product candidate, the costs and complexities of manufacturing and delivering such product candidate to patients, the potential of competing products, the existence of uncertainty with respect to our ownership of technology, which can exist if there is a challenge to such ownership without regard to the merits of the challenge, and industry and market conditions generally. The collaborator may also consider alternative product candidates or technologies for similar indications that may be available for collaboration and whether such a collaboration could be more attractive than the one with us for our product candidate. We may also be restricted under future license agreements from entering into agreements on certain terms with potential collaborators. Collaborations are complex and time consuming to negotiate and document. In addition, there have been a significant number of recent business combinations among large pharmaceutical companies that have resulted in a reduced number of potential future collaborators.

We may not be able to negotiate collaborations on a timely basis, on acceptable terms or at all. If we are unable to do so, we may have to curtail the development of a product candidate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to increase our expenditures to fund development or commercialization activities on our own, we may need to obtain additional capital, which may not be available to us on acceptable terms or at all. If we do not have sufficient funds, we may not be able to further develop our product candidates or bring them to market and generate product revenues.

The results and anticipated timelines of our clinical trials are uncertain and may not support continued development of a product candidate, which would adversely affect our prospects for future revenue growth.

We are required to demonstrate the safety and efficacy of products that we develop for each intended use through extensive preclinical studies and clinical trials. The results from preclinical and early clinical studies do not always accurately predict results in later, large-scale clinical trials. Even successfully-completed large-scale clinical trials may not result in marketable products. If any of our product candidates fail to achieve the primary endpoint in clinical trials, if safety issues arise or if the results from our clinical trials are otherwise inadequate to support regulatory approval of our product candidates, commercialization of that product candidate could be delayed or halted. In addition, we may face challenges in clinical trial protocol design.

If the clinical trials for any of the product candidates in our pipeline are delayed or terminated, our prospects for future revenue growth would be adversely impacted. For example, we face numerous risks and uncertainties with our product candidates, including our ability to enroll patients in clinical trials, the possibility of unfavorable results of our clinical trials, the need to modify or delay our clinical trials or to perform additional trials and the risk of failing to obtain FDA and other regulatory body approvals. As a result, our product candidates may never be successfully commercialized. Further, we may make a strategic decision to discontinue development of product candidates if, for example, we believe commercialization will be difficult relative to other opportunities in our pipeline. If these programs and others in our pipeline cannot be completed on a timely basis or at all, then our prospects for future revenue growth may be adversely impacted. In addition, clinical trials involving our commercial products could raise new safety issues for our existing products, which could in turn decrease our revenues and harm our business.

34

Table of Contents

Due to our reliance and our partners reliance on third-party contract research organizations to conduct our clinical trials, we are unable to directly control the timing, conduct, expense and quality of our clinical trials, which could adversely affect our clinical data and results and related regulatory approvals.

We and our partners extensively outsource our clinical trial activities and usually perform only a small portion of the start-up activities in-house. We and our partners rely on independent third-party contract research organizations ("CROs") to perform most of our clinical studies, including document preparation, site identification, screening and preparation, pre-study visits, training, program management and bioanalytical analysis. Many important aspects of the services performed for us and our partners by the CROs are out of our direct control. If there is any dispute or disruption in our or our partners' relationship with our CROs, clinical trials may be delayed. Moreover, in our regulatory submissions, we and our partners rely on the quality and validity of the clinical work performed by third-party CROs. If any of these CROs' processes, methodologies or results were determined to be invalid or inadequate, our or our partners' own clinical data and results and related regulatory approvals could be adversely affected.

We will need to further increase the size and complexity of our organization in the future, and we may experience difficulties in executing our growth strategy and managing any growth.

Our management, personnel, systems and facilities currently in place may not be adequate to support our business plan and future growth. We will need to further expand our scientific, sales and marketing, managerial, operational, financial and other resources to support our planned research, development and commercialization activities.

Our need to manage our operations, growth and various projects effectively requires that we:

- continue to improve our operational, financial, management and regulatory compliance controls and reporting systems and procedures, including the implementation of new enterprise resource management software;
- attract and retain sufficient numbers of talented employees;
- manage our commercialization activities for our products and product candidates effectively and in a cost effective manner;
- manage our relationship with our partners related to the commercialization of our products and product candidates;
- manage our clinical trials effectively;
- manage our internal manufacturing operations effectively and in a cost effective manner while increasing production capabilities for our current product candidates to commercial levels; and
- manage our development efforts effectively while carrying out our contractual obligations to partners and other third parties.

In addition, historically, we have utilized and continue to utilize the services of part time outside consultants to perform a number of tasks for us, including tasks related to preclinical and clinical testing. Our growth strategy may also entail expanding our use of consultants to implement these and other tasks going forward. Because we rely on consultants for certain functions of our business, we will need to be able to effectively manage these consultants to ensure that they successfully carry out their contractual obligations and meet expected deadlines. There can be no assurance that we will be able to manage our existing consultants or find other competent outside consultants, as needed,

Table of Contents

on economically reasonable terms, or at all. If we are not able to effectively expand our organization by hiring new employees and expanding our use of consultants, we might be unable to implement successfully the tasks necessary to execute effectively on our planned research, development and commercialization activities and, accordingly, might not achieve our research, development and commercialization goals.

If we fail to attract and retain management and other key personnel, we may be unable to continue to successfully commercialize our products, develop our product candidates or otherwise implement our business plan.

Our ability to compete in the highly competitive pharmaceuticals industry depends upon our ability to attract and retain highly qualified managerial, scientific, medical and other personnel. We are highly dependent on our management and scientific personnel, including our President and Chief Executive Officer, Peter Staple, our Chief Financial Officer, Robert Breuil, our Chief Technology Officer and Vice President, Research and Development, Parminder Singh and our other executive officers. The loss of the services of any of these individuals could impede, delay or prevent the continuing commercialization of our products and the development of our product candidates and could negatively impact our ability to successfully implement our business plan. If we lose the services of any of these individuals, we might not be able to find suitable replacements on a timely basis or at all, and our business could be harmed as a result. We do not maintain “key man” insurance policies on the lives of these individuals or the lives of any of our other employees. We employ all of our executive officers and key personnel on an at will basis and their employment can be terminated by us or them at any time, for any reason and without notice. In order to retain valuable employees at our company, in addition to salary and cash incentives, we may provide stock options and restricted stock unit awards that vest over time. The value to employees of stock options and restricted stock unit awards that vest over time will be significantly affected by movements in our stock price that are beyond our control, and may at any time be insufficient to counteract offers from other companies.

We might not be able to attract or retain qualified management and other key personnel in the future due to the intense competition for qualified personnel among biotechnology, pharmaceutical and other businesses, particularly in the San Francisco Bay area where we are headquartered. We could have difficulty attracting experienced personnel to our company and may be required to expend significant financial resources in our employee recruitment and retention efforts. We do not currently have a chief medical officer, and we cannot assure you that, if we require such a position to be filled, we will be able to hire a qualified candidate for this position. Many of the other pharmaceutical companies with whom we compete for qualified personnel have greater financial and other resources, different risk profiles and longer histories in the industry than we do. They also may provide more diverse opportunities and better chances for career advancement. If we are not able to attract and retain the necessary personnel to accomplish our business objectives, we may experience constraints that will harm our ability to implement our business strategy and achieve our business objectives.

In addition, we have scientific and clinical advisors who assist us in formulating our development and clinical strategies. These advisors are not our employees and may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to us. In addition, our advisors may have arrangements with other companies to assist those companies in developing products or technologies that may compete with ours.

We may engage in strategic transactions that could impact our liquidity, increase our expenses and present significant distractions to our management.

From time to time we may consider strategic transactions, such as acquisitions of companies, asset purchases and out licensing or in licensing of products, product candidates or technologies. Additional potential transactions that we may consider include a variety of different business arrangements, including spin offs, strategic partnerships, joint ventures, restructurings, divestitures, business combinations and investments. Any such transaction may require us to incur non recurring or other charges, may increase our near and long term expenditures and may pose significant

36

Table of Contents

integration challenges or disrupt our management or business, which could adversely affect our operations and financial results. For example, these transactions entail numerous potential operational and financial risks, including:

- exposure to unknown liabilities;
- disruption of our business and diversion of our management's time and attention in order to develop acquired products, product candidates or technologies;
- incurrence of substantial debt or dilutive issuances of equity securities to pay for acquisitions;
- higher than expected acquisition and integration costs;
- write downs of assets or impairment charges;
- increased amortization expenses;
- difficulty and cost in combining the operations and personnel of any acquired businesses with our operations and personnel;
- impairment of relationships with key suppliers, partners or customers of any acquired businesses due to changes in management and ownership; and
- inability to retain key employees of any acquired businesses.

Accordingly, there can be no assurance that we will undertake or successfully complete any transactions of the nature described above, and any transaction that we do complete could harm our business, results of operations, financial condition and prospects. We have no current plan, commitment or obligation to enter into any transaction described above.

Our business involves the use of hazardous materials and we and our third party suppliers must comply with environmental laws and regulations, which can be expensive and restrict how we do business.

