Teligent, Inc.
Form 10-Q
December 12, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2018

¨	**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 001-08568

Teligent, Inc.

(Formerly IGI Laboratories, Inc.)
(Exact name of registrant as specified in its charter)

Delaware	**01-0355758**
(State or other Jurisdiction of	*(I.R.S. Employer Identification No.)*
incorporation or	

organization)	
105 Lincoln Avenue	
Buena, New Jersey	**08310**
(Address of Principal Executive Offices)	*(Zip Code)*

(856) 697-1441
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No ¨

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

Large accelerated filer	¨	Accelerated filer	þ
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the issuer's common stock is 53,774,221 shares as of December 10, 2018.

OTHER INFORMATION

When used in this report, the terms, “we,” the “Company,” “our,” and “us” refer to Teligent, Inc., a Delaware corporation (formerly IGI Laboratories, Inc.), and its consolidated subsidiaries.
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PART I
FINANCIAL INFORMATION
ITEM 1. Financial Statements
TELIGENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share information)
(Unaudited)

	September 30, 2018		**December 31, 2017**	
ASSETS				
Current assets:				
Cash and cash equivalents	$	15,267	$	26,692
Accounts receivable, net of allowance for doubtful accounts of $2,787 and $2,185, as of September 30, 2018 and December 31, 2017, respectively	16,707		12,742	
Inventories, net	17,882		16,075	
Prepaid expenses and other receivables	1,522		3,622	
Total current assets	51,378		59,131	
Property, plant and equipment, net	88,387		68,355	
Intangible assets, net	52,045		56,017	
Goodwill	464		471	
Other assets	608		611	
Total assets	$	192,882	$	184,585
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	4,476	$	10,595
Accrued expenses	10,437		8,101	
Term Loan, net of debt discount and debt issuance costs (face of $25,000 as of September 30, 2018)	24,168		—	
Total current liabilities	39,081		18,696	
Convertible 3.75%	61,634		120,977	

Senior Notes, net of debt discount and debt issuance costs (face of $68,660 and $143,750 as of September 30, 2018 and December 31, 2017, respectively)				
Convertible 4.75% Senior Notes, net of debt discount and debt issuance costs (face of $75,090 as of September 30, 2018)	56,148		—	
Deferred tax liability	249		159	
Other long term liabilities	70		—	
Total liabilities	157,182		139,832	
Commitments and Contingencies				
Stockholders' equity:				
Common stock, $0.01 par value, 100,000,000 shares authorized; 53,762,888 and 53,400,281 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	557		554	
Additional paid-in capital	119,346		106,312	
Accumulated deficit	(81,960)		(60,094)	
Accumulated other comprehensive loss	(2,243)		(2,019)	
Total stockholders' equity	35,700		44,753	
Total liabilities and stockholders' equity	$	192,882	$	184,585

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

TELIGENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except shares and per share information)
(Unaudited)

	Three months ended September 30,						Nine months ended September 30,	
	2018		2017		2018		2017	
Revenue, net	$	18,294	$	11,340	$	49,088	$	45,435
Costs and expenses:								
Cost of revenues	11,575		8,802		32,365		23,926	
Selling, general and administrative expenses	4,845		5,971		15,932		14,976	
Product development and research expenses	3,087		4,606		10,445		13,387	
Total costs and expenses	19,507		19,379		58,742		52,289	
Operating loss	(1,213)		(8,039)		(9,654)		(6,854)	
Other income (expense):								
Foreign currency exchange (loss) gain	(176)		1,744		(2,071)		6,645	
Partial extinguishment of Convertible 3.75% Senior Notes	—		—		(2,467)		—	
Interest and other expense, net	(2,693)		(2,663)		(7,764)		(8,731)	
Loss before income tax expense	(4,082)		(8,958)		(21,956)		(8,940)	
Income tax (benefit) expense	(137)		24		(90)		130	
Net loss attributable to common	$	(3,945)	$	(8,982)	$	(21,866)	$	(9,070)

shareholders								
Basic and diluted loss per share	$	(0.07)	$	(0.17)	$	(0.41)	$	(0.17)
Weighted average shares of common stock outstanding:								
Basic and diluted shares	53,625,768		53,391,948		53,532,277		53,297,889	

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

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TELIGENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)
(Unaudited)

	Three months ended September 30,				**Nine months ended September 30,**	
	2018		**2017**		**2018**		**2017**	
Net loss	$	(3,945)	$	(8,982)	$	(21,866)	$	(9,070)
Other comprehensive income (loss), net of tax;								
Foreign currency translation adjustment	108		378		(224)		133	
Other comprehensive income (loss)	108		378		(224)		133	
Comprehensive loss	$	(3,837)	$	(8,604)	$	(22,090)	$	(8,937)

The accompanying notes are an integral part of the condensed consolidated financial statements.
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TELIGENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands, except share information)
(Unaudited)

	Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Loss	Deficit	Equity
Balance, December 31, 2017	53,400,281	$ 554	$ 106,312	$ (2,019)	$ (60,094)	$ 44,753
Stock based compensation expense	—	—	1,654	—	—	1,654
Stock options exercised	236,000	2	244	—	—	246
Issuance of stock for vested restricted stock units	101,607	1	(1)	—	—	—
Issuance of stock to a consultant	25,000	—	102			102
Fair value of conversion feature on Convertible 4.75% Senior Notes	—	—	18,637	—	—	18,637
Partial extinguishment of equity component of Convertible 3.75% Senior Notes	—	—	(7,602)	—	—	(7,602)
Cumulative	—	—	—	(224)	—	(224)

translation adjustment						
Net loss	—	—	—	—	(21,866)	(21,866)
Balance, September 30, 2018	53,762,888	557	$ 119,346	$ (2,243)	$ (81,960)	$ 35,700

