

SUPERNUS PHARMACEUTICALS INC

Form 10-Q

August 14, 2013

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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: 0-50440

SUPERNUS PHARMACEUTICALS, INC.

Edgar Filing: SUPERNUS PHARMACEUTICALS INC - Form 10-Q

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

20-2590184  
(I.R.S. Employer  
Identification No.)

1550 East Gude Drive, Rockville, MD  
(Address of principal executive offices)

20850  
(Zip Code)

(301) 838-2500

(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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 definition 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 Exchange Act).  Yes  No

Edgar Filing: SUPERNUS PHARMACEUTICALS INC - Form 10-Q

The number of outstanding shares of the registrant's common stock, par value \$0.001 per share, as of the close of business on July 31, 2013 was 30,940,330.

---

Table of Contents

SUPERNUS PHARMACEUTICALS, INC.

FORM 10-Q — QUARTERLY REPORT

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013

TABLE OF CONTENTS

	Page No.
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets as of June 30, 2013 (Unaudited) and December 31, 2012</u>	1
<u>Consolidated Statements of Operations for the three and six month periods ended June 30, 2013 and 2012 (Unaudited)</u>	2
<u>Consolidated Statements of Comprehensive Loss for the three and six month periods ended June 30, 2013 and 2012 (Unaudited)</u>	3
<u>Consolidated Statements of Cash Flows for the six month periods ended June 30, 2013 and 2012 (Unaudited)</u>	4
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	5
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	24
<u>Item 4. Controls and Procedures</u>	24
<u>PART II — OTHER INFORMATION</u>	24
<u>Item 1. Legal Proceedings</u>	24
<u>Item 1A. Risk Factors</u>	25
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
<u>Item 3. Defaults Upon Senior Securities</u>	29
<u>Item 4. Mine Safety Disclosures</u>	29
<u>Item 5. Other Information</u>	29
<u>Item 6. Exhibits</u>	29
<u>SIGNATURES</u>	30



## PART I — FINANCIAL INFORMATION

Supernus Pharmaceuticals, Inc.  
 Consolidated Balance Sheets  
 (in thousands, except share amounts)

	June 30, 2013 (unaudited)	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 33,907	\$ 40,302
Marketable securities	68,725	48,206
Accounts receivable, net	537	—
Interest receivable	791	664
Inventories	4,315	1,152
Prepaid expenses and other	1,912	994
Deferred financing costs, current	430	144
Total current assets	110,617	91,462
Property and equipment, net	2,247	1,421
Purchased patents, net	568	683
Long term investments	16,072	—
Other assets	360	334
Deferred financing costs, long-term	2,109	89
Total assets	\$ 131,973	\$ 93,989
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 11,732	\$ 10,666
Deferred product revenue, net	3,967	—
Deferred licensing revenue	325	508
Secured notes payable, net of discount	—	11,809
Total current liabilities	16,024	22,983
Deferred licensing revenue, net of current portion	738	309
Convertible notes, net of discount	59,100	—
Secured notes payable, net of current portion and discount	—	11,088
Other non-current liabilities	2,158	1,788
Derivative liabilities	18,061	251
Total liabilities	96,081	36,419
Stockholders' equity:		
Common stock, \$0.001 par value, 130,000,000 shares authorized at June 30, 2013 and December 31, 2012; 30,940,330 and 30,621,869 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	31	31

Edgar Filing: SUPERNUS PHARMACEUTICALS INC - Form 10-Q

Additional paid-in capital	168,122	143,851
Accumulated other comprehensive (loss) income	(235)	(57)
Accumulated deficit	(132,026)	(86,255)
Total stockholders' equity	35,892	57,570
Total liabilities and stockholders' equity	\$ 131,973	\$ 93,989

See accompanying notes.

1

---

Supernus Pharmaceuticals, Inc.  
Consolidated Statements of Operations  
(in thousands, except share and per share data)

	Three Months ended June 30,		Six Months ended June 30,	
	2013	2012	2013	2012
	(unaudited)		(unaudited)	
Revenue				
Net product sales	\$ 154	\$ —	\$ 154	\$ —
Licensing revenue	127	91	274	299
Total revenue	281	91	428	299
Costs and expenses				
Cost of product sales	4	—	4	—
Research and development	3,542	4,703	8,065	10,061
Selling, general and administrative	12,214	4,645	25,747	7,374
Total costs and expenses	15,760	9,348	33,816	17,435
Operating loss	(15,479)	(9,257)	(33,388)	(17,136)
Other income (expense)				
Interest income	55	32	107	52
Interest expense	(2,144)	(929)	(2,872)	(1,891)
Changes in fair value of derivative liabilities	(8,619)	(144)	(8,540)	(472)
Loss on extinguishment of debt	(1,162)	—	(1,162)	—
Other (expense) income	(8)	285	84	159
Total other (expense) income	(11,878)	(756)	(12,383)	(2,152)
Net loss	(27,357)	(10,013)	(45,771)	(19,288)
Cumulative dividends on Series A convertible preferred stock	—	(286)	—	(1,143)
Net loss attributable to common stockholders	\$ (27,357)	\$ (10,299)	\$ (45,771)	\$ (20,431)
Loss per common share:				
Basic and diluted	\$ (0.89)	\$ (0.61)	\$ (1.48)	\$ (2.21)



Edgar Filing: SUPERNUS PHARMACEUTICALS INC - Form 10-Q

Weighted-average number of common shares:

Basic and diluted	30,897,075	16,817,841	30,886,309	9,247,142
-------------------	------------	------------	------------	-----------

See accompanying notes.

2

---

Supernus Pharmaceuticals, Inc.  
 Consolidated Statements of Comprehensive Loss  
 (in thousands)

	Three Months ended June 30,		Six Months ended June 30,	
	2013	2012	2013	2012
	(unaudited)		(unaudited)	
Net loss	\$ (27,357)	\$ (10,013)	\$ (45,771)	\$ (19,288)
Other comprehensive loss:				
Unrealized net (loss) gain on marketable securities	(147)	(3)	(178)	6
Other comprehensive (loss) income	(147)	(3)	(178)	6
Comprehensive loss	\$ (27,504)	\$ (10,016)	\$ (45,949)	\$ (19,282)

See accompanying notes.

3

---

Supernus Pharmaceuticals, Inc.  
Consolidated Statements of Cash Flows  
(in thousands)

Six Months Ended  
June 30,  
2013          2012

(unaudited)

Cash flows from operating activities  
Net loss

\$ (45,771)   \$ (19,288)

Adjustments to reconcile loss to net cash used  
in operating activities:

Loss on extinguishment of debt	1,162	—
Change in fair value of derivative liabilities	8,540	472
Unrealized (loss) gain on marketable securities	(178)	6
Depreciation and amortization	326	438
Amortization of deferred financing costs and debt discount	887	164
Stock-based compensation expense	769	105
Changes in operating assets and liabilities:		
Accounts receivable	(537)	—
Interest receivable	(127)	—
Inventory	(3,163)	—
Prepaid expenses and other assets	(918)	(544)
Accounts payable and accrued expenses	1,341	(994)
Deferred product revenue, net	3,967	—
Deferred licensing revenue	246	(149)
Other non-current liabilities	478	33
Net cash used in operating activities	(32,978)	(19,757)

Cash flows from investing activities

Purchases of marketable securities	(61,004)	(36,824)
Sales and maturities of marketable securities	24,413	7,674
Purchases of property and equipment, net	(1,037)	(160)
Net cash used in investing activities	(37,628)	(29,310)

Cash flows from financing activities

Proceeds from issuance of common stock	2,153	52,408
--	-------	--------

Edgar Filing: SUPERNUS PHARMACEUTICALS INC - Form 10-Q

Proceeds from convertible debt issuance	90,000	—
Repayment of secured notes payable	(24,344)	(1,771)
Financing costs and underwriters discounts	(3,598)	(2,872)
Net cash provided by financing activities	64,211	47,765
Net change in cash and cash equivalents	(6,395)	(1,302)
Cash and cash equivalents at beginning of period	40,302	48,544
Cash and cash equivalents at end of period	\$ 33,907	\$ 47,242
Supplemental cash flow information:		
Cash paid for interest	\$ 975	\$ 1,488
Noncash financial activity:		
Conversion of preferred stock	\$ —	\$ 49
Initial value of interest make-whole derivative		
Issued in connection with the convertible debt	\$ 9,270	\$ —

See accompanying notes.

4

---

Supernus Pharmaceuticals, Inc.  
Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2013 and 2012  
(unaudited)

1. Organization and Business

Supernus Pharmaceuticals, Inc. (the Company) is a specialty pharmaceutical company focused on developing and commercializing products for the treatment of central nervous system diseases, including neurological and psychiatric disorders. The Company has two proprietary products and several proprietary product candidates in clinical development that address the epilepsy and attention deficit hyperactivity disorder markets.

The Company is currently focused on the commercialization of Oxtellar XR and the anticipated commercialization of Trokendi XR. Oxtellar XR received final approval from the Food and Drug Administration (FDA) on October 19, 2012 and the Company began the commercial launch of this product on February 4, 2013. The Company anticipates the commercial launch of Trokendi XR during the third quarter of 2013 pending receipt of final approval from the FDA.