Our research and development activities and our manufacturing activities involve the controlled storage, use and disposal of hazardous materials owned by us, including the components of our products and product candidates and other hazardous compounds. We are subject to laws and regulations governing the use, manufacture, storage, handling and disposal of these hazardous materials. In some cases, these hazardous materials and various wastes resulting from their use are stored at our facilities pending use and disposal and we dispose of certain materials directly through incineration. We cannot completely eliminate the risk of contamination, which could cause an interruption of our commercialization efforts, research and development efforts and business operations, injury to our employees and others, environmental damage resulting in costly clean up and liabilities under applicable laws and regulations governing the use, storage, handling and disposal of these materials and specified waste products. Although we believe that the safety procedures we utilize for handling and disposing of these materials generally comply with the standards prescribed by these laws and regulations, we cannot guarantee that this is the case or eliminate the risk of accidental contamination or injury from these materials. In such an event, we may be held liable for any resulting damages and such liability could exceed our resources. We do not currently carry biological or hazardous waste insurance coverage and our property and casualty and general liability insurance policies specifically exclude coverage for damages and fines arising from biological or hazardous waste exposure or contamination.

Table of Contents

Our employees, partners, independent contractors, principal investigators, consultants, vendors and contract research organizations may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements.

We are exposed to the risk that our employees, partners, independent contractors, principal investigators, consultants, vendors and CROs may engage in fraudulent or other illegal activity. Misconduct by these employees could include intentional, reckless and/or negligent conduct or unauthorized activity that violates: (1) FDA regulations, including those laws requiring the reporting of true, complete and accurate information to the FDA; (2) manufacturing standards; (3) federal and state healthcare fraud and abuse laws and regulations; or (4) laws that require the true, complete and accurate reporting of financial information or data. Activities subject to these laws also involve the improper use of information obtained in the course of clinical trials, or illegal misappropriation of drug product, which could result in regulatory sanctions and serious harm to our reputation. We have dismissed employees in the past for improper handling and theft of our product components, and although we reported their actions to all relevant authorities, any similar incidents or any other conduct that leads to an employee receiving an FDA debarment could result in a loss of business from our partners and severe reputational harm. We have adopted a code of business conduct and ethics, but it is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, possible exclusion from participation in Medicare, Medicaid and other federal healthcare programs, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of our operations, any of which could adversely affect our ability to operate our business and our results of operations.

We may be adversely affected by natural disasters or other events that disrupt our business operations, and our business continuity and disaster recovery plans may not adequately protect us from a serious disaster.

Our corporate headquarters are located in Menlo Park, California, near major earthquake and fire zones. Our manufacturing facilities are in Grand Rapids, Michigan, where other natural disasters or similar events, like blizzards, tornadoes, fires or explosions or large scale accidents or power outages, could severely disrupt our operations, and have a material adverse effect on our business, results of operations, financial condition and prospects. If a disaster, power outage or other event occurred that prevented us from using all or a significant portion of our headquarters or our Grand Rapids facility, that damaged critical infrastructure, such as enterprise financial systems or manufacturing resource planning and enterprise quality systems, or that otherwise disrupted operations at either location, it may be difficult or, in certain cases, impossible for us to continue our business for a substantial period of time.

Our business and operations would suffer in the event of failures in our internal computer systems.

Despite the implementation of security measures, our internal computer systems and those of our current and any future partners, contractors and consultants are vulnerable to damage from computer viruses, unauthorized access, attacks by computer hackers, natural disasters, terrorism, war and telecommunication and electrical failures. While we have not experienced any such material 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 manufacturing activities, development programs and our business operations. For example, the loss of manufacturing records or clinical trial data from completed or future clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. To the extent that any disruption or security breach were to result in a loss of, or damage to, our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability or damage to our reputation, and the further commercialization and development

of our products and product candidates could be delayed.

Table of Contents

In connection with the reporting of our financial condition and results of operations, we are required to make estimates and judgments which involve uncertainties, and any significant differences between our estimates and actual results could have an adverse impact on our financial position, results of operations and cash flows.

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. For example, we estimate annual market revenues based on patient prescriptions using an analysis of third party information and third party market research data. If this third party data underestimates or overestimates actual revenues for a given period, adjustments to revenues may be necessary in future periods. Any significant differences between our actual results and our estimates and assumptions could negatively impact our financial position, results of operations and cash flows.

Changes in accounting standards and their interpretations could adversely affect our operating results.

U.S. GAAP are subject to interpretation by the Financial Accounting Standards Board ("FASB"), the American Institute of Certified Public Accountants, the SEC, and various other bodies that promulgate and interpret appropriate accounting principles. These principles and related implementation guidelines and interpretations can be highly complex and involve subjective judgments. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

Risks Related to Our Financial Position and Capital Requirements

We have had significant and increasing operating expenses and may require additional funding.

We believe that our existing cash and cash equivalents will be sufficient to fund our operations beyond the next 12 months. We have based these estimates, however, on assumptions that may prove to be wrong, and we could spend our available financial resources much faster than we currently expect. Further, we may need to raise additional capital to fund our operations and continue to support our planned research and development and commercialization activities.

The amount and timing of our future funding requirements will depend on many factors, including, but not limited to:

- the timing and amount of revenues from sales of our approved products and any subsequently approved product candidates that are commercialized;
- the timing, rate of progress and cost of any ongoing or future clinical trials and other product development activities for our product candidates that we may develop, in license or acquire;
- the size and cost of our commercial infrastructure;
- the timing of FDA approval of our product candidates, if at all;
- costs associated with marketing, manufacturing and distributing any subsequently approved product candidates;
- costs and timing of completion of any additional outsourced commercial manufacturing supply arrangements that we may establish;

Table of Contents

- costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights associated with our products and our product candidates;
- costs associated with prosecuting or defending any litigation that we are or may become involved in and any damages payable by us that result from such litigation;
- costs associated with any product recall that could occur;
- costs of operating as a public company;
- the effect of competing technological and market developments;
- our ability to acquire or in license products and product candidates, technologies or businesses;
- personnel, facilities and equipment requirements; and
- the terms and timing of any additional collaborative, licensing, co promotion or other arrangements that we may establish.

We cannot be certain that additional funding will be available on acceptable terms, or at all. To the extent that we raise additional capital by issuing equity securities or convertible debt, your ownership will be diluted. Any future debt financing into which we enter may impose upon us covenants that restrict our operations, including limitations on our ability to incur liens or additional debt, pay dividends, redeem our stock, make certain investments and engage in certain merger, consolidation or asset sale transactions.

If we are unable to raise additional capital when required or on acceptable terms, we may be required to significantly delay, scale back or discontinue one or more of our product development programs or commercialization efforts, or other aspects of our business plan. We also may be required to relinquish, license or otherwise dispose of rights to products or product candidates that we would otherwise seek to commercialize or develop ourselves on terms that are less favorable than might otherwise be available. In addition, our ability to achieve profitability or to respond to competitive pressures would be significantly limited.

Our level of indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and prevent us from meeting our obligations.

As of December 31, 2015, the amount of our total long-term debt was approximately $50.3 million, which is primarily pursuant to our term loan agreement with CRG, formerly Capital Royalty. In November 2014, we amended our term loan agreement with CRG to increase the outstanding loan principal amount to $45.0 million (excluding payment-in-kind, or “PIK” notes), extend the maturity date to June 30, 2019, and extend the quarterly interest only payments through June 30, 2018, with principal and interest payments due in four quarterly installments beginning September 30, 2018. On December 4, 2014, we borrowed the remaining $10 million of principal provided for in the amended agreement and no principal funds remain available to us for borrowing under the CRG term loan agreement. On November 11, 2015, the term loan agreement was further amended to modify the financial covenants with respect to the minimum annual revenues requirement (beginning with the 12 months ending June 30, 2016) and minimum liquidity requirement.

Table of Contents

Our outstanding debt and related debt service obligations could have important adverse consequences to us, including:

- heightening our vulnerability to downturns in our business or our industry or the general economy and restricting us from making improvements or acquisitions, or exploring business opportunities;
- requiring a significant portion of our available cash to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our available cash to fund our operations, capital expenditures and future business opportunities;
- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who have greater capital resources; and
- subjecting us to financial and other restrictive covenants in our debt instruments, the failure with which to comply could result in an event of default under the applicable debt instrument that allows the lender to demand immediate repayment of the related debt.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay product development, sales and marketing, capital and other expenditures, sell assets, seek additional capital or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

The terms of our term loan agreement place restrictions on our operating and financial flexibility.

During any such times when we have outstanding borrowings under the term loan agreement with CRG, we will be required to maintain certain deposits and minimum balances as well as be prohibited from engaging in significant business transactions without the prior consent of CRG, including a change of control or the acquisition by us of another company, or engaging in new business activities which are substantially different from our current business activities. These restrictions could significantly limit our ability to respond to changes in our business or competitive activities or take advantage of business opportunities that may create value for our stockholders. In addition, under the term loan agreement with CRG, we are subject to covenants relating to our business, including, but not limited to covenants relating to the achievement of minimum annual revenues and minimum liquidity, and we also will be required to pay a prepayment penalty if we choose to repay principal prior to maturity or upon other specified events, including a change of control. In the event of a default under this arrangement, our repayment obligations may be accelerated in full. In the event that we do not have sufficient capital to repay the amounts then owed, we may be required to renegotiate such arrangements on terms less favorable to us, pursue strategic alternatives, including sale of our company or our significant assets, or to cease operations. Furthermore, if we raise any additional debt financing, the terms of such additional debt could further restrict our operating and financial flexibility.

Our ability to utilize our net operating loss carryforwards, or NOLs, and research and development income tax credit carryforwards may be limited.