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

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TELIGENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Nine months ended September 30,			
	2018		**2017**	
Cash flows from operating activities:				
Net loss	$	(21,866)	$	(9,070)
Reconciliation of net loss to net cash used in operating activities:				
Depreciation and amortization of fixed assets	1,703		1,264	
Provision for bad debt expense	601		1,738	
Provision for write down of inventory	844		1,489	
Issuance of stock to consultant	102		—	
Stock based compensation	1,572		2,427	
Amortization of debt issuance costs	727		695	
Amortization of intangible assets	2,302		2,143	
Foreign currency exchange loss (gain)	2,071		(6,645)	
Partial extinguishment of Convertible 3.75% Senior Notes	2,467		—	
Amortization of debt discount	6,353		6,376	
Gain on sale of fixed assets	(20)		—	
Loss on impairment of	22		113	

intangible assets		
Changes in operating assets and liabilities:		
Accounts receivable	(4,587)	(2,491)
Inventories	(2,746)	(2,767)
Prepaid expenses and other current receivables	2,081	510
Other assets	4	21
Accounts payable and accrued expenses	(6,944)	1,537
Net cash used in operating activities	(15,314)	(2,660)
Cash flows from investing activities:		
Capital expenditures	(18,315)	(26,002)
Proceeds from sale of fixed assets	38	—
Net cash used in investing activities	(18,277)	(26,002)
Cash flows from financing activities:		
Proceeds from exercise of common stock options	246	269
Proceeds from 2021 Term Loan	25,000	—
Debt fees on Convertible 4.75% Senior Notes and 2021 Term Loan	(2,539)	—
Net cash provided by	22,707	269

financing activities				
Effect of exchange rate on cash and cash equivalents	(542)		618	
Net decrease in cash, cash equivalents and restricted cash	(10,884)		(28,393)	
Cash, cash equivalents and restricted cash at beginning of period	27,165		66,481	
Cash, cash equivalents and restricted cash at end of period	$	15,739	$	38,706
Supplemental Cash flow information:				
Cash payments for interest	$	3,136	$	2,695
Cash payments for income taxes	66		102	
Non-cash operating, investing and financing transactions:				

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Issuance of stock to a consultant	102	—
Acquisition of capital expenditures in accounts payable and accrued expenses	1,316	5,029
Capitalized interest in capital expenditures	2,013	1,058
Capitalized stock compensation in capital expenditures	82	101

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

TELIGENT, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8-03 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, as updated by other reports we may file from time to time with the Securities and Exchange Commission ("SEC"). The condensed consolidated balance sheet as of December 31, 2017 has been derived from those audited consolidated financial statements. Operating results for the nine-month period ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

1.Correction to Previously Issued Unaudited Interim Condensed Consolidated Financial Statements

Subsequent to the issuance of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, management determined adjustments were needed to correct the presentation of certain errors in the Company’s previously reported unaudited condensed consolidated financial statements as of and for the three and nine-months ended September 30, 2017. Accordingly, the accompanying Condensed Consolidated Statement of Operations of the Company for the three and nine-months ended September 30, 2017, and the related notes hereto, have been revised to correct these errors (the “Revision”). A summary of the correction of these errors, and their impact on the accompanying Condensed Consolidated Statement of Operations for the three and nine-months ended September 30, 2017 are, as follows:

(1) The Company pays wholesalers certain fees associated with the sale of the Company's product. The payment of these fees had been historically classified by the Company as cost of revenues and accrued expenses prior to the adoption of ASC 606, *Revenue from Contracts with Customers.* As disclosed in Note 4, the Company adopted ASC 606 on January 1, 2018 using the modified retrospective method, at which time the Company began classifying the payment of wholesaler fees as a reduction of revenue and accounts receivable. Upon further analysis, however, management determined that these fees should have always been classified as a reduction of revenue and accounts receivable, rather than as costs of revenues and accrued expenses, because the services provided by the Company’s wholesalers cannot generally be provided by third parties and the underlying fees are not specifically identifiable from other services. As a result, the accompanying Condensed Consolidated Statement of Operations for the three and nine-months ended September 30, 2017 has been revised to correct the presentation of wholesaler fees as a reduction of revenue rather than as cost of revenues. The correction of this error resulted in a reduction of revenue of approximately $1.5 million and $5.7 million, respectively, for the three and nine-month periods ended September 30, 2017. In addition, the correction of this error resulted in a reduction in accounts receivable and decrease in accrued expenses of approximately $6.1 million, respectively, as of September 30, 2017 and $7.0 million, respectively, as of December 31, 2017.

(2) Prior to the adoption of ASC 606, the Company classified Medicaid, Medicare and other rebates (the "Rebates") as a reduction of accounts receivable, whereas subsequent to adoption of ASC 606 the Company began classifying the Rebates as accrued expenses. Upon further analysis, management determined that the Rebates should have always been classified as accrued expenses because their terms require cash settlement and are payable to third parties that are other than the Company's customer. The correction of this error resulted in an increase in accounts receivable and increase in accrued expenses of $2.3 million, respectively, as of September 30, 2017 and $1.6 million, respectively, as of December 31, 2017.

The following tables summarize the effects of the Revision on the Company's unaudited interim condensed consolidated financial statements as of and for the three and nine-months ended September 30, 2017 (in thousands):

	Condensed Consolidated Statements of Operations							
	Three Months Ended September 30, 2017							**Nine Months Ended September 30, 2017**
	As Previously Reported	**Adjustment**		**As Revised**	**As Previously Reported**	**Adjustment**		**As Revised**
Revenue, net	12,851	1,511	(1)	11,340	51,150	5,715	(1)	45,435

Cost of revenues	10,313	1,511 (1)	8,802	29,641	5,715 (1)	23,926
Total costs and expenses	20,890	1,511 (1)	19,379	58,004	5,715 (1)	52,289

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	Condensed Consolidated Balance Sheet							Condensed Consolidated Balance Sheet
	September 30, 2017							December 31, 2017
	As Previously Reported	Adjustment		As Revised	As Previously Reported	Adjustment		As Revised
Accounts receivable, net	25,026	3,800	(1),(2)	21,226	18,143	5,401	(1),(2)	12,742
Total current assets	79,846	3,800	(1),(2)	76,046	64,532	5,401	(1),(2)	59,131
Total assets	194,466	3,800	(1),(2)	190,666	189,986	5,401	(1),(2)	184,585
Accrued expenses	16,372	3,800	(1),(2)	12,572	13,502	5,401	(1),(2)	8,101
Total current liabilities	25,237	3,800	(1),(2)	21,437	24,097	5,401	(1),(2)	18,696
Total liabilities	143,939	3,800	(1),(2)	140,139	145,233	5,401	(1),(2)	139,832
Total liabilities and stockholders' equity	194,466	3,800	(1),(2)	190,666	189,986	5,401	(1),(2)	184,585