2. Management's Plans as to Continuing as a Going Concern

The Company's Independent Auditor's opinion with respect to the Financial Statements as of and for the period ended December 31, 2012 contained an explanatory paragraph regarding conditions that raise substantial doubt about the Company's ability to continue as a going concern. The accompanying unaudited financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Since inception, the Company has incurred, and continues to incur, significant losses from operations.

The Company's current operating assumptions, which reflect management's best estimate of future revenue and operating expenses, indicate that current cash on hand, including the cash proceeds received from the common stock offerings in 2012 and the issuance of

the \$90.0 million aggregate principal amount of the 7.50% Convertible Senior Secured Notes due 2019 (see Note 9), should be sufficient to fund operations through the end of 2014, by which time we project to be cash flow break even.

### 3. Summary of Significant Accounting Policies

#### Basis of Presentation

The Company's unaudited consolidated financial statements include the accounts of Supernus Pharmaceuticals, Inc. and Supernus Europe Ltd., These are collectively referred to herein as "Supernus" or "the Company." All significant intercompany transactions and balances have been eliminated in consolidation. The Company's unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for interim financial information. In the opinion of management, the consolidated financial statements reflect all adjustments necessary to fairly present the Company's financial position, results of operations and cash flows for the periods presented. These adjustments are of a normal recurring nature. The Company currently operates in one business segment.

Certain notes and other information have been omitted from the interim consolidated financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in conjunction with the Company's 2012 Annual Report on Form 10-K.

The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the Company's future financial results.

## Accounts Receivable

Accounts receivable are reported in the consolidated balance sheets at outstanding amounts, less an allowance for doubtful accounts if necessary and net of prompt pay discounts. The Company extends credit without requiring collateral. The Company writes off uncollectible receivables when the likelihood of collection is remote. The Company evaluates the collectability of accounts receivable on a regular basis. An allowance, when needed, is based upon various factors including the financial condition and payment history of customers, an overall review of collections experience on other accounts, and economic factors or events expected to affect future collections experience. No allowance is recorded at June 30, 2013 or December 31, 2012.

## Revenue Recognition

### Deferred Revenue

At the present time, the Company records shipments to wholesalers as deferred revenue as the Company is unable to reasonably estimate product returns and related product costs (primarily rebates, chargebacks and other sales deductions (defined below)) due to the lack of sufficient historical sales data for Oxtellar XR. Accordingly, the Company records deferred revenue at sales price net of sales deductions. The Company currently defers recognition of revenue and the related cost of product sales on shipments of Oxtellar XR, and recognizes revenue only upon filling prescriptions at pharmacies and realization of related product costs.

We have entered into collaboration agreements to have both Oxtellar XR and Trokendi XR commercialized outside of the U.S. These agreements generally include an up-front license fee and ongoing milestone payments upon the achievement of specific events. We believe the milestones meet all of the necessary criteria to be considered substantive and therefore should be recognized as revenue when achieved. For up-front license fees, we have estimated the service period of the contract and are recognizing this payment as revenue on a straight-line basis over the respective service period.

### Multiple Element Arrangements

For arrangements entered into with multiple elements, the Company evaluates whether the components of each arrangement are separate elements based on certain criteria. Accordingly, revenues from collaboration agreements are recognized based on the performance requirements of the agreements. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed and determinable, and collection is reasonably assured.

Non-refundable license fees are recognized as revenue when the Company has a contractual right to receive such payment, the contract price is fixed or determinable, the collection of the resulting receivable is reasonably assured, and the Company has no further significant performance obligations in exchange for the license.

## Product Sales

The Company records revenue from product sales when persuasive evidence of an arrangement exists, delivery has occurred and title of the product and associated risk of loss has passed to the customer, the price is fixed or determinable, collection from the customer has been reasonably assured, all performance obligations have been met and returns and allowances can be reasonably estimated. Until then, the Company records shipments to wholesalers as deferred revenue. Product sales are recorded net of provisions for estimated rebates, chargebacks, discounts, co-pay assistance and other accruals (collectively, “sales deductions”) and returns.

- **Rebates.** Allowances for rebates include mandated discounts under the Medicaid Drug Rebate Program as well as negotiated discounts with commercial health-care providers. Rebates are amounts owed after the final dispensing of products to a benefit plan participant and are based upon contractual agreements or legal requirements with the public sector (e.g. Medicaid) and with private sector benefit providers. The allowance for rebates is based on statutory and contractual discount rates and expected claimed rebates paid based on plan providers’ utilization. Our estimates for expected claimed rebates are based in part on third party market research. Rebates are generally invoiced and paid quarterly in arrears so that the accrual balance consists of an estimate of the amount expected to be incurred for the current quarter’s activity, plus an accrual balance for known prior quarters’ unpaid rebates. If actual future rebates vary from estimates, we may need to adjust prior period accruals, which would affect revenue in the period of adjustment.
- **Chargebacks.** Chargebacks are discounts that occur when contracted customers purchase directly from an intermediary distributor or wholesaler. Contracted customers, which currently consist primarily of Public Health Service institutions and Federal government entities purchasing via the Federal Supply Schedule, generally purchase the product at a discounted price. The distributor or wholesaler, in turn, charges back the difference between the price initially paid by the distributor or



wholesaler and the discounted price paid to the distributor or wholesaler by the customer. The allowance for distributor/wholesaler chargebacks is based on known sales to contracted customers.

- Distributor/Wholesaler deductions and discounts. U.S. specialty distributors and wholesalers are offered various forms of consideration including allowances, service fees and prompt payment discounts. Distributor allowances and service fees arise from contractual agreements with distributors and are generally a percentage of the purchase price paid by the distributors and wholesalers. Wholesale customers are offered a prompt pay discount for payment within a specified period.
- Co-pay assistance. Patients who pay in cash or have commercial insurance and meet certain eligibility requirements may receive co-pay assistance from the Company. Liabilities for co-pay assistance will be based on actual program participation and estimates of program redemption using data provided by third-party administrators.
- Returns. Sales of our products are not subject to a general right of return; however, the Company will accept product that is damaged or defective when shipped directly from our warehouse or for expired product up to 12 months subsequent to its expiry date. Product that has been used to fill patient prescriptions is no longer subject to any right of return.

Our products are distributed through wholesalers and specialty distributors. Each of these distributors take title to and ownership of the product upon physical receipt of the product and distribute these products to pharmacies. Until there is sufficient history of product sales, the Company cannot make a reasonable estimate of either future product returns, expected rebates and chargebacks, or expected sales deductions from the eventual sale of these products to healthcare providers. Therefore, the Company does not record revenue upon the shipment of product to the distributors, even though the distributors are invoiced upon product shipment. Sales, less deductions, are recorded as deferred revenue. The Company will recognize revenue at the time the prescriptions for our products are filled and delivered to the patient end-user until such time as the Company can reasonably estimate expected sales deductions and returns. At that time the Company will begin to recognize revenue at the time of shipment of product to the distributors reduced by estimated amounts for future returns and allowances.

On February 4, 2013, the Company launched Oxtellar XR, its first commercial product. We anticipate the launch of Trokendi XR to occur during the third quarter of 2013, pending receipt of final approval from the FDA.

#### Milestone Payments

Milestone payments have been recognized as revenue when the collaborative partner acknowledges completion of the milestone and substantive effort was necessary to achieve the milestone. Management may recognize revenue contingent upon the achievement of a milestone in its entirety in the period in which the milestone is achieved only if the milestone meets all the criteria to be considered substantive. Substantive milestone payments are recognized upon achievement of the milestone only if all of the following conditions are met:

- the milestone payments are non-refundable;
- achievement of the milestone involves a degree of risk and was not reasonably assured at the inception of the arrangement;
- substantive effort on the Company's part is involved in achieving the milestone;
- the amount of the milestone payment is reasonable in relation to the effort expended or the risk associated with achievement of the milestone; and,
- a reasonable amount of time passes between the up-front license payment and the first milestone payment as well as between each subsequent milestone payment.

Determination as to whether a payment meets the aforementioned conditions involves management's judgment. If any of these conditions are not met, the resulting payment would not be considered a substantive milestone, and therefore the resulting payment would be considered part of the consideration for the single unit of accounting and amortized over the appropriate period.

The Company's recorded milestone revenues were approximately, \$0, and \$0 during the three and six months ended June 30, 2013 and \$0 and \$150,000 during the three and six months ended June 30, 2012, respectively.

## Reclassifications

Certain December 31, 2012 consolidated balance sheet amounts have been reclassified to conform to the current year presentation.

## Recently Issued Accounting Pronouncements

In April 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which amended interim and annual reporting requirements about accumulated other comprehensive income (AOCI). In interim periods, companies are required to report information about reclassifications out of AOCI and changes in AOCI balances. The provision of ASU 2013-02 became effective for the first quarter of 2013. The adoption of ASU 2013-02 did not have a material effect on the Company's consolidated results of operations, financial position or liquidity.

## 4. Fair Value of Financial Instruments

The fair value of an asset or liability should represent the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Such transactions to sell an asset or transfer a liability are assumed to occur in the principal or most advantageous market for the asset or liability. Accordingly, fair value is determined based on a hypothetical transaction at the measurement date, considered from the perspective of a market participant rather than from a reporting entity's perspective.