As of September 30, 2015, we had net operating loss carry forwards (“NOLs”) for federal and state income tax purposes of $103.3 million and $16.3 million, respectively. If not utilized, these NOLs will expire beginning in 2026 and 2017 for federal and state income purposes, respectively. Under Section 382 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an “ownership change,” generally defined as a greater than 50% change (by value) in its equity ownership over a three-year period, the corporation’s ability to use its pre change NOLs, and other pre change tax attributes (such as research tax credits) to offset its post change income may be limited. We believe that, with our initial public offering (the “IPO”) and other transactions that have occurred over the past three years, we may have triggered an “ownership change” limitation. We may also experience ownership changes in the future as a result of

Table of Contents

subsequent shifts in our stock ownership. As a result, if we earn net taxable income, our ability to use our pre change NOLs to offset U.S. federal taxable income may be subject to limitations, which could potentially result in increased future tax liability to us. In addition, at the state level, there may be periods during which the use of NOLs is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed.

Our operating results may fluctuate significantly, which makes our future operating results difficult to predict and could cause our operating results to fall below expectations or our guidance.

Our quarterly and annual operating results may fluctuate significantly in the future, which makes it difficult for us to predict our future operating results. From time to time, we enter into collaboration agreements with other companies that include development funding and significant upfront and milestone payments, and we expect that amounts earned from our collaboration agreements will continue to be an important source of our revenues. Accordingly, our revenues will depend on development funding and the achievement of development and clinical milestones under our existing collaboration arrangements, as well as any potential future collaboration and license agreements and sales of our products, if approved. These upfront and milestone payments may vary significantly from period to period and any such variance could cause a significant fluctuation in our operating results from one period to the next. For example, our product revenues from Clonidine TDS in fiscal 2013 were higher than historic levels, primarily as a result of Teva's increased market share resulting from a major competitor's diminished ability to supply its product for seven months during the year. Revenues returned to historic levels in fiscal 2014. Product revenues in fiscal 2015 related to Clonidine TDS declined compared to fiscal 2014 due to an additional competitor entering the market in the second half of fiscal 2014, which adversely impacted Teva's market share and pricing. Lower unit volumes and decreased unit pricing by Teva directly reduces our profit sharing. We expect our product revenues from Clonidine TDS during fiscal 2016 to be lower than they were during fiscal 2015 due to the continued impact of additional competition. In addition, the pending acquisition by Teva of the generic business of Allergen could result in a divestiture of the Clonidine TDS product, which could lead impact our revenues. Also, product revenues related to Fentanyl TDS declined in fiscal 2015, compared to fiscal 2014, as additional competitors entered the market in fiscal 2014, and we made corresponding reductions in our production output, which continued throughout fiscal 2015. We expect that our product revenues from Fentanyl TDS will continue to decline in fiscal 2016 as a result of the terms of the amended terms of our agreements with Par and the continued increase in competition from other generic companies. In addition, we measure compensation cost for stock based awards made to employees at the grant date of the award, based on the fair value of the award as determined by our board of directors, and recognize the cost as an expense over the employee's requisite service period. As the variables that we use as a basis for valuing these awards change over time, including our underlying stock price and stock price volatility, the magnitude of the expense that we must recognize may vary significantly. Furthermore, our operating results may fluctuate due to a variety of other factors, many of which are outside of our control and may be difficult to predict, including the following:

- the timing and cost of, and level of investment in, research and development activities relating to our product candidates, which may change from time to time;
- the cost of manufacturing our products and product candidates, which may vary depending on, among other things, FDA guidelines and requirements, and the quantity of production;
- expenditures that we will or may incur to acquire or develop additional product candidates and technologies;
- the level of demand for our product candidates, should they receive approval, which may vary significantly;
- future accounting pronouncements or changes in our accounting policies; and

Table of Contents

- the timing and success or failure of clinical studies for our product candidates or competing product candidates, or any other change in the competitive landscape of our industry, including consolidation among our competitors or partners.

Our results of operations and liquidity needs could be materially negatively affected by market fluctuations and economic downturn.

Our results of operations and liquidity could be materially negatively affected by economic conditions generally, both in the United States and elsewhere around the world. Domestic and international equity and debt markets have experienced and may continue to experience heightened volatility and turmoil based on domestic and international economic conditions and concerns. In the event these economic conditions and concerns continue or worsen and the markets continue to remain volatile, our results of operations and liquidity could be adversely affected by those factors in many ways, including making it more difficult for us to raise funds if necessary, and our stock price may decline. Additionally, although we market our products primarily in the United States, our partners have extensive global operations, indirectly exposing us to risk.

Risks Related to Regulation of our Products and Product Candidates

Our currently marketed products, and any of our product candidates that we or our partners commercialize, will be subject to ongoing and continued regulatory review, which may result in significant expense and limit our or our partners' ability to commercialize such products.

Even after we achieve U.S. regulatory approval for a product, or after we or our partners commercialize an FDA regulated product that does not require premarket approval (such as our consumer teeth whitening products), we will be subject to continued regulatory review and compliance obligations. For example, with respect to our drug products, the FDA may impose significant restrictions on the approved indicated uses for which the product may be marketed or on the conditions of approval. A drug product's approval may contain requirements for potentially costly post approval studies and surveillance, including Phase 4 clinical trials, to monitor the safety and efficacy of the product. We will also be subject to ongoing FDA obligations and continued regulatory review with respect to the manufacturing, processing, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion and recordkeeping for our products. These requirements include submissions of safety and other post marketing information and reports, registration, as well as continued compliance with current good manufacturing practice ("cGMP") requirements, which are regulations addressing the proper design, monitoring, and control of manufacturing processes and facilities, and with the FDA's good clinical practice ("GCP") and the FDA's current Good Laboratory Practice ("GLP") requirements, which are regulations and guidelines enforced by the FDA for all of our products in clinical and pre clinical development, and for any clinical trials that we conduct post approval. To the extent that a product is approved for sale in other countries, we may be subject to similar restrictions and requirements imposed by laws and government regulators in those countries.

In the case of Fentanyl TDS and any of our product candidates containing controlled substances, we will also be subject to ongoing DEA regulatory obligations, including, among other things, annual registration renewal, security, recordkeeping, theft and loss reporting, periodic inspection and annual quota allotments for the raw material for commercial production of our products. In addition, manufacturers of drug products and their facilities are subject to continual review and periodic inspections by the FDA and other regulatory authorities for compliance with cGMP regulations, including the Quality System Regulation requirements for medical device components of our products or similar requirements, if applicable. If we or a regulatory agency discovers previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where, or processes by which, the product is manufactured, a regulatory agency may impose restrictions on that product or us,

including requesting that we initiate a product recall, or requiring notice to physicians, withdrawal of the product from the market or suspension of manufacturing.

Table of Contents

Since 2010, the FDA has inspected our facility several times and issued Forms 483 with its observations. The FDA has closed out each of these inspections and issued an Establishment Inspection Report in each case.

If we, our products or product candidates or the manufacturing facilities for our products or product candidates fail to comply with applicable regulatory requirements, a regulatory agency may:

- impose restrictions on the marketing or manufacturing of the product, suspend or withdraw product approvals or revoke necessary licenses;
- issue warning letters, show cause notices or untitled letters describing alleged violations, which may be publicly available;
- commence criminal investigations and prosecutions;
- impose injunctions, suspensions or revocations of necessary approvals or other licenses;
- impose fines or other civil or criminal penalties;
- suspend any ongoing clinical trials;
- deny or reduce quota allotments for the raw material for commercial production of our controlled substance products;
- delay or refuse to approve pending applications or supplements to approved applications filed by us;
- refuse to permit drugs or precursor chemicals to be imported or exported to or from the United States;
- suspend or impose restrictions on operations, including costly new manufacturing requirements; and/or
- seize or detain products or require us to initiate a product recall.

In addition, our or our partners' product labeling, advertising and promotion are subject to regulatory requirements and continuing regulatory review. The FDA strictly regulates the promotional claims that may be made about prescription drug products. In particular, a drug product may not be promoted for uses that are not approved by the FDA as reflected in the product's approved labeling, although the FDA does not regulate the prescribing practices of physicians. The FDA and other agencies actively enforce the laws and regulations prohibiting the promotion of off label uses, and a company that is found to have improperly promoted off label uses may be subject to significant liability, including substantial monetary penalties and criminal prosecution.

The FDA's regulations, policies or guidance may change and new or additional statutes or government regulations may be enacted that could prevent or delay regulatory approval of our product candidates or further restrict or regulate post approval activities. We cannot predict the likelihood, nature or extent of adverse government regulation that may arise from future legislation or administrative action, either in the United States or abroad. If we are not able to achieve and maintain regulatory compliance, we may not be permitted to manufacture or market our products, which would adversely affect our ability to generate revenues and achieve or maintain profitability.

Table of Contents

Some of our products or product candidates contain controlled substances, the making, use, sale, importation and distribution of which are subject to regulation by state, federal and foreign law enforcement and other regulatory agencies.

Fentanyl TDS and certain of our other drug product candidates contain active ingredients which are classified as controlled substances, which are subject to state, federal and foreign laws and regulations regarding their manufacture, use, sale, importation, exportation and distribution. Controlled substances are regulated under the CSA, and the regulations of the DEA. The DEA regulates controlled substances as Schedule I, II, III, IV or V substances. Schedule I substances by definition have no established medicinal use and may not be marketed or sold in the United States. A pharmaceutical product may be listed as Schedule II, III, IV or V, with Schedule II substances considered to present the highest risk of abuse and Schedule V substances the lowest relative risk of abuse among such substances. Fentanyl TDS is regulated by the DEA as a Schedule II controlled substance.