	Condensed Consolidated Statement of Cash Flows			
	Nine Months Ended September 30, 2017			
	As Previously Reported	Adjustment		As Revised
Cash flows from operating activities				
Accounts receivable	(4,960)	(2,469)	(1),(2)	(2,491)
Accounts payable and accrued expenses	4,006	2,469	(1),(2)	1,537

2. Nature of the Business and Liquidity

Nature of the Business

Teligent, Inc. and its subsidiaries (collectively the "Company"), is a specialty generic pharmaceutical company. Our mission is to become a leader in the specialty generic pharmaceutical market in alternate dosage forms. Under our own label, we currently market and sell generic topical and generic and branded generic injectable pharmaceutical products in the United States and Canada. In the United States, we currently market 32 generic topical pharmaceutical products and four branded generic injectable pharmaceutical products. In Canada, we sell over 30 generic and branded generic injectable products and medical devices. Generic pharmaceutical products are bioequivalent to their brand name counterparts. We also provide contract manufacturing services to the pharmaceutical, over-the-counter ("OTC"), and cosmetic markets. We operate our business under one reportable segment. Our common stock is traded on the NASDAQ Global Select Market under the trading symbol "TLGT." Our principal executive office, laboratories and manufacturing facilities are located at 105 Lincoln Avenue, Buena, New Jersey. We have additional offices located in Iselin, New Jersey, Toronto, Canada, and Tallinn, Estonia.

Liquidity

Our capital resources were comprised of cash and cash equivalents of $15.3 million and $26.7 million as of September 30, 2018 and December 31, 2017, respectively. The reduction in our cash during the nine months ended September 30, 2018 was largely due to our additional year-to-date investment of $18.3 million in the Company's new manufacturing facility located in Buena, New Jersey, along with the timing of our accounts receivable collections and expense payments associated with our launch of six new products in the U.S. market. In addition, we had an accumulated deficit of $82.0 million as of September 30, 2018, and incurred a $21.9 million net loss and used $15.3 million in net cash from operating activities during the nine months ended September 30, 2018.

Our liquidity needs have typically arisen from the funding of our new manufacturing facility, product manufacturing costs, research and development programs and the launch of new products. In the past, we have met these cash requirements through cash inflows from operations, working capital management, and proceeds from borrowings such as our Convertible Senior Notes and Term Loan discussed in Note 7. We expect to continue to incur significant expenditures for the development of new products in our pipeline, and the manufacturing and sales and marketing of our existing product. While we rely heavily on cash flows from operating activities and borrowings from outside sources to execute our operational strategy and meet our financial commitments and other short-term financial needs, we cannot be certain that sufficient capital will be generated through operations or will be available to the Company to the extent required and on acceptable terms.

In addition, were unable to file our Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 with the SEC by the required filing date. As a result, the Company was not in compliance with a non-financial covenant prescribed by our Term Loan, which requires timely filing of our annual and interim consolidated financial statements, and our ability to offer up to $50.0 million in debt or equity securities through our existing shelf registration statement on file with the SEC was suspended for a period of twelve months. Moreover, due to the lack of compliance with the non-financial covenant prescribed by our Term Loan, we reclassified the net carrying value of $24.2 million as current debt in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2018.

The foregoing matters, when considered in the aggregate, raise substantial doubt about the Company’s ability to continue as a going concern. However, the accompanying Condensed Consolidated Financial Statements do not include any adjustments that might result from the outcome of this uncertainty. Notwithstanding these matters, we continue to implement various actions, which we believe are probable of occurring and, as such, alleviate substantial doubt about the Company’s ability to continue as a going concern. A summary of these actions are as follows:

•We are closely managing our recurring operating expenses and limiting our non-recurring operating expenses over the next twelve-month period.
•We have completed the construction of our manufacturing facility in Buena, New Jersey and are limiting cash outflows for other capital expenditures. Moreover, we have the ability to delay other capital projects until such time that our liquidity improves, or we receive funding from outside sources.
•On November 12, 2018, the Company entered into a financing commitment whereby Ares Capital Management ("Ares") has agreed to loan the Company up to $120.0 million ("Ares Credit Facility"). The Ares Credit Facility will be secured by all of the Company's assets and will be funded in three tranches: (1) an asset based revolving credit facility of $25.0 million due November 2022 ("2022 Revolver"), (2) a term loan of $80.0 million due February 2023 ("2023 Term Loan"), and (3) a delayed draw term loan of $15.0 million also due in February 2023 ("2023 Delayed Draw Term Loan"). In addition, the Ares Credit Facility will require the Company to comply with certain affirmative non-financial covenants relating to periodic reporting and maintaining compliance with standard rules and regulations customary in the markets where the Company competes, as well as negative financial covenants limiting levels of indebtedness and restricting certain payments, as well as minimum revenue covenants for each twelve-month period ending December 31, 2018, March 31, 2019 and June 30, 2019, minimum consolidated adjusted EBITDA covenants for the twelve-month period ending September 30, 2019, December 31, 2019, March 31, 2020, June 30, 2020 and September 30, 2020 and minimum net leverage ratio covenants for the twelve-month period ending December 31, 2020 and ending each fiscal quarter thereafter until maturity. The 2023 Term Loan and 2023 Delayed Draw Term Loan will be subordinate to the 2022 Revolver. The proceeds from both the 2022 Revolver and 2023 Term Loan are anticipated to be funded in the fourth quarter upon execution of the final agreements with Ares, whereas the 2023 Delayed Draw Term Loan will be made available when the Company initiates capital improvements to substantially increase manufacturing capacity in its Buena, New Jersey injectable manufacturing facility, which is currently scheduled to begin in fiscal year 2019. The Company intends to use the proceeds from 2023 Term Loan to extinguish its existing $25.0 million 2021 Term Loan, as well as extinguish its remaining outstanding $68.7 million of December 2019 Notes. The 2022 Revolver will bear interest at a rate of LIBOR plus 3.75%, whereas the 2023 Term Loan and

2023 Delayed Draw Term Loan will bear interest at a rate of LIBOR plus 8.75% with a 24-month paid-in-kind interest option available to the Company should it choose to defer cash interest payments in order to provide further liquidity to continue launching new products.