The Company reports assets and liabilities that are measured at fair value using a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 — Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 — Inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (interest rates, yield curves, etc.) and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Edgar Filing: SUPERNUS PHARMACEUTICALS INC - Form 10-Q

- Level 3 — Unobservable inputs that reflect the Company's own assumptions, based on the best information available, including the Company's own data.

In accordance with the fair value hierarchy described above, the following tables show the fair value of the Company's financial assets and liabilities that are required to be measured at fair value, in thousands:

	Fair Value Measurements at June 30, 2013 (unaudited)			
	Total Carrying Value at June 30, 2013	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 33,907	\$ 23,656	\$ 10,251	\$ —
Marketable securities	84,797	—	84,797	—
Marketable securities - restricted (Other Assets)	305	—	305	—
Total assets at fair value	\$ 119,009	\$ 23,656	\$ 95,353	\$ —
Liabilities:				
Derivative liabilities	\$ 18,061	\$ —	\$ —	\$ 18,061

	Fair Value Measurements at December 31, 2012			
	Total Carrying Value at December 31, 2012	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash and cash equivalents	\$ 40,302	\$ 31,561	\$ 8,741	\$ —
Marketable securities	48,206	—	48,206	—
Marketable securities - restricted (Other Assets)	279	—	279	—
Total assets at fair value	\$ 88,787	\$ 31,561	\$ 57,226	\$ —
Liabilities:				
Derivative liabilities	\$ 251	\$ —	\$ —	\$ 251



The Company's Level 1 assets include money market funds and U.S. Treasuries and government agency debt securities with quoted prices in active markets. At June 30, 2013 and December 31, 2012, Level 2 assets include mutual funds in which the SERP assets are invested, commercial paper and corporate bonds and other fixed income securities. Level 2 securities are valued using third-party pricing sources that apply applicable inputs and other relevant data into their models to estimate fair value.

Level 3 liabilities include the fair market value of the interest make-whole liability associated with the Notes and the outstanding warrants to purchase Common Stock recorded as derivative liabilities. The fair value of the common stock warrant liability was calculated using a Monte-Carlo simulation on a Black-Scholes model with the following assumptions as of June 30, 2013:

Exercise Price	\$4 - \$5 per share
Volatility	80%
Stock Price as of June 30, 2013	\$6.43 per share
Term	7.2 - 8.5 years
Dividend Yield	0.0%
Risk-Free Rate	2.1% - 2.3%

The fair value of the interest make-whole liability of the Notes was calculated using a binomial-lattice model with the following key assumptions as of June 30, 2013:

Volatility	45%
Stock Price as of June 30, 2013	\$6.43 per share
Credit Spread	1335 bps
Term	4 years
Dividend Yield	0.0%

Significant changes to these assumptions would result in increases/decreases to the fair value of the outstanding liabilities.

Changes in the fair value of the warrants and the interest make-whole liability are recognized as a component of Other Income (Expense) in the Consolidated Statements of Operations. The following table presents information about the Company's Level 3 liabilities as of June 30, 2013 and December 31, 2012 that are included in the Non-Current Liabilities section of the Consolidated Balance Sheets, in thousands:

9

---

	Six Months Ended June 30, 2013 (unaudited)
Balance at December 31, 2012	\$ 251
Initial value of interest make-whole payment associated with the convertible notes	9,270
Changes in fair value of derivative liabilities included in earnings	8,540
Balance at June 30, 2013	\$ 18,061

The carrying value and estimated fair value of the convertible notes was approximately \$59.1 million and \$115.0 million, respectively, as of June 30, 2013. The fair value was estimated based on actual trade information as well as quoted process provided by bond traders.

The carrying amounts of other financial instruments, including accounts receivable, accounts payable and accrued expenses approximate fair value due to their short-term maturities.

Unrestricted marketable securities held by the Company were as follows, in thousands:

10

---



At June 30, 2013:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Corporate debt securities	\$ 85,029	\$ 5	\$ (237)	\$ 84,797

At December 31, 2012:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
Corporate debt securities	\$ 48,259	\$ 1	\$ (54)	\$ 48,206

The Company has not experienced any other-than-temporary losses on its marketable securities and restricted marketable securities.

## 5. Inventories

Inventories consist of the following, in thousands:

	June 30, 2013 (unaudited)	December 31, 2012
Raw materials	\$ 3,390	\$ 1,152
Finished goods	925	—
	\$ 4,315	\$ 1,152

## Edgar Filing: SUPERNUS PHARMACEUTICALS INC - Form 10-Q

There were no inventory reserves at June 30, 2013 and December 31, 2012. As of June 30, 2013 and December 31, 2012 the Company had recorded approximately \$3.0 million and \$0.9 million, respectively, of inventory related to Trokendi XR, which has received tentative approval from the FDA. The remainder of the inventory relates to Oxtellar XR. We anticipate recovering these amounts through future product sales of Trokendi XR upon receipt of final approval.

The Company capitalizes inventories produced in preparation for commercial launches when it becomes probable that the related product candidates will receive regulatory approval and that the related costs will be recoverable through the commercial sale of the product.

Inventory is evaluated for impairment through consideration of factors such as the net realizable value, lower of cost or market, obsolescence, and expiry. Inventories do not have carrying values that exceed either replacement cost or net realizable value.

### 6. Property and Equipment

Property and equipment consist of the following, in thousands:

	June 30, 2013 (unaudited)	December 31, 2012
Computer equipment	\$ 663	\$ 615
Software	209	209
Lab equipment and furniture	4,407	3,896
Leasehold improvements	2,257	1,779
	7,536	6,499
Less accumulated depreciation and amortization	(5,289)	(5,078)
	\$ 2,247	\$ 1,421



Depreciation expense on property and equipment was approximately \$105,000 and \$211,000 for the three and six months ended June 30, 2013, respectively and \$156,000 and \$323,000 for the three and six months ended June 30, 2012, respectively.

#### 7. Purchased Patents

In connection with a purchase agreement with Shire Laboratories, Inc., the Company acquired certain patents in 2005. The following sets forth the gross carrying amount and related accumulated amortization of the patents, in thousands:

		June 30, 2013 (unaudited)		December 31, 2012	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Purchased patents	10.0	\$ 2,292	\$ 1,724	\$ 2,292	\$ 1,609

Amortization expense was approximately \$57,000 each of the three month periods ended June 30, 2013 and 2012 and was approximately \$115,000 each of the six month periods ended June 30, 2013 and 2012. The estimated annual aggregate amortization expense through December 31, 2015 is \$229,000.

There were no indicators of impairment identified at June 30, 2013 or December 31, 2012.

#### 8. Accrued Liabilities

Accrued Liabilities are comprised of the following (and are included within the accounts payable and accrued expenses line item on the consolidated balance sheets), in thousands:

	June 30, 2013 (unaudited)	December 31, 2012
Accrued clinical trial and clinical supply costs	\$ 2,043	\$ 3,335
Accrued compensation	2,617	2,492
Interest payable	1,125	213
Other accrued liabilities	3,774	1,820
	\$ 9,559	\$ 7,860

Accrued clinical trial and clinical supply costs consist primarily of investigator fees, contract research organization services and laboratory costs. Other accrued expenses consist primarily of marketing, sales and miscellaneous accrued expenses.

#### 9. Convertible Senior Secured Notes

On May 3, 2013, the “Company issued \$90.0 million aggregate principal amount of 7.50% Convertible Senior Secured Notes due 2019 (the “Notes”). The Company completed this in a private placement offering in reliance on Section 4(2) under the Securities Act of 1933, as amended (the “Securities Act”). The notes were available for resale in transactions exempt from the registration requirements of the Securities Act to persons reasonably believed by the initial purchasers to be “qualified institutional buyers” as defined in Rule 144A under the Securities Act.

Aggregate estimated offering expenses in connection with the transaction, including the initial purchasers' discount of \$3.0 million, were approximately \$3.5 million, resulting in net proceeds of approximately \$86.5 million. The Company used approximately \$19.6 million to repay in full its borrowings under and terminate its existing secured credit facility. The remainder of the net proceeds will be used to fund the commercialization of the Company's approved and tentatively approved products, Oxtellar XR and Trokendi XR, as well as to continue development of the Company's pipeline products and for other general corporate purposes, which may include research and development expenses, capital expenditures, working capital and general administrative expenses.

The Company issued the Notes under an Indenture, dated May 3, 2013 (the "Indenture"), between the Company and U.S. Bank National Association, as Trustee and Collateral Agent. The Notes provide for 7.50% interest per annum on the principal amount of the Notes, payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2013. Interest will accrue on the Notes from and including May 3, 2013 and the Notes will mature on May 1, 2019, unless earlier converted, redeemed or repurchased by the Company. The Notes are convertible into the Company's common stock ("Common Stock") as described below.

The Notes are the Company's senior secured obligations and (i) rank senior in right of payment to any of the indebtedness that is expressly subordinated in right of payment to the Notes; (ii) rank effectively senior to any of the unsecured indebtedness to the extent of the value of the collateral securing the Notes; (iii) rank equal in right of payment with all of the Company's indebtedness that is not subordinated to the Notes; and (iv) are structurally subordinated to all indebtedness and liabilities, including trade payables, of the Company's existing and future subsidiaries.