Various states also independently regulate controlled substances. Though state controlled substances laws often mirror federal law, because the states are separate jurisdictions, they may separately schedule drugs as well. While some states automatically schedule a drug when the DEA does so, in other states there must be rulemaking or a legislative action. Adverse scheduling could impair the commercial attractiveness of such product. We or our collaborators must also obtain separate state registrations in order to be able to obtain, handle and distribute controlled substances for clinical trials or commercial sale, and failure to meet applicable regulatory requirements could lead to enforcement and sanctions from the states in addition to those from the DEA or otherwise arising under federal law.

For our products or product candidates containing controlled substances, we and our partners, suppliers, contractors and distributors are required to obtain and maintain applicable registrations from state, federal and foreign law enforcement and regulatory agencies and comply with state, federal and foreign laws and regulations regarding the manufacture, use, sale, importation, exportation and distribution of controlled substances. These regulations are extensive and include regulations governing manufacturing, labeling, packaging, testing, dispensing, production and procurement quotas, record keeping, reporting, handling, shipment and disposal. These regulations increase the personnel needs and the expense associated with development and commercialization of drug candidates including controlled substances. Failure to obtain and maintain required registrations or comply with any applicable regulations could delay or preclude us from developing and commercializing our products containing controlled substances and subject us to enforcement action. In addition, because of their restrictive nature, these regulations could limit our commercialization of our pharmaceutical systems containing controlled substances. In particular, among other things, there is a risk that these regulations may interfere with the supply of the drugs used in our clinical trials, and in the future, our ability to produce and distribute our products in the volume needed to meet commercial demand. The DEA may seek civil penalties, refuse to renew necessary registrations or initiate proceedings to revoke those registrations. In some circumstances, violations could lead to criminal proceeding. Because of their restrictive nature, these regulations could limit commercialization of any of our product candidates that are classified as controlled substances.

In addition to the level of commercial success of our approved products, our future growth is also dependent on our ability to successfully develop a pipeline of product candidates, and we cannot give any assurance that any of our product candidates will receive regulatory approval or that any approved products will be successfully commercialized.

Our long term growth will be limited unless we successfully develop a pipeline of additional product candidates. We do not have internal new drug discovery capabilities, and our primary focus is on developing improved transdermal drug delivery systems by reformulating FDA approved drugs using our proprietary technologies.

Our near term revenue growth is dependent on the ability of our partner Agile to gain FDA approval of the Twirla transdermal contraceptive patch and to bring this product to market. Our collaboration partner Agile has conducted

Phase 3 clinical studies and filed an NDA with the FDA for Twirla in April 2012. The FDA issued a

Table of Contents

Complete Response Letter in February 2013 identifying certain issues, including a request for additional clinical data, which must be addressed before approval can be granted. In addition, in light of Mylan's introduction of a generic version of the Ortho Evra contraceptive patch in April 2014, the Twirla product may face additional competition, assuming it is approved and commercialized. We cannot assure you that Agile will be able to obtain regulatory approval for the Twirla product, or successfully commercialize the product, which would limit our near term growth prospects, and would create uncertainty around the value and usefulness of our Twirla manufacturing facility and equipment.

We have one partnered product candidate that is the subject of a pending ANDA submitted by our partner to the FDA, and several product candidates in clinical development. The research, testing, manufacturing, labeling, approval, sale, marketing and distribution of drug products are subject to extensive regulation by the FDA and other regulatory authorities in the United States and in foreign countries. Obtaining approval of an NDA or ANDA is a lengthy, expensive and uncertain process. The FDA also has substantial discretion in the drug approval process, including the ability to delay, limit or deny approval of a product candidate for many reasons.

For example, our product candidates could fail to receive regulatory approval for many reasons, including the following:

- the FDA may disagree with the design or implementation of clinical trials;
- the FDA may not deem a product candidate safe and effective for its proposed indication, or may deem a product's safety risks to outweigh its clinical or other benefits;
- the FDA may not find the data from pre clinical studies and clinical trials sufficient to support approval, or the results of clinical trials may not meet the level of statistical significance required by the FDA for approval;
- the FDA may disagree with our or our partners' interpretation of data from pre clinical studies or clinical trials;
- the data collected from clinical trials may not be sufficient to support the submission of an NDA or ANDA;
- the FDA may require additional pre clinical studies or clinical trials;
- the FDA may not approve of our manufacturing processes and facilities; or
- the FDA may change its approval policies or adopt new regulations.

Any of our product candidates may fail to achieve their specified endpoints in clinical trials. Furthermore, product candidates may not be approved even if they achieve their specified endpoints in clinical trials. The FDA may disagree with the design of clinical trials and our interpretation of data from clinical trials, or may change the requirements for approval even after it has reviewed and commented on the design for clinical trials. The FDA may also approve a product candidate for fewer or more limited indications than we or our partners request, or may grant approval contingent on the performance of costly post approval clinical trials. In addition, the FDA may not approve the labeling claims that we or our partners believe are necessary or desirable for the successful commercialization of our product candidates.

If we are unable to expand our pipeline and obtain regulatory approval for our product candidates on the timelines we anticipate, we will not be able to execute our business strategy effectively and our ability to substantially grow our revenues will be limited, which would harm our long term business, results of operations, financial condition and prospects.

Table of Contents

We manufacture our products internally and may encounter manufacturing failures that could impede or delay commercial production of our current products or our product candidates, if approved, or the preclinical and clinical development or regulatory approval of our product candidates.

Any failure in our internal manufacturing operations could cause us to be unable to meet the demand for our products and lose potential revenues, delay the preclinical and clinical development or regulatory approval of our product candidates, and harm our reputation. Our internal manufacturing operations may encounter difficulties involving, among other things, production yields, regulatory compliance, quality control and quality assurance, obtaining DEA quotas which allow us to produce in the quantities needed to execute on our business plan, and shortages of qualified personnel. Our ability to commercially supply our products, and regulatory approval of our product candidates, could be impeded, delayed, limited or denied if the FDA does not maintain the approval of our manufacturing processes and facilities. In addition, we have no experience producing our MicroCor system in commercial quantities. We have experienced product recalls in the past and we may encounter difficulties when we attempt to manufacture commercial quantities of our product candidates in the quantities needed for our preclinical studies or clinical trials. Such difficulties could result in commercial supply shortfalls of our products, delay in the commercial launch of any of our product candidates, if approved, delays in our preclinical studies, clinical trials and regulatory submissions, or the recall or withdrawal of our products from the market.

We must comply with cGMP requirements enforced by the FDA through its facilities inspection program and review of submitted technical information. In addition, we must obtain and maintain necessary DEA and state registrations, and must establish and maintain processes to assure compliance with DEA and state requirements governing, among other things, the storage, handling, security, recordkeeping and reporting for controlled substances. We must also apply for and receive a quota for fentanyl for our Fentanyl TDS product. Any failure to comply with these requirements may result in penalties, including fines and civil penalties, suspension of production, suspension or delay in product approvals, product seizure or recall, operating restrictions, criminal prosecutions, withdrawal of product approvals or severe reputational harm, any of which could adversely affect our business. If the safety of any product or product candidate or component is compromised due to a failure to adhere to applicable laws or for other reasons, we may not be able to successfully commercialize or obtain regulatory approval for the affected product or product candidate, and we may be held liable for injuries sustained as a result. Any of these factors could cause a delay or termination of commercialization, preclinical studies and clinical trials, regulatory submissions or approvals of our products or product candidates, entail higher costs or result in our being unable to effectively commercialize our approved products.

Clinical drug development for our product candidates is expensive, time consuming, uncertain and susceptible to change, delay or termination.

Clinical drug development for our product candidates is very expensive, time consuming and difficult to design and implement. Our product candidates are in varying stages of development ranging from pre clinical feasibility studies to registration. We estimate that clinical trials for these product candidates, if and when initiated, will continue for several years and may take significantly longer than expected to complete. In addition, we, our partners, the FDA, an independent Institutional Review Board (an “IRB”) or other regulatory authorities, including state and local agencies, may suspend, delay or terminate our clinical trials at any time, for various reasons, including:

- obtaining IRB approval of each site;
- recruiting suitable patients to participate in a trial;
- lack of effectiveness of any product candidate during clinical trials;

Table of Contents

- discovery of serious or unexpected toxicities or side effects experienced by study participants or other safety issues;
- slower than expected rates of subject recruitment and enrollment rates in clinical trials;
- difficulty in retaining subjects who have initiated a clinical trial but may withdraw at any time due to adverse side effects from the therapy, insufficient efficacy, fatigue with the clinical trial process or for any other reason;
- delays in or inability to manufacture or obtain sufficient quantities of materials for use in clinical trials;
- inadequacy of or changes in our manufacturing process or the product formulation;
- delays in obtaining regulatory authorization to commence a study, or "clinical holds" or delays requiring suspension or termination of a study by a regulatory agency, such as the FDA, before or after a study is commenced;
- changes in applicable regulatory policies and regulations;
- delays or failure in reaching agreement on acceptable terms in clinical trial contracts or protocols with prospective CROs and clinical trial sites;
- uncertainty regarding proper dosing;
- unfavorable results from ongoing clinical trials and preclinical studies;
- failure of our CROs or other third party contractors to comply with contractual and regulatory requirements or to perform their services in a timely or acceptable manner;
- failure by us, our employees, our collaboration partners or their employees, or our CROs or their employees to comply with applicable FDA or other regulatory requirements relating to the conduct of clinical trials or the handling, storage, security and recordkeeping for controlled substances;
- scheduling conflicts with participating clinicians and clinical institutions;
- failure to design appropriate clinical trial protocols;
- insufficient data to support regulatory approval;
- inability or unwillingness of medical investigators to follow our clinical protocols; or
- difficulty in maintaining contact with subjects during or after treatment, which may result in incomplete data.