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Out of Period Adjustments

For the three and nine months ended September 30, 2018, the Company recorded the following adjustments (in thousands) related to prior periods. The net impact of the adjustments on all prior annual or interim periods financial statements were not significant. There were no adjustments related to prior periods recorded for the three and nine months ended September 30, 2017.

	Three months ended September 30, 2018		Nine months ended September 30, 2018	
Wholesale fees (Revenue)	$	—	$	1,218
Chargebacks (Revenue)	(455)		(455)	
Medicaid (Revenue)	—		297	
Pricing and shipment adjustment (Revenue)	—		(502)	
Sales return reserve (Revenue)	—		(577)	
Inventory adjustments (Cost of revenues)	—		95	
Capitalization of property, plant and equipment (Cost of revenues)	—		263	
Bad debt expense (Selling, general and administrative expenses)	—		(578)	
	$	(455)	$	(239)

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3. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Teligent, Inc. and its wholly-owned and majority-owned subsidiaries. All inter-company accounts and transactions have been eliminated. The Company consolidated the following entities: Igen, Inc., Teligent Pharma. Inc., Teligent Luxembourg S.à.r.l., Teligent OÜ, Teligent Canada Inc., and Teligent Jersey Limited., in addition to the following inactive entities: Microburst Energy, Inc., Blood Cells, Inc. and Flavorsome, Ltd.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the historical valuation of the derivative liability, sales returns and allowances, allowances for excess and obsolete inventories, allowances for doubtful accounts, provisions for income taxes and related valuation allowances, stock based compensation, the assessment for the impairment of long-lived assets (including intangibles, goodwill and property, plant and equipment), property, plant and equipment and legal accruals for environmental cleanup and remediation costs. Actual results could differ from those estimates.

Cash Equivalents

The Company considers all highly liquid instruments purchased with the original maturity of three months or less to be cash equivalents to the extent the funds are not being held for investment purposes. Cash and cash equivalents include cash on hand and bank demand deposits used in the Company’s cash management program.

The Company has restricted cash, consisting of escrow accounts and letter of credits, which is included within other assets on the Condensed Consolidated Balance Sheet. The Company also presents restricted cash with cash and cash equivalents in the Condensed Consolidated Statement of Cash Flows.

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported in the Condensed Consolidated Balance Sheet to the total amounts in the Condensed Consolidated Statement of Cash Flows as follows (in thousands):

	September 30, 2018		**December 31, 2017**		**September 30, 2017**		**December 31, 2016**	
Cash and cash equivalents	$	15,267	$	26,692	$	38,231	$	66,006
Restricted cash in other assets	472		473		475		475	
Cash, cash equivalents and restricted cash in the statement of	$	15,739	$	27,165	$	38,706	$	66,481

cash flows

Stock Based Compensation

ASC 718-10 defines the fair-value-based method of accounting for stock-based employee compensation plans and transactions used by the Company to account for its issuances of equity instruments to record compensation cost for stock-based employee compensation plans at fair value as well as to acquire goods or services from non-employees. Transactions in which the Company issues stock-based compensation to employees, directors and advisors and for goods or services received from non-employees are accounted for based on the fair value of the equity instruments issued. The Company utilizes pricing models in determining the fair values of options, restricted stock units ("RSU's") and warrants issued as stock-based compensation. These pricing models utilize the market price of the Company’s common stock and the exercise price of the option or warrant, as well as time value and volatility factors underlying the positions. Stock-based compensation expense is recognized over the requisite service period of the award, which usually coincides with the vesting period of the grant.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, trade receivables, notes payable, accounts payable and other accrued liabilities at September 30, 2018 approximate their fair value for all periods presented. As of September 30, 2018, the net carrying value of the 2019 Notes and 2023 Notes (collectively the "Notes" and discussed in Note 7) was approximately $117.8 million compared to their face value of $143.75 million. This variance is due to the conversion feature in the Notes rather than to changes in market interest rates. The Notes carry a fixed interest rate and therefore are not subject to interest rate risk. As of September 30, 2018, the carrying value of the 2021 Term Loan (discussed in Note 7) was approximately $24.2 million compared to the face value of $25.0 million. The variance is due to debt discount and debt financing costs. The 2021 Term Loan bears interest at a rate of LIBOR plus 9%, and is therefore subject to market risk.

Loss Per Share

Basic loss per share of common stock is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted loss per share of common stock is computed using the weighted average number of shares of common stock and potential dilutive common stock equivalents outstanding during the period. Potential dilutive common stock equivalents include shares issuable upon the conversion of the 2019 and 2023 Notes, the exercise of options, and the vesting of RSU's. For the three and nine months ended September 30, 2018, the potential dilutive common stock equivalents have been excluded from the computation of diluted loss per share, as their effect would have been anti-dilutive.

(in thousands except shares and per share data)

	Three months ended September 30,					**Nine months ended September 30,**	
	2018		**2017**		**2018**		**2017**	
Basic loss per share computation:								
Net loss - basic and diluted	$	(3,945)	$	(8,982)	$	(21,866)	$	(9,070)
Weighted average common shares - basic and diluted	53,625,768		53,391,948		53,532,277		53,297,889	
Basic and diluted loss per share	$	(0.07)	$	(0.17)	$	(0.41)	$	(0.17)

Revenue Recognition

The Company recognizes revenue when a customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. The Company's revenue is recorded net of accruals for estimated chargebacks, rebates, cash discounts, other allowances, and returns. The Company derives its revenues from three types of transactions: sales of its own pharmaceutical products (Company product sales), sales of manufactured product for its customers (contract manufacturing sales), and research and product development services performed for third parties. Due to differences in the substance of these transaction types, the transactions require, and the Company utilizes, different revenue recognition policies for each. Taxes collected from customers and remitted to government authorities and that are related to the sales of the Company's products are excluded from revenues. See more detailed information in Note 4.