The Notes are secured by a first-priority lien, other than customary permitted liens, on substantially all of the Company's and its domestic subsidiaries' assets, whether now owned or hereafter acquired, including license agreements, general intangibles, accounts, instruments, investment property, intellectual property and any proceeds of the foregoing pursuant to that certain Security and Pledge Agreement, dated May 3, 2013 (the "Security Agreement"), between the Company and U.S. Bank National Association, as Collateral Agent. The Indenture restricts the ability of the Company and its existing and future subsidiaries to make investments, including transfers of the Company's assets that constitute collateral securing the Notes, in its existing and future foreign subsidiaries. The Company is entitled to the release of property and other assets constituting collateral from the liens securing the Notes and the obligations thereunder (i) to enable the Company to consummate the sale, transfer, license, monetization or other disposition of such property or assets; (ii) with the consent of the holders of at least 66 2/3% of the aggregate principal amount of the Notes then outstanding and affected; or (iii) pursuant to a modification or amendment of the Indenture, the Notes or the Security Agreement.

If the Company has not received stockholder approval (as defined in the Indenture), a holder of Notes may surrender all or a portion of its Notes for conversion at any time prior to the close of business on the business day immediately preceding the maturity date of the Notes and the Company will deliver for each \$1,000 principal amount of converted Notes a number of shares of Common Stock equal to the conversion rate, together with a cash payment in lieu of any fractional shares of Common Stock issuable upon conversion. If the Company obtains stockholder approval, (i) on and after such date of approval and prior to the close of business on the business day immediately preceding

November 1, 2018, a holder of Notes may convert all or a portion of its Notes, in principal amounts equal to \$1,000 or an integral multiple thereof, only if one or more of the following conditions has been satisfied: (1) if, for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading day period ending within five trading days prior to a conversion date, the last reported sale price of the Company's Common Stock exceeds the conversion price on each such trading day; (2) during the five consecutive business day period immediately following any five consecutive trading day period (the "Measurement Period"), in which, for each trading day of that Measurement Period, the trading price (as defined in the Indenture) per \$1,000 principal amount of Notes for such trading day was less than 98% of the product of the last reported sale price of the Company's Common Stock on such trading day and the applicable conversion rate on such trading day; (3) upon the occurrence of specified corporate transactions; or (4) if the Company calls the Notes for redemption, at any time prior to the close of business on the business day immediately preceding the redemption date; and (ii) on and after November 1, 2018, a holder of Notes may convert all or a portion of its Notes, in principal amounts equal to \$1,000 or an integral multiple thereof, at any time prior to the close of business on the business day immediately preceding the maturity date of the Notes, regardless of the foregoing circumstances. If stockholder approval has been received, the Company will settle conversion of the Notes through payment or delivery, as the case may be of cash, shares of Common Stock or a combination thereof, at its election. The Company has no obligation to seek stockholder approval and, even if it does, it cannot be certain that its stockholders will grant the stockholder approval.

The conversion rate for the Notes is equal to 188.7059 shares of Common Stock per \$1,000 principal amount of notes (which is equivalent to an initial conversion price of approximately \$5.30 per share of Common Stock). The conversion rate is subject to adjustment upon the occurrence of certain specified events but will not be adjusted for accrued and unpaid interest. In addition, upon the occurrence of a "make-whole fundamental change" (as defined in the Indenture), the Company will, in certain circumstances, increase the conversion rate by a number of additional shares for a holder that elects to convert its notes in connection with such make-whole fundamental change as described in the Indenture.

On or after November 1, 2013, if, for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading day period ending within five trading days prior to a conversion date, the last reported sale price of the Company's common stock exceeds the conversion price on each such trading day, the Company will, in certain circumstances, make an interest make-whole payment to converting holders equal to the sum of the present value of the remaining scheduled payments of interest that would have been made on the Notes to be converted had such notes remained outstanding until May 1, 2017 computed using a discount rate equal to 2%. The Company may pay an interest make-whole payment either in cash or in Common Stock, at its election. If the Company elects to pay an interest make-whole payment in Common Stock, then the stock will be valued at 95% of the simple average of the daily volume-weighted average price ("VWAP") per share for the 10 trading days ending on and including the trading day immediately preceding the conversion date. Notwithstanding the foregoing, the number of shares the Company may deliver in connection with an interest make-whole payment and repayment of principal will not exceed 221.7294 shares per \$1,000 principal amount of Notes, subject to adjustment. If, pursuant to its election to deliver Common Stock in connection with the payment of the interest make-whole amount, the Company would be required to deliver a number of shares of Common Stock in excess of such threshold, the Company would deliver cash in lieu of shares otherwise deliverable upon conversions in excess thereof (based on the simple average of the daily VWAP for the 10 trading days ending on and including the trading day immediately preceding the conversion date).

Upon (i) the occurrence of a fundamental change (as defined in the Indenture) or (ii) if the Company calls the Notes for redemption as described below (either event, a "make-whole fundamental change") and a holder elects to convert its Notes in connection with such make-whole fundamental change, the Company will, in certain circumstances, increase the conversion rate by a number of additional shares (the "Additional Shares") as described below. The Company will notify holders within one business day after the first public announcement by it or a third party of an event or transaction that the Company reasonably determines would, if consummated, constitute a make-whole fundamental change. Upon receiving notice or otherwise becoming aware of a potential make-whole fundamental change described, the Company will use commercially reasonable efforts to announce or cause the announcement of such potential make-whole fundamental change in time to deliver such notice at least 50 scheduled trading days prior to the anticipated effective date for such transaction if stockholder approval has been obtained. The Company will notify the Trustee and holders of the effective date of any make-whole fundamental change no later than one business day after such effective date.

The number of additional shares by which the Company will increase the conversion rate will be determined based on the date on which the make-whole fundamental change occurs or becomes effective (the "Effective Date") and the price (the "Stock Price") paid (or deemed paid) per share of the Company's Common Stock in the fundamental change. If the holders of the Company's common stock receive only cash in a make-whole fundamental change (i) the Stock Price shall be the cash amount paid per share and (ii) the Company will satisfy its conversion obligation to a holder that converts its Notes any time after such make-whole fundamental change by delivering to such holder, on the third business day immediately following the relevant conversion date, an amount of cash, for each \$1,000 principal amount of Notes converted, equal to the product of (x) the conversion rate in effect on the relevant conversion date (as increased by the Additional Shares, if any) and (y) the Stock Price. Otherwise, (i) the Stock Price will equal the average of the last reported sale prices of the Company's Common Stock over the five trading day period ending on, and including, the trading day immediately preceding the Effective Date of the make-whole fundamental change and (ii) the Company will satisfy its conversion obligation to a holder that converts its Notes in connection with such make-whole fundamental change based on the conversion rate as increased by the number of Additional Shares. In connection with a make-whole fundamental change triggered by a redemption of the Notes, the Effective Date of such make-whole fundamental change will be the date on which the Company delivers notice of the



redemption. Notwithstanding the foregoing, in no event will the conversion rate exceed the maximum conversion rate, which is 221.7294 shares per \$1,000 principal amount of Notes, which amount is inclusive of repayment of the principal of the Notes.

If a fundamental change occurs at any time, holders will have the right, at their option, to require the Company to purchase for cash any or all of the Notes, or any portion of the principal amount thereof, that is equal to \$1,000 or an integral multiple of \$1,000 in excess thereof, on a date of the Company's choosing that is not less than 20 calendar days nor more than 35 calendar days after the date on which it delivers a fundamental change notice. The price the Company is required to pay for a Note is equal to 100% of the principal amount of such Note plus accrued and unpaid interest, if any, to, but excluding, the fundamental change purchase date. Any Notes purchased by the Company will be paid for in cash.

The Company may not redeem the Notes prior to May 1, 2017. On or after May 1, 2017, the Company may redeem for cash all, but not less than all, of the Notes if the last reported sale price of the Company's Common Stock equals or exceeds 140% of the applicable conversion price for at least 20 trading days during the 30 consecutive trading day period ending on the trading day immediately prior to the date the Company delivers written notice of the redemption. The redemption price will be equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. If the Company calls the Notes for redemption, a make-whole fundamental change will be deemed to occur and the Company will, in certain circumstances, increase the conversion rate for holders who convert their notes in connections with such make-whole fundamental change as described in the Indenture.

The table below summarizes how the issuance of the Convertible Secure Senior Note is reflected in the balance sheet at June 30, 2013, in thousands:

	June 30, 2013 (unaudited)
Gross proceeds	\$ 90,000
Conversion option reported in equity	(22,336)
Interest make-whole derivative	(9,270)
Amortization of debt discount	706
Carrying value	\$ 59,100

The Company incurred approximately \$3.5 million of financing costs (including the underwriters' discount) in connection with the issuance of the Notes. Approximately \$0.9 million of this amount was allocated to APIC and the remaining \$2.6 million is recorded as a deferred cost being amortized over the life of the Notes. As of June 30, 2013, approximately \$2.5 million remained unamortized, of which \$0.4 million is current and \$2.1 million is long-term.