Generally, there is a high rate of failure for drug candidates proceeding through clinical trials. We or our partners may suffer significant setbacks in our clinical trials similar to the experience of a number of other companies in the pharmaceutical and biotechnology industries, even after receiving promising results in earlier trials. Further, even if we view the results of a clinical trial to be positive, the FDA or other regulatory authorities may disagree with our interpretation of the data. Even after the completion of Phase 3 clinical studies, we may have to address additional issues

Table of Contents

raised by the FDA in response to the NDA or ANDA filed by us or our partners, such as the issues with the Agile contraceptive patch. In the event that we or our partners abandon or are delayed in the clinical development efforts related to our product candidates, we may not be able to execute on our business plan effectively, we may not be able to become profitable, our reputation in the industry and in the investment community could be significantly damaged and our stock price could decrease significantly.

We have in the past relied and expect to continue to rely on third parties to conduct and oversee our clinical trials. If these third parties do not meet our deadlines or otherwise conduct the trials as required we may not be able to obtain regulatory approval for or commercialize our product candidates when expected or at all.

We have in the past relied and expect to continue to rely on third party CROs to conduct and oversee our clinical trials. For example, we contracted with a CRO in Australia to conduct the Phase 1 and Phase 2a clinical trials for our MicroCor hPTH(1 34) and the Phase 1 clinical trials for our Corplex Donepezil and Memantine products.

We also rely upon various medical institutions, clinical investigators and contract laboratories to conduct our trials in accordance with our clinical protocols and all applicable regulatory requirements, including the FDA's good clinical practice regulations and state regulations governing the handling, storage, security and recordkeeping for controlled substances. These CROs and third parties play a significant role in the conduct of these trials and the subsequent collection and analysis of data from the clinical trials. We rely heavily on these parties for the execution of our clinical and preclinical studies, and control only certain aspects of their activities. We and our CROs and other third-party contractors are required to comply with GCP requirements, which are regulations and guidelines enforced by the FDA and comparable foreign regulatory authorities for products in clinical development. Regulatory authorities enforce these GCP requirements through periodic inspections of trial sponsors, principal investigators and trial sites. If we or any of our CROs fail to comply with applicable GCP requirements, the clinical data generated in our clinical trials may be deemed unreliable and the FDA or other regulatory authority may require us to perform additional clinical trials before approving our or our partners' marketing applications. We cannot assure you that upon inspection by a given regulatory authority, such regulatory authority will determine that any of our clinical trials complies with GCP requirements. In addition, our clinical trials must generally be conducted with product produced under cGMP regulations. Our failure to comply with these regulations may require us to repeat clinical trials, which would delay the regulatory approval process.

If any of our CROs or clinical trial sites terminate their involvement in one of our clinical trials for any reason, we may not be able to enter into arrangements with alternative CROs or clinical trial sites, or do so on commercially reasonable terms. In addition, if our relationship with clinical trial sites is terminated, we may experience the loss of follow up information on patients enrolled in our ongoing clinical trials unless we are able to transfer the care of those patients to another qualified clinical trial site. In addition, principal investigators for our clinical trials may serve as scientific advisors or consultants to us from time to time and receive cash or equity compensation in connection with such services. If these relationships and any related compensation result in perceived or actual conflicts of interest, the integrity of the data generated at the applicable clinical trial site may be questioned by the FDA.

We have conducted and may in the future conduct clinical trials for our products or product candidates outside the United States and the FDA may not accept data from such trials.

We have conducted and may in the future choose to conduct one or more of our clinical trials outside the United States. For example, our CRO conducted the Phase 1 and Phase 2a clinical trials for our MicroCor hPTH(1 34) and is currently conducting the Phase 1 trial for our Corplex Donepezil and Memantine products in Australia. Although the FDA may accept data from clinical trials conducted outside the United States, acceptance of such study data by the FDA is subject to certain conditions. For example, the study must be conducted in accordance with GCP requirements and the FDA must be able to validate the data from the study through an onsite inspection if it deems such inspection

necessary. Where data from foreign clinical trials are intended to serve as the sole basis for marketing approval in the United States,

Table of Contents

the FDA will not approve the application on the basis of foreign data alone unless those data are applicable to the U.S. population and U.S. medical practice; the studies were performed by clinical investigators of recognized competence; and the data is considered valid without the need for an on site inspection by FDA or, if FDA considers such an inspection to be necessary, FDA is able to validate the data through an on site inspection or other appropriate means. In addition, such studies would be subject to the applicable local laws of the foreign jurisdictions where the studies are conducted. There can be no assurance the FDA will accept data from trials conducted outside of the United States. If the FDA does not accept any such data, it would likely result in the need for additional trials, which would be costly and time consuming and delay aspects of our business plan, including the development and commercial launch of any product candidates impacted by such a decision by the FDA.

If the FDA does not conclude that certain of our product candidates satisfy the requirements under Section 505(b)(2)of the Federal Food Drug and Cosmetics Act, or Section 505(b)(2), or if the requirements for such product candidates under Section 505(b)(2) are not as we expect, the approval pathway for those product candidates will likely take significantly longer, cost significantly more and entail significantly greater complications and risks than anticipated, and in either case may not be successful.

We and our collaboration partners are developing several proprietary product candidates, for which we and our partners intend to seek FDA approval through the Section 505(b)(2) regulatory pathway. The Drug Price Competition and Patent Term Restoration Act of 1984, also known as the Hatch Waxman Act, added Section 505(b)(2) to the Federal Food, Drug and Cosmetic Act. Section 505(b)(2) permits the filing of an NDA where at least some of the information required for approval comes from studies that were not conducted by or for the applicant, and for which the applicant has not received a right of reference, which could expedite the development program for our product candidates by potentially decreasing the amount of clinical data that we or our partners would need to generate in order to obtain FDA approval. If the FDA does not allow us or our partners to pursue the Section 505(b)(2) regulatory pathway as anticipated, we or our partners may need to conduct additional clinical trials, provide additional data and information, and meet additional standards for regulatory approval. If this were to occur, the time and financial resources required to obtain FDA approval for these product candidates, and complications and risks associated with these product candidates, would likely substantially increase. Moreover, inability to pursue the Section 505(b)(2) regulatory pathway could result in new competitive products reaching the market more quickly than our product candidates, which would likely harm our competitive position and prospects. Even if we or our partners are allowed to pursue the Section 505(b)(2) regulatory pathway, we cannot assure you that our product candidates will receive the requisite approvals for commercialization.

In addition, notwithstanding the approval of a number of products by the FDA under Section 505(b)(2) over the last few years, certain competitors and others have objected to the FDA's interpretation of Section 505(b)(2). If the FDA's interpretation of Section 505(b)(2) is successfully challenged, the FDA may be required to change its 505(b)(2) policies and practices, which could delay or even prevent the FDA from approving any NDA that we or our partners submit under Section 505(b)(2). In addition, the pharmaceutical industry is highly competitive, and Section 505(b)(2) NDAs are subject to special requirements designed to protect the patent rights of sponsors of previously approved drugs that are referenced in a Section 505(b)(2) NDA. These requirements may give rise to patent litigation and mandatory delays in approval of our 505(b)(2) NDAs or our partners' 505(b)(2) NDAs for up to 30 months depending on the outcome of any litigation. It is not uncommon for a manufacturer of an approved product to file a citizen petition with the FDA seeking to delay approval of, or impose additional approval requirements for, pending competing products. If successful, such petitions can significantly delay, or even prevent, the approval of the new product. However, even if the FDA ultimately denies such a petition, the FDA may substantially delay approval while it considers and responds to the petition. In addition, even if we or our partners are able to utilize the Section 505(b)(2) regulatory pathway, there is no guarantee this would ultimately lead to faster product development or earlier approval.

Moreover, even if our product candidates are approved under Section 505(b)(2), the approval may be subject to limitations on the indicated uses for which the products may be marketed or to other conditions of approval, or may contain requirements for costly post marketing testing and surveillance to monitor the safety or efficacy of the products.

Table of Contents

The FDA or foreign regulatory agencies will determine the regulatory pathway for our Alzheimer's product candidates, Corplex Donepezil and Memantine.

There is no clear FDA guidance on whether bioequivalence studies can be relied on for approval of a transdermal formulation under the Section 505(b)(2) regulatory pathway where the reference listed drug is an oral dosage form. It is possible that for drugs with a long half-life such as donepezil and memantine, as opposed to drugs with a short half-life, the plasma profile of the drug in the bloodstream for transdermal delivery will closely match the plasma profile seen with oral administration. For this reason, a bioequivalence regulatory strategy for approval of these products via the 505(b)(2) pathway may be possible. If the FDA agrees with this approach, it could enable a direct transition from a pilot pharmacokinetic study to a single pivotal bioequivalence study, saving expense and time. If the FDA does not accept this approach, the result would be a longer, more expensive clinical development timeline to submission for both Donepezil TDS and Memantine TDS.

The products that we make and develop may cause undesirable side effects or have other unexpected properties that could delay or prevent their regulatory approval, limit the commercial profile of an approved label, or result in post approval regulatory action.

Undesirable side effects caused by product candidates could cause us, or partners, or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restrictive label or the delay or denial of regulatory approval by the FDA or comparable foreign authorities. Results of clinical trials could reveal a high and unacceptable severity and prevalence of side effects. In such an event, trials could be suspended or terminated and the FDA or comparable foreign regulatory authorities could order us, or our partners, to cease further development of or deny approval of product candidates for any or all targeted indications. The drug related side effects could affect patient recruitment or the ability of enrolled patients to complete the trial or result in product liability claims. Any of these occurrences may harm our business, financial condition and prospects significantly.