Adoption of ASC Topic 606, "Revenue from Contracts with Customers"

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." The standard, including subsequently issued amendments, replaces most existing revenue recognition guidance in U.S. GAAP. The key focus of the new standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Company performed a comprehensive review of its existing revenue arrangements as of January 1, 2018 following the five-step model as discussed in Note 4. Based on the Company's analysis, there were no changes identified that impacted the amount or timing of revenues recognized under the new guidance as compared to the previous guidance. Additionally, the Company's analysis indicated that there were no changes to how costs to obtain and fulfill our customer contracts would be recognized under the new guidance as compared to the previous guidance. The impact of the adoption of this standard on the Company's Condensed Consolidated Balance Sheet, Condensed Consolidated Statement of Operations, and Condensed Consolidated Statement of Cash Flows was not material. The adoption of the new guidance impacted the way the Company analyzes, documents, and discloses revenue recognition under customer contracts beginning on January 1, 2018 and resulted in additional disclosures in the Company's financial statements.

Property, Plant and Equipment

Depreciation and amortization of property, plant and equipment is provided for under the straight-line method over the assets' estimated useful lives as follows:

	Useful Lives
Buildings and Improvements	10 - 40 years
Machinery and Equipment	5 - 15 years
Computer Hardware and Software	3 - 5 years
Furniture Fixtures	5 years

Leasehold improvements are amortized over the shorter of estimated useful life or the lease term. Repair and maintenance costs are charged to operations as incurred while major improvements are capitalized. Construction in progress ("CIP") costs are amortized based on the asset class when they are put into service. When assets are retired or disposed, the related cost and accumulated depreciation thereon are removed and any gains or losses are included in operating results.

Concentration of Credit Risk

Major customers of the Company are defined as those constituting greater than 10% of our total revenue. For the three months ended September 30, 2018, three of the Company's customers accounted for 49% of the Company's revenue, consisting of 25%, 12% and 12%, respectively. For the three months ended September 30, 2017, three of the Company's customers accounted for 54% of the Company's revenue, consisting of 33%, 11% and 10%, respectively. For the nine months ended September 30, 2018, three of the Company's customers accounted for 54% of the Company's revenue, consisting of 32%, 12% and 10%, respectively. For the nine months ended September 30, 2017, three of the Company's customers accounted for 52% of the Company's revenue, consisting of 28%, 12% and 12%, respectively. Accounts receivable related to the Company's major customers comprised 56% of all accounts receivable as of September 30, 2018, and 74% of all accounts receivable as of September 30, 2017. The loss of one or more of these major customers could have a significant impact on our revenues and harm our business and results of operations.

For the three months ended September 30, 2018, domestic net revenues were $13.3 million and foreign net revenues were $5.0 million. For the nine months ended September 30, 2018, domestic net revenues were $34.9 million and foreign net revenues were $14.2 million. As of September 30, 2018, domestic assets were $131.9 million and foreign assets were $61.0 million. For the three months ended September 30, 2017, domestic net revenues were $8.7 million and foreign net revenues were $2.6 million. For the nine months ended September 30, 2017, domestic net revenues were $36.5 million and foreign net revenues were $8.9 million. As of September 30, 2017, domestic assets were $121.2 million and foreign assets were $69.5 million.

Foreign Currency Translation

The net assets of international subsidiaries where the local currencies have been determined to be the functional currencies are translated into U.S. dollars using current exchange rates. The U.S. dollar effects that arise from translating the net assets of these subsidiaries at changing rates are recorded in the foreign currency translation account, which is included in Accumulated Other Comprehensive Loss ("AOCI") and reflected as a separate component of equity. For those subsidiaries where the U.S. dollar has been determined to be the functional currency, non-monetary foreign currency assets and liabilities are translated using historical rates, while monetary assets and liabilities are translated at current rates, with the U.S. dollar effects of rate changes included in Foreign currency exchange gain (loss) line item under the Other income (expense), section of the Condensed Consolidated Statement of Operations.

Debt Issuance Costs

Expenses related to debt financing activities are capitalized and amortized on an effective interest method, over the term of the loan and are to be netted against the carrying value of the financial liability, as required by ASU 2015-3. This standard aligns the treatment of debt issuance costs and debt discounts in that both reduce the carrying value of the liability. Amortization of debt issuance costs are recorded as interest expense on the Condensed Consolidated Statement of Operations.

Adoption of Other Recent Accounting Pronouncements

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): "Restricted Cash (a consensus of the FASB Emerging Issues Task Force)". The update addresses the diversity in the industry with respect to classification and presentation of changes in restricted cash on the statement of cash flows. These amendments require that a statement of cash flows explain the restricted cash change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The amendments in this update were effective for fiscal years beginning after December 15, 2017 for public business entities, including interim periods within those fiscal years. For the Company, the amendments were effective January 1, 2018. The Company's adoption of this ASU was a full retrospective adoption, effective January 1, 2018, did not have a significant impact on its condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): “Clarifying the Definition of a Business”. The update clarifies the definition of a business, specifically for companies to better evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this update were effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Company's adoption of this ASU, effective January 1, 2018, did not have a significant impact on its condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments-Equity Method and Joint Ventures (Topic 323): “Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings”. The update shows amendments to two SEC Announcements made late in 2016 regarding four specific standards as follows: ASU 2014-09, Revenue from Contracts with Customers (Topic 606), ASU 2016-02, Leases (Topic 842), ASU 2016-13, Financial Instruments - Credit Losses (Topic 326), and ASU 2014-01, Investments - Equity Method and Joint Ventures (Topic 323). The amendments in this update require changes to the U.S. GAAP Financial Reporting Taxonomy and the changes will be incorporated into the proposed 2018 Taxonomy which are available for public comment and finalized as part of the annual release process. The Company's adoption of this ASU, effective January 1, 2018, did not have a significant impact on its condensed consolidated financial statements.