## 10. Share-Based Payments

The Company has adopted the Supernus Pharmaceuticals, Inc. 2012 Equity Incentive Plan (the 2012 Plan), which is stockholder-approved, and provides for the grant of stock options and certain other awards, including stock appreciation rights ("SAR"), restricted and unrestricted stock, stock units, performance awards, cash awards and other awards that are convertible into or otherwise based on the Company's common stock, to the Company's key employees, directors, and consultants and advisors. The 2012 Plan is administered by the Company's Board of Directors and provides for the issuance of up to 2,500,000 shares of the Company's Common Stock. Option awards are granted with an exercise price equal to the estimated fair value of the Company's Common Stock at the grant date; those option awards generally vest in four annual installments, starting on the first anniversary of the date of grant and have ten-year contractual terms. The 2012 Plan provides for the issuance of Common Stock of the Company upon the exercise of stock options. Stock-based compensation recognized related to the grant of employee and non-employee stock option, SARS, and non-vested stock was as follows, in thousands:

	Three Months ended June 30, 2013		Six Months ended June 30, 2012	
	(unaudited)		(unaudited)	
Research and development	\$ 131	\$ 14	\$ 239	\$ 29
Selling, general and administrative	301	39	530	76
Total	\$ 432	\$ 53	\$ 769	\$ 105

The following table summarizes stock option and SAR activity:

	Number of Options	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term
Outstanding, December 31, 2012	569,911	\$ 5.72	7.88
Granted (unaudited)	899,832	\$ 7.89	
Exercised (unaudited)	(40,512)	\$ 0.66	
Forfeited or expired (unaudited)	(11,593)	\$ 7.00	
Outstanding, June 30, 2013 (unaudited)	1,417,638	\$ 7.23	8.79
As of December 31, 2012			
Vested and expected to vest	564,083	\$ 5.72	7.87
Exercisable	200,312	\$ 2.11	5.73
As of June 30, 2013			
Vested and expected to vest (unaudited)	1,367,439	\$ 7.22	8.77
Exercisable (unaudited)	173,759	\$ 2.67	6.00

## 11. Loss Per Share

Basic loss per common share is determined by dividing loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration of common stock equivalents. Diluted loss per share is computed by dividing the loss attributable to common stockholders by the weighted-average number of common share equivalents outstanding for the period. The treasury stock method is used to determine the dilutive effect of the Company's stock option grants, SARS, potential Employee Stock Purchase Plan (ESPP) awards and warrants and the if-converted method is used to determine the dilutive effect of the Company's Notes and Series A Preferred Stock. The following common stock equivalents were excluded in the calculation of diluted loss per share because their effect would be anti-dilutive as applied to the net loss applicable to common stockholders for the periods ending June 30, 2013 and 2012:

	Three Months ended		Six Months ended	
	June 30, 2013	2012	June 30, 2013	2012
Convertible Senior Secured Notes	11,011,300	—	5,536,068	—
Series A Preferred Stock	—	4,038,461	—	8,144,229
Warrants to purchase Series A Preferred Stock/Common Stock	9,543	143,749	12,592	143,749
Stock Options, Stock Appreciation Rights and Non-vested Stock Options	137,349	498,053	160,061	498,053

## 12. Subsequent Event

On August 7, 2013, Supernus issued a press release announcing that it initiated litigation against generic drug makers Actavis Inc., Watson Laboratories, Inc. – Florida, Actavis Pharma, Inc., Watson Laboratories, Inc., and Anda, Inc. (collectively “Watson”) for infringement of two patents covering its antiepileptic drug Oxtellar XR. Both patents do not expire until April 13, 2027. The Complaint—filed in the U.S. District Court for the District of New Jersey—alleges that Watson infringed Supernus's Oxtellar XR patents by submitting to the FDA an Abbreviated New Drug Application (“ANDA”) seeking to market a generic version of Oxtellar XR prior to the expiration of Supernus's patents



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

Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to help the reader understand the results of operations and financial condition of the Company. The interim financial statements included in this report and this Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our audited consolidated financial statements and notes thereto for the year ended December 31, 2012 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 15, 2013. In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. These forward-looking statements may include declarations regarding the Company's belief or current expectations of management, such as statements including the words "budgeted," "anticipate," "project," "estimate," "expect," "may," "believe," "potential," and similar statements or expressions are intended to be among the statements that are forward-looking statements. As such statements reflect the reality of risk and uncertainty that is inherent in the Company's business, actual results may differ materially from those expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which are made as of the date this report was filed with the Securities and Exchange Commission. Our actual results and the timing of events could differ materially from those discussed in our forward-looking statements as a result of many factors, including those set forth under the "Risk Factors" section of our Annual Report on Form 10-K and elsewhere in this report as well as in other reports and documents we file with the Securities and Exchange Commission from time to time. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

Solely for convenience, the trade names in this Form 10-Q are referred to without the TM symbols, but such references should not be construed as any indicator that the Company will not assert, to the fullest extent under applicable law, our rights thereto.

#### Overview

We are a specialty pharmaceutical company focused on developing and commercializing products for the treatment of central nervous system, or CNS diseases. Our two lead products are Oxtellar XR and Trokendi XR, both of which are neurology products for the treatment of epilepsy. The Food & Drug Administration, or FDA, granted final approval for Oxtellar XR (extended-release oxcarbazepine) on October 19, 2012 and we launched this product commercially on February 4, 2013. Additionally, on November 15, 2012, the FDA notified us that Oxtellar XR was granted a three-year marketing exclusivity period.

The Company received a Paragraph IV Notice Letter against our Oxtellar XR Orange Book patents from generic drug makers Actavis Inc., Watson Laboratories, Inc. – Florida, Actavis Pharma, Inc., Watson Laboratories, Inc., and Anda,

Inc. (collectively “Watson”) on June 26, 2013. On August 7, 2013 the Company filed a lawsuit against Watson alleging infringement of two patents covering its antiepileptic drug Oxtellar XR. Supernus’s United States Patent Nos. 7,722,898 and 7,910,131 cover once-a-day oxcarbazepine formulations and methods of treating seizures using those formulations. Both patents do not expire until April 13, 2027.

The Complaint—filed in the U.S. District Court for the District of New Jersey—alleges that Watson infringed Supernus’s Oxtellar XR patents by submitting to the Food and Drug Administration (“FDA”) an Abbreviated New Drug Application (“ANDA”) seeking to market a generic version of Oxtellar XR prior to the expiration of Supernus’s patents. Filing its Complaint within 45 days of receiving Watson’s Paragraph IV certification notice entitles Supernus to an automatic stay preventing the FDA from approving Watson’s ANDA for 30 months.

Trokendi XR (extended-release topiramate) received tentative approvals from the FDA on June 25, 2012 and June 7, 2013 due to the existence of a Topamax marketing exclusivity associated with safety information in a specific pediatric population. This marketing exclusivity expired as of June 22, 2013. We anticipate the final approval from the FDA during the third quarter of 2013. The Company expects to commercially launch Trokendi XR during the third quarter of 2013.

We are marketing Oxtellar XR through our in-house sales force. We have expanded this sales force from 75 sales representatives to approximately 90 sales representatives to support the commercial launch of Trokendi XR.

In addition to our two lead products, we have a product pipeline with several lead product candidates. SPN-810 (molindone hydrochloride) is being developed as a treatment for impulsive aggression in patients with ADHD and completed a Phase IIb trial in 2012 and we expect to advance this program into later stage clinical development after we meet with the FDA. Our plans for SPN-810 involve a continued, in-depth analysis of the full dataset from the Phase IIb trial along with plans to meet with the FDA to discuss the next steps in the development program and the design of the protocol for later stage clinical development.

SPN-812 is being developed as a non-stimulant treatment for ADHD. SPN-812 completed a Phase IIa proof of concept trial in 2011 and we are currently focused on developing an extended release formulation that will be the subject of a future Phase IIb trial. We held a pre-IND (investigational new drug application) meeting with the FDA for the extended release program in June 2013.

#### Critical Accounting Policies and the Use of Estimates

The significant accounting policies and basis of presentation for our consolidated financial statements are described in Note 3 “Summary of Significant Accounting Policies” in the Company’s most recently filed Annual Report on Form 10-K and in this report. The preparation of our financial statements in accordance with U.S. generally accepted accounting principles (GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and the disclosure of contingent assets and liabilities in our financial statements. Actual results could differ from those estimates.

We believe the following accounting policies and estimates to be critical:

**Inventories.** We carry inventories at the lower of cost or market using the first-in, first-out method. Inventory values include materials, labor, overhead and other direct and indirect costs. Inventory is evaluated for impairment through consideration of factors such as lower of cost or market, net realizable value, expiry and obsolescence. Our inventories have values that do not exceed either replacement cost or net realizable value. We believe Oxtellar XR and Trokendi XR have limited risk of obsolescence or expiry based on the market research we used to project future demand and based on anticipated product dating.

We capitalize inventories produced in preparation for commercial launches when it becomes probable the related product candidates will receive regulatory approval and the related costs will be recoverable through the commercial sale of the product. Accordingly, we began to capitalize inventories for Trokendi following the June 25, 2012 tentative approval from the FDA and for Oxtellar XR following the October 19, 2012 final approval from the FDA. Prior to capitalization, the costs of manufacturing drug product are recognized in research and development expense in the period the cost is incurred. Therefore, manufacturing costs incurred prior to capitalization are included in research and development expense. Such costs incurred after capitalization are included in inventory and eventually cost of sales.