The labeling for our Fentanyl TDS product, which is common to all fentanyl transdermal products, includes warnings of serious adverse events relating to abuse potential, respiratory depression and death, and risks relating to accidental exposure, drug interactions and exposure to heat.

Agile has conducted two Phase 3 clinical studies of the Twirla product. The safety population in these studies included patients who received at least one dose of either Twirla or a combination oral contraceptive. In the combined safety population of Agile's Phase 3 trials, there were a total of 22 serious treatment emergent adverse effects, of which 16 were from the Twirla group, three (0.2%) of which were considered to be possibly related to the study drug, consisting of drug overdose with Benadryl, uncontrollable nausea and vomiting, and left subclavian deep vein thrombosis. Agile believes that Twirla will have a label consistent with all marketed hormonal contraceptive products, which include class labeling that warns of risks of certain serious conditions, including venous and arterial blood clot events, such as heart attacks, thromboembolism and stroke, as well as liver tumors, gallbladder disease, and hypertension. Regulatory authorities may require the inclusion of additional statements in the Twirla label, which may include a "black box" warning or contraindication. Based on guidance received from the FDA following the first two Phase 3 clinical trials, Agile is conducting an additional confirmatory Phase 3 clinical trial, and intends to submit the results of this additional trial to the FDA when complete.

Additionally, if we or others identify undesirable side effects, or other previously unknown problems, caused by our products, other products with the same or related active ingredients, or our or our partners' product candidates, after obtaining U.S. regulatory approval, a number of potentially significant negative consequences could result, including:

· regulatory authorities may withdraw their approval of the product;

51

Table of Contents

- regulatory authorities may require a recall of the product or we or our partners may voluntarily recall a product;
- regulatory authorities may require the addition of warnings in the product label or narrowing of the indication in the product label;
- we may be required to create a Medication Guide outlining the risks of such side effects for distribution to patients;
- we may be required to change the way the product is administered or modify the product in some other way;
- the FDA may require additional clinical trials or costly post marketing testing and surveillance to monitor the safety or efficacy of the product;
- we could be sued and held liable for harm caused to patients; and
- our reputation may suffer.

Any of the above events resulting from undesirable side effects or other previously unknown problems could prevent us from achieving or maintaining market acceptance of the affected product and could substantially increase the costs of commercializing our products.

Healthcare reform measures could hinder or prevent the commercial success of our products and product candidates.

In the United States, there have been, and we expect there will continue to be, a number of legislative and regulatory changes to the healthcare system that could affect our future revenues and profitability and the future revenues and profitability of our partners. Federal and state lawmakers regularly propose and, at times, enact legislation that results in significant changes to the healthcare system, some of which are intended to contain or reduce the costs of medical products and services. For example, in March 2010, President Obama signed one of the most significant healthcare reform measures in decades, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively, the Affordable Care Act. It contains a number of provisions, including those governing enrollment in federal healthcare programs, reimbursement changes and fraud and abuse measures, all of which will impact existing government healthcare programs and will result in the development of new programs. The Affordable Care Act, among other things, (i) increased the minimum Medicaid rebates owed by manufacturers under the Medicaid Drug Rebate Program and extended the rebate program to certain individuals enrolled in Medicaid managed care organizations, (ii) established annual fees on manufacturers of certain branded prescription drugs and (iii) enacted a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point of sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer's outpatient drugs to be covered under Medicare Part D.

In addition, other legislative changes have been proposed and adopted in the United States since the Affordable Care Act was enacted. On August 2, 2011, the Budget Control Act of 2011 among other things, created measures for spending reductions by Congress. A Joint Select Committee on Deficit Reduction, tasked with recommending a targeted deficit reduction of at least $1.2 trillion for the years 2013 through 2021, was unable to reach required goals, thereby triggering the legislation's automatic reduction to several government programs. This includes aggregate reductions of Medicare payments to providers up to 2% per fiscal year, which went into effect on April 1, 2013. On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, further reduced Medicare payments to several providers, including hospitals and imaging centers.

Table of Contents

Likewise, the annual Medicare Physician Fee Schedule update, which, until recently, was based on a target-setting formula system called the Sustainable Growth Rate ("SGR"), was adjusted to reflect the comparison of actual expenditures to target expenditures. Because one of the factors for calculating the SGR was linked to the growth in the U.S. gross domestic product ("GDP"), the SGR formula often resulted in a negative payment update when growth in Medicare beneficiaries' use of services exceeded GDP growth. Congress repeatedly intervened to delay the implementation of negative SGR payment updates. For example, on April 1, 2014, with the enactment of the Protecting Access to Medicare Act of 2014, Congress prevented the 24 percent cut that was to occur by continuing the previously implemented 0.5 percent payment increase through December 31, 2014 and maintaining a zero percent payment update from January 1, 2015 through March 31, 2015. However, on April 14, 2015, Congress passed the Medicare Access and CHIP Reauthorization Act of 2015, which was signed into law by President Obama on April 16, 2015. This law repeals the SGR methodology from the physician payment formula, institutes a 0% update to the Medicare Physician Fee Schedule for the January 1 to July 1, 2015 period, a 0.5% payment update for July 2015 through the end of 2019, and a 0% payment update for 2020 through 2025. For 2026 and subsequent years, the payment update will be either 0.75% or 0.25%, depending on which Alternate Payment Model the physician participates.

We expect that additional state and federal healthcare reform measures will be adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, which could result in reduced demand for our products once approved or additional pricing pressures, and may adversely affect our operating results.

We may also be subject to healthcare laws, regulation and enforcement and our failure to comply with those laws could adversely affect our business, operations and financial condition.

Even though we do not and will not control referrals of healthcare services or bill directly to Medicare, Medicaid or other third party payors, certain federal and state healthcare laws and regulations pertaining to fraud and abuse and patients' rights are and will be applicable to our business. We could be subject to healthcare fraud and abuse and patient privacy regulation by both the federal government and the states in which we or our partners conduct our business. The laws and regulations that may affect our ability to operate include, without limitation:

- the federal Anti Kickback Statute, which prohibits, among other things, any person from knowingly and willfully offering, soliciting, receiving or providing remuneration, directly or indirectly, to induce either the referral of an individual, for an item or service or the purchasing or ordering of a good or service, for which payment may be made under federal healthcare programs such as the Medicare and Medicaid programs;
- the federal False Claims Act, which prohibits, among other things, individuals or entities from knowingly presenting, or causing to be presented, false claims, or knowingly using false statements, to obtain payment from the federal government, and which may apply to entities that provide coding and billing advice to customers;
- federal criminal laws that prohibit executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;
- the federal physician sunshine requirements under the Affordable Care Act, which requires manufacturers of drugs, devices, biologics, and medical supplies to report annually to the Centers for Medicare & Medicaid Services information related to payments and other transfers of value made by certain manufacturers to physicians, other healthcare providers, and teaching hospitals, and ownership and investment interests held by physicians and other healthcare providers and their immediate family members;

Table of Contents

- the federal Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act, and their implementing regulations, all of which govern the conduct of certain electronic healthcare transactions and protect the security and privacy of protected health information; and
- state law equivalents of each of the above federal laws, such as anti kickback and false claims laws which may apply to items or services reimbursed by any third party payor, including commercial insurers; state laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the applicable compliance guidance promulgated by the federal government, or otherwise restrict payments that may be made to healthcare providers and other potential referral sources; state laws that require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures; and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.

Because of the breadth of these laws and the narrowness of the statutory exceptions and safe harbors available, it is possible that some of our business activities could be subject to challenge under one or more of such laws. In addition, recent health care reform legislation has strengthened these laws. For example, the Affordable Care Act, among other things, amends the intent requirement of the Federal Anti Kickback Statute and criminal healthcare fraud statutes. A person or entity no longer needs to have actual knowledge of the statute or specific intent to violate it. In addition, the Affordable Care Act 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 False Claims Act.

Achieving and sustaining compliance with these laws may prove costly. In addition, any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business. If our operations are found to be in violation of any of the laws described above or any other governmental laws or regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, the exclusion from participation in federal and state healthcare programs, imprisonment, or the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our financial results.

Risks Related to Our Intellectual Property

We may not be able to obtain and enforce patent rights or other intellectual property rights that cover our drug delivery systems, products, product candidates and technologies that are of sufficient breadth to prevent third parties from competing against us.

Our success with respect to our drug delivery systems and technologies will depend in part on our ability to obtain and maintain patent protection in both the United States and other countries, to preserve our trade secrets, and to prevent third parties from infringing upon our proprietary rights. Our ability to protect any of our approved products, product candidates or drug delivery systems from unauthorized or infringing use by third parties depends in substantial part on our ability to obtain and maintain valid and enforceable patents. Some of the drugs we use in our products have been approved for many years and therefore our ability to obtain any patent protection relating to the drug ingredients in our products may be limited.

Our patent portfolio related to our transdermal drug delivery systems and technologies includes patents and patent applications in the United States and foreign jurisdictions where we believe there is a significant market opportunity for our products. The covered technology and the scope of coverage vary from country to country. For those countries

where we do not have granted patents, we may not have any ability to prevent the unauthorized use of our

Table of Contents

technologies. Any patents that we may obtain may be narrow in scope and thus easily circumvented by competitors. Further, in countries where we do not have granted patents, third parties may be able to make, use, or sell products identical to, or substantially similar to our products or product candidates.