In February 2017, the FASB issued ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): “Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets”. This update addresses guidance for partial sales of nonfinancial assets. It affects (i) an entity that enters into a contract to transfer to a customer a nonfinancial asset, group of nonfinancial assets, or ownership interest in a consolidated subsidiary that is not a business or nonprofit entity, (ii) an entity that historically had transactions within the scope of the real estate-specific derecognition guidance, and (iii) an entity that contributes nonfinancial assets that are not a business or a nonprofit activity to a joint venture or other noncontrolled investee. The amendments were effective at the same time as the amendments in ASU 2014-09. Therefore, for the Company, the amendments were effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Public entities may apply the guidance earlier but only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company does not currently expect to enter into any such nonfinancial asset or ownership interest in its consolidated subsidiaries agreements but will refer to the guidance in ASU 2017-05 should that occur. The Company's adoption of this ASU, effective January 1, 2018, did not have a significant impact on its condensed consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): “Scope of Modification Accounting”. This update provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718, Compensation—Stock Compensation, to a change to the terms or conditions of a share-based payment award. The amendments affect any entity that changes the terms or conditions of a share-based payment award. The amendments are effective for fiscal years beginning after December 15, 2017. For the Company, the amendments were effective January 1, 2018. The Company has not made any changes to the terms or conditions of share-based payment awards but will refer to the guidance in ASU 2017-09 should that occur. The Company's adoption of this ASU, effective January 1, 2018, did not have a significant impact on its condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842): “Recognition and Measurement of Financial Assets and Financial Liabilities”. The update supersedes Topic 840, Leases and requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Topic 842 retains a distinction between finance leases and operating leases, with cash payments from operating leases classified within operating activities in the statement of cash flows. In July 2018, the FASB issued ASU 2018-11. The targeted improvements in the ASU provides: - an option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements, and - a practical expedient that permits lessors to not separate nonlease components from the associated lease component if certain conditions are met. The amendments in this update are effective for fiscal years beginning after December 15, 2018 for public business entities, which for the Company means January 1, 2019. The Company is reviewing all lease agreements inclusive of supplier agreements. The Company is currently evaluating the impact of this ASU on its condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): “Simplifying the Test for Goodwill Impairment”. The update simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. For the Company, the amendments are effective January 1, 2020. The Company is currently evaluating the impact of this ASU on its condensed consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, “Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. This guidance is effective for all entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The amendments in ASU 2018-02 should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The adoption of this guidance is not expected to have a material impact on the Company's condensed consolidated financial statements and related disclosures.

4. Revenues, Recognition and Allowances

Revenue Recognition

As of January 1, 2018, the Company adopted the ASC 606 guidance for revenue recognition for contracts, using the modified retrospective method. The implementation of this guidance had no material impact on the measurement or recognition of revenue from customer contracts of prior periods.

Upon adoption of this new guidance, the Company recognizes revenue using the following five steps:
•Identification of the contract, or contracts, with a customer;
•Identification of the performance obligations in the contract;
•Determination of the transaction price, including the identification and estimation of variable consideration;
•Allocation of the transaction price to the performance obligations in the contract; and
•Recognition of revenue when we satisfy a performance obligation.

The Company derives its revenues from three types of transactions: sales of its own pharmaceutical products (Company product sales), sales of manufactured product for its customers (contract manufacturing sales), and research and product development services performed for third parties.

Revenue is recognized when a customer obtains control of promised goods or services, in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. To the extent the transaction price includes variable consideration, the Company estimates the amount of variable consideration that should be included in the transaction price using the expected value method based on historical experience as well as applicable information currently available.

Company Product Sales

Revenue from Company product sales is recognized upon transfer of control of a product to a customer at a point in time, generally as the Company's products are sold on an FOB destination basis and because inventory risk and risk of ownership passes to the customer upon delivery.

Company product sales are recorded net of accruals for estimated chargebacks, rebates, cash discounts, other allowances, and returns.

Contract Manufacturing Sales

The Company recognizes revenue for contract manufacturing sales over-time, as milestones are achieved. Shipments are made in accordance with sales commitments and related sales orders entered into with customers either verbally or in written form.

Contract manufacturing sales are recognized net of accruals for cash discounts and returns which are established at the time of sale, and are included in Revenue, net in the Company's Condensed Consolidated Statement of Operations.

Research and Development Services and Other Income

The Company establishes agreed upon product development agreements with its customers to perform product development services. Revenues are recognized in accordance with the agreement upon the completion of the phases of development and when the Company has no future performance obligations relating to that phase of development. Other types of revenue include royalty or licensing revenue, and would be recognized over time, or at a point in time, based upon the contractual term upon completion of the earnings process. Judgments are required to evaluate contingencies such as potential variances in schedule and the costs, the impact of change orders, liability claims, contract disputes and achievement of contractual performance standards.

Revenues by Transaction Type

The Company operates in one reportable segment and, therefore, the results of the Company's operations are reported on a consolidated basis, consistent with internal management reporting for the chief decision makers. Net Sales (in thousands)
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for the three and nine months ended September 30, 2018 and 2017 were as follows (prior-period amounts are not adjusted under the modified-retrospective method of adoption):

	Three months ended September 30,						Nine months ended September 30,	
	2018		2017		2018		2017	
Company product sales	$	16,375	$	9,436	$	44,288	$	37,556
Contract manufacturing sales	1,878		1,883		4,626		7,707	
Research and development services and other income	41		21		$	174	$	172
Revenue, net	$	18,294	$	11,340	$	49,088	$	45,435

Disaggregated information for the Company product sales revenue has been recognized in the accompanying unaudited interim Condensed Consolidated Statements of Operations, and is presented below according to contract type (in thousands):

	Three months ended September 30,						Nine months ended September 30,	
Company Product Sales	**2018**		**2017**		**2018**		**2017**	
Topical	$	10,503	$	5,913	$	26,297	$	22,066
Injectables	5,872		3,523		17,991		15,490	
Total	$	16,375	$	9,436	$	44,288	$	37,556

In the nine months ended September 30, 2018, Company did not incur, and therefore did not defer, any material incremental costs to obtain contracts.