**Equity Component of Convertible Debt.** Under Accounting Standards Codification 470-20, Debt with Conversion and Other Options, or ASC 470-20, an entity must separately account for the liability and equity components of convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer’s economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is



that the equity component is required to be included in the additional paid-in capital section of stockholders' equity on the consolidated balance sheet at the issuance date and the value of the equity component would be treated as debt discount for purposes of accounting for the debt component of the Notes. The carrying value of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying value of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the par value of the Notes as a whole. The equity component is not re-measured as long as it continues to meet the conditions for equity classification.

The Company allocated the total transaction costs of \$3.5 million related to the issuance of the Notes to the liability and equity components of the Notes based on their relative values. Transaction costs attributable to the liability component are amortized to interest expense over the six-year term of the Notes, and transaction costs attributable to the equity component are netted with the equity components in stockholders' equity (See note 9).

**Revenue Recognition and Deferred Revenue.** At the present time, the Company records shipments to wholesalers as deferred revenue as the Company is unable to reasonably estimate product returns and related product costs (primarily rebates, chargebacks and other sales deductions (defined below)) due to the lack of sufficient historical sales data for Oxtellar XR. Accordingly, the Company records deferred revenue at sales price net of sales deductions. The Company currently defers recognition of revenue and the related cost of product sales on shipments of Oxtellar XR, and recognizes revenue only upon filling prescriptions at pharmacies.

The Company records shipments to wholesalers as deferred revenue until there is sufficient product specific data available to reasonably estimate returns, rebates, and allowances. Until such data are available, the Company records revenue based on prescriptions filled at the pharmacy level. Because prescriptions filled at the pharmacy level have no remaining right of return, there is no need to establish an allowance for same. Due to lack of sufficient sales history, we cannot reasonably estimate all sales rebates and allowances. These data are not available to Company until approximately 8 weeks after the close of the quarter. This results in a delayed recognition of revenue until the subsequent fiscal quarter.

The Company believes the compilation of sufficient product specific historical data to reasonably estimate returns, rebates, and allowances may be available by the end of the year at which time the Company may record revenue based on shipments to wholesalers.

With respect to prescriptions which were filled in the first quarter, data on rebates and allowances were received by the end of May. As a result of the time lag between the end of the quarter and receipt of these data, the Company could not determine net revenue in a timeframe which would allow reporting net revenue in the Form 10-Q filed for the 1<sup>st</sup> quarter. Consequently, revenue generated from prescriptions filled at the pharmacy level in the first quarter are being reported in the Company's second quarter financial results; i.e., on a 'quarter lag basis'. We expect to continue to report revenue based on prescriptions filled at the pharmacy level until sufficient experience with rebates and allowances is assembled to allow reporting of revenue based on shipments to wholesalers.

Revenue from product sales will be recognized when persuasive evidence of an arrangement exists, delivery has occurred and title of the product and associated risk of loss has passed to the customer, the price is fixed or determinable, collection from the customer has been reasonably assured and all performance obligations have been met and returns and allowances can be reasonably estimated. Product sales are recorded net of accruals for estimated rebates, chargebacks, discounts, co-pay assistance and other accruals (collectively, "sales deductions") as well as estimated product returns.

Our products are distributed through wholesalers and pharmaceutical distributors. Each of these wholesalers and distributors will take title and ownership of the product upon physical receipt of the product and then distribute our products to the pharmacies. Though these distributors will be invoiced concurrent with product shipment, we will be unable to recognize revenue upon shipment until such time as we can reasonably estimate and record provisions for sales deductions and product returns utilizing historical information and market research projections. Specific consideration for sales of both Oxtellar XR and Trokendi XR are:

- **Rebates.** Allowances for rebates include mandated discounts under the Medicaid Drug Rebate Program as well as negotiated discounts with commercial health-care providers. Rebates are amounts owed after the final dispensing of products to a benefit plan participant and are based upon contractual agreements or legal requirements with the public sector (e.g. Medicaid) and with private sector benefit providers. The allowance for rebates is based on statutory and contractual discount rates and expected claimed rebates paid based on plan provider's utilization. Our estimates for expected claimed rebates are based in part on third party market research. Rebates are generally invoiced and paid quarterly in arrears so that the accrual balance consists of an estimate of the amount expected to be incurred for the current quarter's activity, plus an accrual balance for known prior quarters' unpaid rebates. If actual future rebates vary from estimates, we may need to adjust prior period accruals, which would affect revenue in the period of adjustment.
- **Chargebacks.** Chargebacks are discounts that occur when contracted customers purchase directly from an intermediary distributor or wholesaler. Contracted customers, which currently consist primarily of Public Health Service institutions and Federal government entities purchasing via the Federal Supply Schedule, generally purchase

the product at a discounted price. The distributor or wholesaler, in turn, charges back the difference between the price initially paid by the distributor or wholesaler and the discounted price paid to the distributor or wholesaler by the customer. The allowance for distributor/wholesaler chargebacks is based on known sales to contracted customers.

- Distributor/Wholesaler deductions and discounts. U.S. specialty distributors and wholesalers are offered various forms of consideration including allowances, service fees and prompt payment discounts. Distributor allowances and service fees arise from contractual agreements with distributors and are generally a percentage of the purchase price paid by the distributors and wholesalers. Wholesale customers are offered a prompt pay discount for payment within a specified period.
- Co-pay assistance. Patients who pay in cash or have commercial insurance and meet certain eligibility requirements may receive co-pay assistance from the Company. Liabilities for co-pay assistance will be based on actual program participation and estimates of program redemption using data provided by third-party administrators.
- Returns. Sales of our products are not subject to a general right of return; however, the Company will accept product that is damaged or defective when shipped directly from our warehouse or for expired product up to 12 months subsequent to its expiry date. Product that has been used to fill patient prescriptions is no longer subject to any right of return.

## Results of Operations

## Comparison of the Three Months Ended June 30, 2013 and June 30, 2012

	Three Months Ended		Increase (decrease)
	June 30, 2013	2012	
	(unaudited)		
	(in thousands)		
Revenue			
Net product sales	\$ 154	\$ —	154
Licensing revenue	127	91	36
Total revenue	281	91	
Costs and expenses			
Cost of product sales	4	—	4
Research and development	3,542	4,703	(1,161)
Selling, general and administrative	12,214	4,645	7,569
Total cost and expenses	15,760	9,348	
Operating loss	(15,479)	(9,257)	
Interest income and other income (expense), net	47	317	(270)
Interest expense	(2,144)	(929)	1,215
Changes in fair value of derivative liabilities	(8,619)	(144)	8,475
Loss on extinguishment of debt	(1,162)	—	1,162
Total other (expense) income	(11,878)	(756)	
Net loss	\$ (27,357)	\$ (10,013)	

Revenues. Our net product sales of \$0.2 million for the three months ended June 30, 2013 are based on 529 Oxtellar XR prescriptions filled at the pharmacy level during the first quarter of 2013. According to prescriptions as reported by IMS – National Prescription Audit (IMS – NPA) for Oxtellar XR, a total of 4,177 prescriptions were written in the period February to June 30, 2013 following the commercial launch of Oxtellar XR on February 4, 2013. Prescriptions filled in the first quarter of 2013 were 529 and grew to 3,648 during the second quarter of 2013, a growth of 590% quarter over quarter. We have not yet recognized revenues related to the prescriptions written during the second quarter of 2013.

Research and Development Expense. Our research and development expenses were \$3.5 million for the three months ended June 30, 2013, compared to \$4.7 million for the same period in 2012, a decrease of \$1.2 million or 25%. This

decrease was primarily attributable to activities in the second quarter of 2013 that relate to the analysis of trials completed in 2012 and research/preparation for trials to be launched for our lead product candidates, SPN-810 and SPN-812.

**Selling, General and Administrative Expenses.** Our selling, general and administrative expenses were \$12.2 million for the three months ended June 30, 2013 compared to \$4.6 million for the same period in 2012, representing an increase of approximately \$7.6 million or approximately 163%. This increase is mainly due to the hiring of our sales force as well as an increase in sales and marketing costs associated with the commercial launch of Oxtellar XR, which occurred in February 2013, and the expected launch of Trokendi XR in the third quarter of 2013.

**Changes in fair value of derivative liability.** We recognized a non-cash charge of \$8.6 million associated with the interest make-whole derivative during the second quarter of 2013, due to an increase in our stock price.

**Loss on extinguishment of debt.** We incurred \$1.2 million loss on extinguishment of our secured credit facility on May 3, 2013.

**Interest Expense.** Interest expense was approximately \$2.1 million for the three months ended June 30, 2013, compared to \$0.9 million for the same period in 2012. This increase, \$1.2 million, is primarily due to the \$1.1 million of interest accrued on the \$90.0 million of Convertible Debt in 2013, partially offset by the decrease in interest expense resulting from extinguishing our previous secured credit facility that we paid off in May 2013.

Net Loss. Loss from continuing operations was \$27.4 million for the three months ended June 30, 2013, compared to a loss of \$10.0 million for the same period in 2012. This increase is primarily due to the increase in sales and marketing costs due to the hiring of our sales force as well as an increase in sales and marketing costs associated with the commercial launch of Oxtellar XR, which occurred in February 2013, and the expected launch of Trokendi XR in the third quarter of 2013, as well as the change in fair value of our derivative liabilities and loss on the extinguishment of our debt facility.