Due to legal standards relating to patentability, validity, enforceability and claim scope of patents covering pharmaceutical inventions, our ability to obtain, maintain and enforce patents is uncertain and involves complex legal and factual questions. Accordingly, rights under any existing patents or any patents we might obtain or license may not provide us with sufficient protection for our products and product candidates to afford a commercial advantage against competitive products or processes, including those from branded and generic pharmaceutical companies. In addition, we cannot guarantee that any patents will issue from any pending or future patent applications owned by or licensed to us. Even if patents have issued or will issue, we cannot guarantee that the claims of these patents are or will be held valid or enforceable by the courts or will provide us with any significant protection against competitive products or otherwise be commercially valuable to us.

Our MicroCor technology is new even though patents relating to microneedle technology were first filed in the 1990s. Although we believe that the MicroCor technology includes certain inventions that are unique and not duplicative of any prior art and we have one issued patent covering our more recent developments in this technology, there can be no assurance that we will be successful in obtaining issued patents from the pending patent applications related to our MicroCor technology.

The laws of some foreign jurisdictions do not provide intellectual property rights to the same extent as in the United States and many companies have encountered significant difficulties in protecting and defending such rights in foreign jurisdictions. If we encounter such difficulties in protecting or are otherwise precluded from effectively protecting our intellectual property in foreign jurisdictions, our business prospects could be substantially harmed. The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. Changes in either the patent laws or in the interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property. Accordingly, we cannot predict the breadth of claims that may be allowed or enforced in our patents or in third party patents.

The degree of future protection of our proprietary rights is uncertain. Patent protection may be unavailable or severely limited in some cases and may not adequately protect our rights or permit us to gain or keep our competitive advantage. For example:

- we might not have been the first to invent or the first to file the inventions covered by each of our pending patent applications and issued patents;
- others may independently develop similar or alternative technologies or duplicate any of our technologies;
- the patents of others may have an adverse effect on our business;
- any patents we obtain or our licensors' issued patents may not encompass commercially viable products, may not provide us with any competitive advantages, or may be challenged by third parties;
- any patents we obtain or our in licensed issued patents may not be valid or enforceable; or
- we may not develop additional proprietary technologies that are patentable.

If we or our licensors fail to prosecute, maintain and enforce patent protection for our drug delivery technologies, products or product candidates, our ability to develop and commercialize our technologies, products or

Table of Contents

product candidates could be adversely affected and we might not be able to prevent competitors from making, using and selling competing technologies or products. This failure to properly protect the intellectual property rights relating to our technologies, products or product candidates could have a material adverse effect on our business, financial condition and results of operations. Moreover, our competitors may independently develop equivalent knowledge, methods and know how. Furthermore, in connection with our license agreement with P&G, we granted to P&G a broad exclusive license for certain fields of use, excluding prescription drug products and foot care and wound care products, to our Corplex technology and related know how. P&G may sublicense its rights under that license, including to another manufacturer, at any time, and we do not have any assurance that they will continue to use us as their development partner and manufacturer in the future.

Proprietary trade secrets and unpatented know how are also very important to our business. Although we have taken steps to protect our trade secrets and unpatented know how by entering into confidentiality agreements with third parties, and proprietary information and invention agreements with certain employees, consultants and advisors, third parties may still obtain this information or we may be unable to protect our rights. We also have limited control over the protection of trade secrets used by our licensees, partners and suppliers. There can be no assurance that binding agreements will not be breached, that we would have adequate remedies for any breach, or that our trade secrets and unpatented know how will not otherwise become known or be independently discovered by our competitors. If trade secrets are independently discovered, we would not be able to prevent their use. Enforcing a claim that a third party illegally obtained and is using our trade secrets or unpatented know how is expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States may be less willing to protect trade secret information.

If we or our partners are sued for infringing intellectual property rights of third parties, it will be costly and time consuming, and an unfavorable outcome in that litigation could have a material adverse effect on our business.

Our commercial success depends upon our ability and the ability of our partners to develop, manufacture, market and sell our products and product candidates and use our proprietary technologies without infringing the proprietary rights of third parties. Numerous U.S. and foreign issued patents and pending patent applications owned by third parties exist in the fields relating to our products and product candidates. As the biotechnology and pharmaceutical industries expand and more patents are issued, the risk increases that others may assert that our drug delivery systems, technologies, products or product candidates infringe their patent rights. Moreover, it is not always clear to industry participants, including us, which patents cover various types of drugs, drug delivery systems or their methods of use. Thus, because of the large number of patents issued and patent applications filed in our fields, there may be a risk that third parties may allege they have patent rights encompassing our products, product candidates, technologies or methods.

In addition, there may be issued patents of third parties of which we are currently unaware, that are infringed or are alleged to be infringed by our products, product candidates or proprietary technologies. Because some patent applications in the United States may be maintained in secrecy until the patents are issued, because patent applications in the United States and many foreign jurisdictions are typically not published until eighteen months after filing, and because publications in the scientific literature often lag behind actual discoveries, we cannot be certain that others have not filed patent applications for technology covered by our own and in licensed issued patents or our pending applications. Our competitors may have filed, and may in the future file, patent applications covering our products, product candidates or technology similar to ours. Any such patent application may have priority over our own and in licensed patent applications or patents, which could further require us to obtain rights to issued patents covering such technologies. If another party has filed an U.S. patent application on inventions similar to those owned or in licensed to us, we or, in the case of in licensed technology, the licensor may have to participate, in the United States, in an interference proceeding to determine priority of invention.

A substantial portion of our partners' products and product candidates are generic versions of pre existing brand name drugs and we may be exposed to, or threatened with, future litigation by third parties having patent or other

Table of Contents

intellectual property rights alleging that our partners' products and/or product candidates and/or proprietary technologies infringe their intellectual property rights, including litigation resulting from filing under Paragraph IV of the Hatch Waxman Act. These lawsuits could claim that there are existing patent rights for such drug and this type of litigation can be costly and could adversely affect our results of operations and divert the attention of managerial and technical personnel. There is a risk that a court would decide that we or our commercialization partners are infringing the third party's patents and would order us or our partners to stop the activities covered by the patents. In addition, there is a risk that a court will order us or our partners to pay the other party damages for having violated the other party's patents. In addition to facing litigation risks directly, we have agreed to indemnify several of our partners against claims of infringement caused by our proprietary technologies, and we have entered or may enter into cost sharing agreements with some of our partners that could require us to pay some of the costs of patent litigation brought against those partners whether or not the alleged infringement is caused by our proprietary technologies. In certain instances, these cost sharing agreements could also require us to assume greater responsibility for infringement damages than would be assumed just on the basis of our technology.

There is a substantial amount of litigation involving patent and other intellectual property rights in the biotechnology and pharmaceutical industries generally. To date, no litigation asserting infringement claims has ever been brought against us. If a third party claims that we or our partners infringe its intellectual property rights, we may face a number of issues, including, but not limited to:

- infringement and other intellectual property claims which, regardless of merit, may be expensive and time consuming to litigate and may divert our management's attention from our core business;
- substantial damages for infringement, which we may have to pay if a court decides that the product or technology at issue infringes or violates the third party's rights, and if the court finds that the infringement was willful, we could be ordered to pay treble damages and the patent owner's attorneys' fees;
- a court prohibiting us from selling or licensing the product or using the technology unless the third party licenses its intellectual property rights to us, which it is not required to do;
- if a license is available from a third party, we may have to pay substantial royalties, upfront fees and/or grant cross licenses to intellectual property rights for our products or technologies; and
- redesigning our products or processes so they do not infringe, which may not be possible or may require substantial monetary expenditures and time.

Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we or our partners can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could harm our ability to raise additional funds or otherwise adversely affect our business, results of operations, financial condition and prospects.

We may be subject to claims that our employees, consultants or independent contractors have wrongfully used or disclosed to us alleged trade secrets of their other clients or former employers.

As is common in the biotechnology and pharmaceutical industry, certain of our employees were formerly employed by other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Moreover, we engage the services of consultants to assist us in the development of our products and product candidates, many of whom were previously employed at or may have previously been or are currently providing consulting services to, other biotechnology or pharmaceutical companies, including our competitors or potential competitors. We may be subject to claims that these employees and consultants or we have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers or their former or current customers. Although we

Table of Contents

have no knowledge of any such claims being alleged to date, if such claims were to arise, litigation may be necessary to defend against any such claims. Even if we are successful in defending against any such claims, any such litigation could be protracted, expensive, a distraction to our management team, not viewed favorably by investors and other third parties, and may potentially result in an unfavorable outcome.

Risks Relating to Ownership of our Common Stock

Our principal stockholder has substantial control over our business, which may be disadvantageous to other stockholders.

Essex Woodlands Health Venture Fund VII, L.P., together with certain of its affiliates, which together we refer to as Essex Woodlands, collectively beneficially owns or controls approximately 42% of the voting power of our outstanding common stock. In addition, Ron Eastman, a Managing Director of Essex Woodlands, is a member of our board of directors. As a result of its ability to control a significant percentage of the voting power of our outstanding common stock, Essex Woodlands may have substantial control over matters requiring approval by our stockholders, including the election and removal of directors, amendments to our certificate of incorporation and bylaws, any proposed merger, consolidation or sale of all or substantially all of our assets and other corporate transactions. Essex Woodlands may have interests that are different from those of other stockholders. Moreover, this concentration of share ownership makes it difficult for other stockholders to replace directors and management without the consent of Essex Woodlands. In addition, this significant concentration of share ownership may adversely affect the price at which prospective buyers are willing to pay for our common stock because investors may perceive disadvantages in owning stock in a company with a single stockholder with this level of control.