Returns and Allowances

As is customary in the pharmaceutical industry, the Company’s product sales are subject to a variety of deductions including chargebacks, rebates, cash discounts, other allowances, and returns. Product sales are recorded net of accruals for returns and allowances, which are established at the time of sale. The Company analyzes the adequacy of its accruals for returns and allowances quarterly. Amounts accrued for sales deductions are adjusted when trends or significant events indicate that an adjustment is appropriate. Accruals are also adjusted to reflect actual results. These provisions are estimates based on historical payment experience, historical relationship to revenues, estimated customer inventory levels and current contract sales terms with direct and indirect customers. The Company uses a variety of methods to assess the adequacy of its returns and allowances reserves to ensure that its financial statements are fairly stated. These include periodic reviews of customer inventory data, customer contract programs, subsequent actual payment experience, and product pricing trends to analyze and validate the return and allowances reserves.

Accounts receivable are presented net of returns and allowances balances of $20.5 million and $31.8 million at September 30, 2018 and 2017, respectively. The allowance for doubtful accounts was $2.8 million and $2.2 million at

September 30, 2018 and 2017, respectively. These balances are primarily related to one specific customer in the amount of $1.7 million.

Chargebacks are one of the Company's most significant estimates for recognition of product sales. A chargeback represents an amount payable in the future to a wholesaler for the difference between the invoice price paid to the Company by its wholesale customer for a particular product and the negotiated contract price that the wholesaler’s customer pays for that product. The Company’s chargeback provision and related reserve varies with changes in product mix, changes in customer pricing and changes to estimated wholesaler inventories. The provision for chargebacks also takes into account an estimate of the expected wholesaler sell-through levels to indirect customers at contract prices. The Company validates the chargeback accrual quarterly through a review of the inventory reports obtained from its largest wholesale customers. This customer inventory information is used to establish the estimated liability for future chargeback claims based on historical chargeback and contract rates. These large wholesalers represent a majority of the Company’s chargeback payments. The Company continually monitors current pricing trends and wholesaler inventory levels to ensure the liability for future chargebacks is fairly stated.

Rebates are used for various discounts and rebates provided to customers. This account has been used for various one-time discounts given to customers. The Company reviews the percentage of products sold through these programs by reviewing chargeback data and uses the appropriate percentages to calculate the rebate accrual. Rebates are invoiced monthly or quarterly and reviewed against the accruals. Other items that could be included in accrued rebates would be price protection fees, shelf stock adjustments (SSAs), or other various amounts that would serve as one time discounts on specific products.

The Company's adjustments for the deductions to gross product sales are as follows (in thousands):

	Three months ended September 30,						**Nine months ended September 30,**	
	2018		**2017**		**2018**		**2017**	
Gross product sales	$	40,111	$	53,460	$	124,801	$	174,504
Deduction to gross product sales:								
Chargebacks and billbacks	10,739		30,954		49,103		105,059	
Wholesaler fees for service	1,662		1,511		2,774		5,715	
Sales discounts and other allowances	11,335		11,559		28,636		26,174	
Total reduction to gross product sales	$	23,736	$	44,024	$	80,513	$	136,948
Company product sales, net	$	16,375	$	9,436	$	44,288	$	37,556

Financing and Payment

The Company's payment terms vary by the type and location of the customer and the products or services offered. The term between invoicing and when payment is due is not significant. Generally, the Company does not incur incremental costs to obtain contracts. The Company does not adjust revenue for the promised amount of consideration for the effects of a significant financing component because the Company's customers generally pay the Company within 100 days.

Costs to Obtain or Fulfill a Customer Contract

Sales commissions are expensed when incurred because the amortization period would have been one year or less. These costs are recorded in selling, general and administrative expense in the Condensed Consolidated Statements of Operations.

Costs related to shipping and handling are comprised of outbound freight and associated labor. The Company accounts for shipping and handling activities related to contracts with customers as fulfillment costs which are included in cost of sales in the Condensed Consolidated Statements of Operations.

In connection with five of the 32 products the Company currently manufactures, markets and distributes in its own label in the U.S., in accordance with an agreement entered into in December of 2011, the Company is required to pay a royalty calculated based on net sales to one of its pharmaceutical partners. The royalty is calculated based on contracted terms of 40% of net sales for the five products, which is to be paid quarterly to the pharmaceutical partner. Accounts payable and accrued expenses include \$0.6 million and \$0.6 million at September 30, 2018 and 2017, respectively, related to these royalties. Royalty expense of \$0.5 million and \$0.6 million was included in cost of sales in the Condensed Consolidated Statements of Operations for the three months ended September 30, 2018 and 2017, respectively. Royalty expense of \$2.0 million and \$1.4 million was included in cost of sales in the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2018 and 2017, respectively.

5. Inventories

Inventories are valued at the lower of cost or net realizable value, using the first-in-first-out method and consist of the following (in thousands):

	September 30, 2018		December 31, 2017	
Raw materials	$	11,093	$	8,231
Work in progress	2,000		616	
Finished goods	6,937		8,532	
Inventories reserve	(2,148)		(1,304)	
Inventories, net	$	17,882	$	16,075

6. Property, Plant and Equipment

Property, plant and equipment consists of the following (in thousands):

	September 30, 2018		December 31, 2017	
Land	$	401	$	257
Building and improvements	17,486		8,613	
Machinery and equipment	10,172		9,142	
Computer hardware and software	4,111		3,244	
Furniture and fixtures	519		449	
Construction in progress	65,510		55,017	
	98,199		76,722	
Less accumulated depreciation and amortization	(9,812)		(8,367)	
Property, plant and equipment, net	$	88,387	$	68,355

The Company recorded depreciation expense of $0.6 million and $0.4 million for the three months ended September 30, 2018 and September 30, 2017, respectively. The Company recorded depreciation expense of $1.7 million and $1.3 million for the nine months ended September 30, 2018 and September 30, 2017, respectively.