#### Comparison of the Six Months Ended June 30, 2013 and June 30, 2012

	Six Months Ended		
	June 30,	2012	Increase
	2013		(decrease)
	(unaudited)		
	(in thousands)		
Revenue			
Net product sales	\$ 154	\$ —	154
Licensing revenue	274	299	(25)
Total revenue	428	299	
Costs and expenses			
Cost of product sales	4	—	4
Research and development	8,065	10,061	(1,996)
Selling, general and administrative	25,747	7,374	18,373
Total cost and expenses	33,816	17,435	
Operating loss	(33,388)	(17,136)	
Interest income and other income (expense), net	191	211	(20)
Interest expense	(2,872)	(1,891)	981
Changes in fair value of derivative liabilities	(8,540)	(472)	8,068
Loss on extinguishment of debt	(1,162)	—	1,162
Total other (expense) income	(12,383)	(2,152)	
Net loss	\$ (45,771)	\$ (19,288)	

Revenues. Our net product sales of \$0.2 million for the six months ended June 30, 2013 are based on 529 Oxtellar XR prescriptions filled at the pharmacy level during the first quarter of 2013.

Research and Development Expense. Our research and development expenses were \$8.1 million for the six months ended June 30, 2013, compared to \$10.1 million for the same period in 2012, a decrease of \$2.0 million or 20%. This decrease was primarily attributable to a decrease in clinical trial costs of \$1.3 million for our SPN-810 Phase IIb trial that was completed in 2012.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses were \$25.7 million for the six months ended June 30, 2013 compared to \$7.4 million for the same period in 2012, representing an increase of approximately \$18.3 million or approximately 249%. This increase is mainly due to the hiring of our sales force as well as an increase in sales and marketing costs associated with the commercial launch of Oxtellar XR, which occurred in February 2013, and the expected launch of Trokendi XR in the third quarter of 2013.

Changes in fair value of derivative liability. We recognized a non-cash charge of \$8.6 million associated with the interest make-whole derivative during the second quarter of 2013, due to an increase in our stock price.

Loss on extinguishment of debt. We incurred \$1.2 million loss on extinguishment of our secured credit facility on May 3, 2013.

Interest Expense. Interest expense was approximately \$2.9 million for the six months ended June 30, 2013, compared to \$1.9 million for the same period in 2012. This increase, \$1.0 million, is primarily due to the 2013 interest accrued on the \$90.0 million of Convertible Debt in 2013 of \$1.1 million, partially offset by the decrease in interest expense resulting from extinguishing our previous secured credit facility that we paid off in May 2013.

Net Loss. Loss from continuing operations was \$45.8 million for the six months ended June 30, 2013, compared to a loss of \$19.3 million for the same period in 2012. This increase is primarily due to the hiring of our sales force as well as an increase in sales and marketing costs associated with the commercial launch of Oxtellar XR, which occurred in February 2013, and the expected launch of Trokendi XR in the third quarter of 2013, as well as the change in fair value of our derivative liabilities and loss on the extinguishment of our debt facility.

### Liquidity and Capital Resources

Our working capital at June 30, 2013 was \$94.7 million, an increase of \$26.2 million compared to our working capital of \$68.5 million at December 31, 2012. This increase is attributable to the closing of our \$90.0 million offering of Convertible Senior Secured Notes on May 3, 2013, and cash received for product shipments of Oxtellar XR to wholesalers and specialty distributors. Working capital decreased as a result of our continued loss from operations as we have continued our clinical development programs and continued to increase our sales, marketing, and manufacturing activities to support the launch of Oxtellar XR and prepare for the expected commercial launch of Trokendi XR in the third quarter as well as the extinguishment of secured credit facility in May 2013.

We expect to continue to incur significant sales and marketing expenses in 2013 related to the launches of Oxtellar XR and of Trokendi XR. In addition, we expect to incur substantial expenses related to our research and development efforts, primarily related to development efforts for SPN-810 and SPN-812.

On May 3, 2013, we issued \$90.0 million aggregate principal amount of 7.50% Convertible Senior Secured Notes due 2019 (the "Notes") to qualified institutional buyers, the initial purchasers of the Notes (the "Initial Purchasers"). The Company issued the Notes under an Indenture, dated May 3, 2013 (the "Indenture"), between the Company and U.S. Bank National Association, as Trustee and Collateral Agent.

Aggregate estimated offering expenses in connection with the transaction, including the Initial Purchasers' discount of \$3.0 million, were approximately \$3.5 million resulting in net proceeds of approximately \$86.5 million. We used approximately \$19.6 million of these net proceeds to repay in full our borrowings under and terminate our existing secured credit facility. The remainder of the net proceeds will be used to fund the commercialization of our approved and tentatively approved products, Oxtellar XR and Trokendi XR, as well as to continue development of our pipeline products and for other general corporate purposes, which may include research and development expenses, capital expenditures, working capital and general administrative expenses. We believe that the net proceeds of this offering, along with our current working capital, will be sufficient to fund operations through the end of 2014, by which time we project to be cash flow break even.



The Notes provide for 7.50% interest per annum on the principal amount of the Notes, payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2013. Interest will accrue on the Notes from and including May 3, 2013, and the Notes will mature on May 1, 2019, unless earlier converted, redeemed or repurchased by the Company. The Notes are secured by a first-priority lien, other than customary permitted liens, on substantially all of our and our domestic subsidiaries' assets, whether now owned or hereafter acquired. (See Note 9 for additional information)

## Cash Flows

The following table sets forth the major sources and uses of cash for the periods set forth below:

	Six Months Ended June 30,	
	2013	2012
	(unaudited) (in thousands)	
Net cash (used in) provided by:		
Operating activities	\$ (32,978)	\$ (19,757)
Investing activities	\$ (37,628)	\$ (29,310)
Financing Activities	\$ 64,211	\$ 47,765
Net decrease in cash and cash equivalents	\$ (6,395)	\$ (1,302)

## Operating Activities

Net cash used in operating activities for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 increased by \$13.2 million. This change in cash flows from operating activities was primarily the result of an increase in net loss of \$26.5 million primarily related to increased sales and marketing costs, the \$8.6 million non-cash charge for the change in fair value of derivative liabilities and \$1.2 million loss on extinguishment of debt. The increased net loss was partially offset by cash provided by changes in working capital. The changes in working capital are, in thousands:

	June 30, 2013 (unaudited)	
Increase in accounts receivable	\$ (537)	Shipment of product to wholesalers.
Increase in inventory	(3,163)	Build up of inventory for product sales.
Increase in accounts payable and accrued expenses	2,335	Increases in sales and marketing activity. Sales price net of expected cost and licensing agreements.
Increase in deferred revenue	4,362	
	\$ 2,997	

## Investing Activities

Our investing activities are principally driven by cash provided by our financing activities. We invest excess cash in accordance with our investment policy. Marketable securities consist of investments in U.S. Treasuries and various government agency debt securities, as well as investment grade securities in industrial and financial institutions which generally mature in eighteen months or less. Fluctuations in investing activities between periods relate exclusively to the timing of marketable security purchases and the related sale and maturities of these securities.

Net cash used in investing activities for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 increased by \$8.3 million. This increase was primarily the result of purchasing additional marketable securities to provide funds for our clinical development programs and our sales, marketing and manufacturing activities for the commercial launch of Oxtellar XR and in preparation for the commercial launch of Trokendi XR in the third quarter of 2013.

## Financing Activities

Net cash provided by financing activities for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 increased by \$16.4 million. This increase was primarily the result of \$86.5 million of net proceeds from Convertible Debt issued, offset by \$24.3 million for the repayment of outstanding secured notes payable. In May 2012, we received net proceeds of \$47.6 million from our initial public offering of common stock.

## Off-Balance Sheet Arrangements

We do not currently have, nor have we ever had, any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts.

## Recent Accounting Pronouncements

In April 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which amended interim and annual reporting requirements about accumulated other comprehensive income (AOCI). In interim periods, companies are required to report information about reclassifications out of AOCI and changes in AOCI balances. The provision of ASU 2013-02 became effective for the first quarter of 2013. The adoption of ASU 2013-02 did not have a material effect on the Company's consolidated results of operations, financial position or liquidity.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary objective of our investment activities is to preserve our capital to fund operations. We also seek to maximize income from our investments without assuming significant risk. Our exposure to market risk is confined to our cash, cash equivalents and marketable securities. As of June 30, 2013, we had unrestricted cash, cash equivalents, and marketable securities of \$118.7 million. We do not engage in any hedging activities against changes in interest rates. Because of the short-term maturities of our cash, cash equivalents and marketable securities and because we hold these securities to maturity, we do not believe that an increase in market rates would have any significant impact on the realized value of our investments. We do not have any currency or other derivative financial instruments.

We contract with contract research organizations and investigational sites globally. We may be subject to fluctuations in foreign currency rates in connection with these agreements, primarily with respect to Euro denominated contracts. We do not hedge our foreign currency exchange rate risk. A hypothetical 10% appreciation in Euro exchange rates against the U.S. dollar from prevailing market rates would have increased our net loss by approximately \$121,000 for the three months ended June 30, 2013. Conversely, a hypothetical 10% depreciation in Euro exchange rates against the U.S. dollar from prevailing market rates would have decreased our net loss by approximately \$121,000 for the three months ended June 30, 2013. We do not believe that inflation and changing prices over the three and six months ended June 30, 2013 and 2012 had a significant impact on our consolidated results of operations.