Our common stock may be affected by limited trading volume and we expect that the price of our common stock will fluctuate substantially.

There has been a limited public market for our common stock and there can be no assurance that an active trading market for our common stock will develop. This could adversely affect your ability to sell our common stock in short time periods or possibly at all. The trading prices of the securities of pharmaceutical companies have been highly volatile. The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- the success of, and fluctuations in, the commercial sales of Clonidine TDS, Fentanyl TDS and Crest Whitestrips products or any other products approved for commercialization;
- the development status of our product candidates, including whether any of our product candidates receive regulatory approval;
- the execution of our partnering, manufacturing and other aspects of our business plan;
- variations in the level of expenses related to our commercialization activities;
- the performance of third parties on whom we rely for clinical trials, marketing, sales and distribution, including their ability to comply with regulatory requirements;
- the results of our or our partners' preclinical studies and clinical trials;
- variations in the level of expenses related to our product candidates or preclinical and clinical development programs, including relating to the timing of invoices from, and other billing practices of, our CROs and clinical trial sites;

Table of Contents

- price and volume fluctuations in the overall stock market;
- changes in operating performance and stock market valuations of other pharmaceutical companies;
- market conditions or trends in our industry or the economy as a whole;
- our execution of collaboration, co promotion, licensing or other arrangements, and the timing of payments we may make or receive under these arrangements;
- the public's response to press releases or other public announcements by us or third parties, including our filings with the SEC and announcements relating to litigation or other disputes, strategic transactions, intellectual property or fentanyl or other controlled substances impacting us or our business;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- changes in financial estimates by any securities analysts who follow our common stock, our failure to meet these estimates or failure of those analysts to initiate or maintain coverage of our common stock;
- ratings downgrades by any securities analysts who follow our common stock;
- the development and sustainability of an active trading market for our common stock;
- future sales of our common stock by our officers, directors and significant stockholders;
- other events or factors, including those resulting from war, incidents of terrorism, natural disasters or responses to these events; and
- changes in accounting principles.

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. Stock prices of many pharmaceutical companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were involved in securities litigation, we could incur substantial costs and our resources and the attention of management could be diverted from our business.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, stockholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common stock.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock. In addition, any future testing by us conducted in connection with Section 404 of the Sarbanes Oxley Act, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are

Table of Contents

deemed to be material weaknesses or that may require prospective or retroactive changes to our financial statements or identify other areas for further attention or improvement.

We are required, pursuant to Section 404 of the Sarbanes Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. However, for as long as we are an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), our independent registered public accounting firm will not be required to attest to the effectiveness of our internal controls over financial reporting pursuant to Section 404. We could be an emerging growth company for up to five years following our IPO. An independent assessment of the effectiveness of our internal controls could detect problems that our management's assessment might not. Undetected material weaknesses in our internal controls could lead to financial statement restatements and require us to incur the expense of remediation.

We have begun a process of transferring from our previous financial tracking system to an updated enterprise resource planning system, but have not determined the timing for such a transition. Our current system has been in place since our founding and the transition will be costly and require new training and extensive changes to our system of our internal financial reporting. There is no guarantee that we will be able to transition smoothly and maintain effective internal controls over the reporting process during this transition.

If securities or industry analysts stop publishing research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

Future sales of our common stock or securities convertible into our common stock may depress our stock price.

Sales of a substantial number of shares of our common stock or securities convertible into our common stock in the public market, or the perception that these sales might occur may reduce the prevailing market price of our common stock and make it more difficult for you to sell your common stock at a time and price that you deem appropriate. In addition, any sales of securities by us or existing stockholders could have a material adverse effect on the market price of our common stock.

On December 30, 2015, we entered into a sales agreement with Cantor Fitzgerald pursuant to which the Company may offer and sell, from time to time through Cantor Fitzgerald, shares of its Common Stock with aggregate proceeds of up to $20.0 million. As of December 31, 2015, all of the shares of Common Stock available for sale pursuant to the sales agreement remained available to be sold, subject to certain conditions as specified in the sales agreement, and sales of these shares could have a material adverse effect on the market price of our common stock.

In addition, on December 30, 2015, we filed a registration statement on Form S-3 (File No. 208800), which was declared effective by the SEC on January 20, 2016, to register for resale 9,353,304 shares of our common stock held by Essex Woodlands, or approximately 42% of our total outstanding shares of common stock as of December 31, 2015. As a result, such shares are freely tradable under the Securities Act of 1933, as amended (the "Securities Act"), and sales of these shares could have a material adverse effect on the market price of our common stock.

60

Table of Contents

Anti takeover provisions in our charter documents and Delaware law might deter acquisition bids for us that you might consider favorable.

Our restated certificate of incorporation and restated bylaws contain provisions that may make the acquisition of our company more difficult without the approval of our board of directors. These provisions:

- establish a classified board of directors so that not all members of our board are elected at one time;
- authorize the issuance of undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval, and which may include rights superior to the rights of the holders of common stock;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter, or repeal our bylaws; and
- establish advance notice requirements for nominations for elections to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits stockholders owning in excess of 15% of our outstanding voting stock from merging or combining with us. These anti takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our company, even if doing so would benefit our stockholders. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing so as to cause us to take certain corporate actions you desire.

We qualify as an “emerging growth company” as defined in the JOBS Act and will be able to avail ourselves of reduced disclosure requirements applicable to emerging growth companies, which could make our common stock less attractive to investors.

We qualify as an “emerging growth company” as defined in the JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies” including certain reduced financial statement reporting obligations, reduced disclosure obligations about our executive compensation arrangements, exemptions from the requirement that we solicit non binding advisory votes on executive compensation or golden parachute arrangements, and exemption from the auditor’s attestation requirements of Section 404(b) of the Sarbanes Oxley Act. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. We may take advantage of these reporting exemptions until we are no longer an “emerging growth company.” We will remain an “emerging growth company” until the earliest of (i) the last day of the fiscal year in which we have total annual gross revenues of $1 billion or more, (ii) the last day of our fiscal year following the fifth anniversary of the date of the completion of our April 2014 IPO, (iii) the date on which we have issued more than $1 billion in nonconvertible debt during the previous three years, or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

Table of Contents

We have never paid dividends on our capital stock, and we do not anticipate paying any cash dividends in the foreseeable future.

The continued operation and expansion of our business will require substantial funding. Accordingly, we do not anticipate that we will pay any cash dividends on shares of our common stock for the foreseeable future. We are also restricted from paying dividends under the term loan agreement with CRG. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our board of directors deems relevant. Accordingly, realization of any gain on your investment in our common stock will depend entirely on the appreciation of the price of our common stock, which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.

ITEM 2.UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

Not applicable.

Use of Proceeds

The registration statements on Form S-1 (File No. 333-194279 and File No. 333-195002) relating to our IPO were declared effective by the SEC on April 2, 2014, and the offering commenced the following day. The offering did not terminate before all of the securities registered in the registration statements were sold. Jefferies LLC and Leerink Partners LLC acted as joint book-running managers for the offering, and Needham & Company, LLC and FBR Capital Markets & Co. acted as co-managers of the offering.

We registered a total of 6,500,000 shares of common stock for sale in our IPO, and we closed our IPO on April 8, 2014. On May 8, 2014 we closed the underwriters' option to purchase additional shares, which was exercised in part, and we sold 374,997 shares of our common stock. All sales were at our IPO price of $8.00 per share, for an aggregate gross offering price of $55.0 million. Net proceeds from the offering were approximately $48.5 million, after deducting underwriting discounts and commissions of approximately $3.8 million and other offering-related expenses of approximately $2.7 million.

The principal purpose of our IPO was to create a public market for our common stock. We continue to intend to use the net proceeds from our IPO primarily for the advancement of our enabling technologies, the development of our

proprietary product candidates, and the scale-up of production capability for these product candidates.

As of December 31, 2015, we have used all of our net proceeds from the IPO, of which $26.2 million was invested in the development of our proprietary products and $5.2 million was used for the repurchase of shares of common stock from our founders pursuant to the recapitalization transaction described in the Company's registration statement on Form S-1 relating to our IPO, which was declared effective by the SEC on April 2, 2014, and the Company's Annual Report on Form 10K, which was filed with the SEC on December 15, 2014.

ITEM 3.DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4.MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

ITEM 5.OTHER INFORMATION

Not applicable.

ITEM 6.EXHIBITS

EXHIBIT INDEX

Exhibit Number	Description of Document	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.1	Lease dated February 12, 2016 by and between the Company and LBA Realty Fund III-Company VII, LLC					X
10.2	Additional form of restricted stock unit agreement under 2014 Equity Incentive Plan.					X
10.3	Controlled Equity Offering Sales Agreement dated December 30, 2015	8-K	001-36375	1.1	December 31, 2015	
31.1	Certification of Periodic Report by Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Periodic Report by Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to					X

	Section 906 of the Sarbanes-Oxley Act of 2002	
101.INS	XBRL Instance Document.	X
101.SCH	XBRL Taxonomy Extension Schema Document.	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	X

+Registrant has omitted portions of the referenced exhibit pursuant to a request for confidential treatment under Rule 24b-2 promulgated under the Exchange Act.

*This certification is deemed not filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in the City of Menlo Park, State of California, on February 12, 2016.

CORIUM
INTERNATIONAL, INC.

By: /s/ Peter D. Staple
Peter D. Staple
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Robert S. Breuil
Robert S. Breuil
Chief Financial Officer
(Principal Financial Officer)