During the three months ended September 30, 2018 and September 30, 2017, there was $1.5 million of interest and $1.1 million of interest, respectively, capitalized as construction in progress. For the nine months ended September 30, 2018 and September 30, 2017, there was $4.4 million of interest and $2.3 million of interest, respectively, capitalized as construction in progress. This increase in capitalized interest is related to outstanding costs for the Company's facility expansion project in Buena. During the three months ended September 30, 2018 and September 30, 2017, there was $0.4 million of payroll costs and $0.2 million of payroll costs, respectively, capitalized into construction in progress. For the nine months ended September 30, 2018 and September 30, 2017, there was $1.5 million of payroll costs and $0.6 million of payroll costs, respectively, capitalized into construction in progress.

7. Debt

Convertible Notes

On December 16, 2014, the Company issued $125.0 million aggregate principal amount of Convertible 3.75% Senior Notes, due 2019 (the “2019 Notes”). On December 22, 2014, the Company announced the closing of the initial purchasers’ exercise in full of their option to purchase an additional $18.75 million aggregate principal amount of 2019 Notes. The 2019 Notes bear interest at a fixed rate of 3.75% per year, payable semiannually in arrears on June 15 and December 15 of each year, beginning on June 15, 2015, and mature on December 15, 2019, unless earlier repurchased, redeemed or converted. The 2019 Notes are convertible into shares of the Company’s common stock, cash or a combination thereof. On May 20, 2015, the Company received shareholder approval for the increase in the number of shares of common stock authorized and available for issuance upon conversion of the 2019 Notes.

On April 27, 2018, the Company entered into separate exchange agreements with certain holders of the 2019 Notes. The agreements gave the holders the right to exchange, in aggregate, $75.1 million of the 2019 Notes for $75.1 million of new Convertible 4.75% Senior Notes due 2023 (the “2023 Notes”). The new 2023 Notes bear a fixed interest rate of 4.75% per year, payable semi-annually with the principal payable in May 2023. At the option of the holders, the 2023 Notes are convertible into shares of the Company’s common stock, cash or a combination thereof. The initial conversion rate is $224.71 per share, subject to certain adjustments, related to either the Company's stock price volatility, or the Company's declaration of a stock dividend, stock distribution, share combination or share split expected dividends or other anti-dilutive activities. In addition, holders will be entitled to receive additional shares of common stock for a potential increase of the conversion rate up to $280.90 per share under a make-whole provision in some circumstances. The Company incurred loan issue costs of $1.6 million upon issuance of the 2023 Notes.

In accordance with accounting for convertible debt within the cash conversion guidance of ASC 470-20, we allocated the principal amount of the 2023 Notes between its liability and equity components. The carrying amount of the liability component was determined by measuring the fair value of a similar debt instrument of similar credit quality and maturity that did not have the conversion feature. The carrying amount of the equity component, representing the embedded conversion option, was determined by deducting the fair value of the liability component from the principal amount of the 2023 Notes as a whole. The equity component was recorded to additional paid-in capital and is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the 2023 Notes over the carrying amount of the liability component was recorded as a debt discount of $19.0 million, and is being amortized to interest expense using the effective interest method through the maturity date. We allocated the total amount of transaction costs incurred to the liability and equity components using the same proportions as the proceeds from the 2023 Notes. Transaction costs attributable to the liability component were recorded as a direct deduction from the liability component of the 2023 Notes, and are being amortized to interest expense using the effective interest method through the maturity date. Transaction costs attributable to the equity component were netted with the equity component of the 2023 Notes in additional paid-in capital. The effective interest rate of the 2023 Notes, inclusive of the debt discount and issuance costs, is 12.10%.

The exchange of $75.1 million of the 2019 Notes for the 2023 Notes is considered an extinguishment under ASC 470-50. The 2019 Notes are accounted for under cash conversion guidance ASC 470-20, which requires the Company to allocate the fair value of the consideration transferred upon settlement to the extinguishment of the liability component and the reacquisition of the equity component upon derecognition. In accordance with the aforementioned guidance, the Company recorded $2.5 million of non-cash interest expense as an extinguishment loss related to the 2019 Notes in the Condensed Consolidated Statement of Operations. In addition the Company recorded a $7.6 million reduction of Additional Paid in Capital in connection with the extinguishment of $75.1 million of the 2019 Notes.

Term Loan

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On June 1, 2018, the Company entered into a credit agreement for $25.0 million secured by all Company assets, due June 1, 2021 ("2021 Term Loan"). The 2021 Term Loan has limited financial and non-financial covenants inclusive of a minimum cash carry balance of $5.0 million. The 2019 Notes and 2023 Notes are subordinate to the 2021 Term Loan. The first $15.0 million of loan proceeds was received on June 1, 2018. The remaining loan proceeds of $10.0 million were subject to closing conditions as defined in the agreement and were received on July 16, 2018. The 2021 Term Loan incurred loan issue costs of $0.5 million and a discount of $0.4 million. The discount is due to lender fees paid on the initial drawdown of $15.0 million. The issue costs and discount are recognized as interest expense over the term of the 2021 Term Loan. The 2021 Term Loan bears interest at a rate of LIBOR plus 9%, with a stated floor of 2%. The effective interest, inclusive of the debt discounts and issue costs is 12.78% as of September 30, 2018. As disclosed in Note 2, due to the lack of compliance with the non-financial covenant prescribed by our Term Loan, we reclassified the net carrying value of $24.2 million as current debt in the accompanying Condensed Consolidated Balance Sheet as of September 30, 2018.

At September 30, 2018 and December 31, 2017, the net carrying value of the debt and the remaining unamortized debt discounts and debt issuance costs were as follows (in thousands):

	September 30, 2018		**December 31, 2017**	
Face amount of the 2019 Notes (non-current due December 2019)	$	68,660	$	143,750
Face amount of the 2021 Loan (current due June 2021)	25,000		—	
Face amount of the 2023 Notes (non-current due May 2023)	75,090		—	
	$			