### Item 4. Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

We conducted an evaluation, and under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15(b) and 15d-15(b) under the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2013.

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

#### Changes in Internal Control over Financial Reporting

There have been no significant changes in our internal control over financial reporting during the six months ended June 30, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time and in the ordinary course of business, we are subject to various claims, charges and litigation. We may be required to file infringement claims against third parties for the infringement of our patents. On June 26, 2013, the Company received a Paragraph IV Notice Letter from Watson Laboratories, Inc. ("Watson") advising Supernus of the filing by Watson of an Abbreviated New Drug Application seeking approval for oxcarbazepine extended-release tablets. Supernus intends to vigorously enforce its intellectual property rights relating to Oxtellar XR and plans to initiate a lawsuit against Watson. The product is currently protected by two issued patents that are listed in the FDA's Orange Book. The outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to us, and may have a material adverse impact on our business.

The Company received a Paragraph IV Notice Letter against our Oxtellar XR Orange Book patents from generic drug makers Actavis Inc., Watson Laboratories, Inc. – Florida, Actavis Pharma, Inc., Watson Laboratories, Inc., and Anda, Inc. (collectively “Watson”) on June 26, 2013. On August 7, 2013 the Company filed a lawsuit against Watson alleging infringement of two patents covering its antiepileptic drug Oxtellar XR. Supernus’s United States Patent Nos. 7,722,898 and 7,910,131 cover once-a-day oxcarbazepine formulations and methods of treating seizures using those formulations. Both patents do not expire until April 13, 2027.

The Complaint—filed in the U.S. District Court for the District of New Jersey—alleges that Watson infringed Supernus’s Oxtellar XR patents by submitting to the Food and Drug Administration (“FDA”) an Abbreviated New Drug Application (“ANDA”) seeking to market a generic version of Oxtellar XR prior to the expiration of Supernus’s patents. Filing its Complaint within 45 days of receiving Watson’s Paragraph IV certification notice entitles Supernus to an automatic stay preventing the FDA from approving Watson’s ANDA for 30 months.

#### Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. Before making an investment decision, you should carefully consider the risks described below with all of the other information we include in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statement and related notes, and the additional information in the other reports we file with the Securities and Exchange Commission (the “SEC” or the “Commission”). These risks may result in material harm to our business and our financial condition and results of operations. In this event, the market price of our common stock may decline and you could lose part or all of your investment.

The risks described below reflect substantive changes from, or additions to, the risks described in our Annual Report on Form 10-K for the year ended December 31, 2012.

We may issue additional shares of our common stock or instruments convertible into shares of our common stock, including in connection with the conversion of our Notes, and thereby materially and adversely affect the market price of our common stock and the trading price of our Notes.

We may conduct future offerings of our common stock, preferred stock or other securities convertible into our common stock to fund acquisitions, finance operations or for other purposes. In addition, as of June 30, 2013, we had outstanding 30,940,330 shares of common stock, of which approximately 19,570,598 shares are restricted securities that may be sold only in accordance with the resale restrictions under Rule 144 of the Securities Act. Also, as of June 30, 2013, we had outstanding options to purchase 1,417,638 shares of common stock and warrants to purchase 42,083 shares of common stock that, if exercised, would result in these additional shares becoming available for sale. A large portion of these shares, options and warrants are held by a small number of persons and investment funds. Moreover, certain holders of shares of common stock have rights, subject to some conditions, that require us to file registration statements covering the shares they currently hold, or to include these shares in registration statements that we may

file for ourselves or other stockholders. We have also registered all common stock subject to options outstanding or reserved for issuance under our 2005 Stock Plan, 2012 Equity Incentive Plan and 2012 Employee Stock Purchase Plan. An aggregate of 1,449,293 and 174,756 shares of our common stock are reserved for future issuance under the 2012 Equity Incentive Plan and the 2012 Employee Stock Purchase Plan, respectively. In addition, 16,983,531 shares of our common stock are presently reserved for future issuance upon conversion of the Notes. These shares will be eligible for resale in the public market upon issuance.

Servicing our indebtedness requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial indebtedness.

As of June 30, 2013, we have issued and outstanding convertible notes in the aggregate principal amount of \$90.0 million. Servicing our indebtedness will require the dedication of a portion of our expected cash flow from operations, thereby reducing the amount of our cash flow available for other purposes. In addition, our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive, regulatory and other factors beyond our control. Historically, our business has generated losses and we expect to continue to incur significant and increasing operating losses for the foreseeable future. Accordingly, the cash flow from operations in the future may be insufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. If we raise additional debt, it would increase our interest expense, leverage and operating financial costs. In addition, the terms of the Indenture governing the Notes and the agreements governing our future indebtedness may restrict us from

adopting any of these alternatives. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations. Our lack of cash resources or failure to generate sufficient cash flow or to affect any of these alternatives could significantly adversely affect our ability to pay amounts due under the Notes.

Our significant level of indebtedness could adversely affect our business, financial condition and results of operations and prevent us from fulfilling our obligations under the Notes.

We have a significant amount of indebtedness and substantial debt service requirements. As of June 30, 2013, we have issued and outstanding convertible notes in the aggregate principal amount of \$90.0 million. Subject to certain conditions and limitations in the Indenture governing the Notes, we may also incur additional indebtedness, including secured debt, to meet future financing needs.

Our substantial indebtedness could have important and significant effects on our business, financial condition and results of operations. For example, it could:

- make it more difficult for us to satisfy our financial obligations, including with respect to the Notes;
- result in an event of default if we fail to comply with the covenants contained in the Indenture governing the Notes and any agreement governing our existing or future indebtedness, if any, which event of default could result in all of our debt becoming immediately due and payable;
- increase our vulnerability to general adverse economic, industry and competitive conditions;
- reduce the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes because we will be required to dedicate a substantial portion of our cash flow from operations to the payment of principal and interest on our indebtedness;
- subject us to increased sensitivity to interest rate increases on our existing and future indebtedness, if any, with variable interest rates;
- limit our flexibility in planning for, or reacting to, and increasing our vulnerability to changes in our business, the industry in which we operate and the general economy;
- prevent us from raising funds necessary to repurchase Notes tendered to us if there is a “fundamental change” or pay the interest make-whole payment that may be due in cash in connection with certain conversions of the Notes under the Indenture governing the Notes;
- place us at a competitive disadvantage compared to our competitors that have less indebtedness or are less highly leveraged and that, therefore, may be able to take advantage of opportunities that our debt levels or leverage prevent us from exploiting; and
- limit our ability to obtain additional financing.

Each of these factors may have a material and adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the Notes and our future indebtedness, if any.



Our ability to make payments with respect to the Notes and to satisfy any other debt obligations will depend on our future operating performance and our ability to generate significant cash flow in the future, which will be affected by prevailing economic conditions and financial, business, competitive, legislative and regulatory factors as well as other factors affecting our company and industry, many of which are beyond our control.

The Indenture governing the Notes contains restrictions that will limit our operating flexibility, and we may incur additional debt in the future that may include similar or additional restrictions.

The Indenture governing the Notes contains covenants that, among other things, restrict our and our existing and future subsidiaries' ability to take specific actions, even if we believe them to be in our best interest. These covenants include restrictions on our ability to:

- incur additional indebtedness and issue certain types of preferred stock;
- make investments in our foreign subsidiaries; and
- enter into mergers, consolidations or sales or leases of all or substantially all of our assets.

These covenants limit our operational flexibility and could prevent us from taking advantage of business opportunities as they arise, growing our business or competing effectively.

A breach of any of these covenants or other provisions in our debt agreements could result in an event of default, which if not cured or waived, could result in such debt becoming immediately due and payable. This, in turn, could cause our other debt to become due and payable as a result of cross-default or cross-acceleration provisions contained in the agreements governing such other debt. In the

event that some or all of our debt is accelerated and becomes immediately due and payable, we may not have the funds to repay, or the ability to refinance, such debt.

We may not be permitted, by the agreements governing our existing or future indebtedness, to pay any interest make-whole payment upon conversion in cash, requiring us to issue shares for such amounts, which could result in significant dilution to our stockholders.

If a holder elects to convert some or all of their Notes on or after November 1, 2013, if, for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading day period ending within five trading days prior to a conversion date the last reported sale price of our common stock exceeds the applicable conversion price on each such trading day, we will pay such holder an interest make-whole payment in cash or common stock for the Notes being converted. We have the option to issue our common stock to any converting holder in lieu of making the interest make-whole payment in cash. If we elect to issue our common stock for such payment, then the stock will be valued at 95% of the simple average of the daily volume-weighted average price ("VWAP") of our common stock for the 10 trading days ending on and including the trading day immediately preceding the conversion date. Agreements governing our existing or future indebtedness may prohibit us from making cash payments in respect of the interest make-whole amount upon a conversion. Notwithstanding the foregoing, in no event will the shares we deliver in connection with a conversion, including those delivered in connection with the interest make-whole amount and repayment of principal, exceed 221.7294 shares per \$1,000 principal amount of Notes, subject to adjustment. If, pursuant to our election to deliver common stock in connection with the payment of the interest make-whole amount, we would be required to deliver a number of shares of common stock in excess of such threshold, we will deliver cash in lieu of any shares otherwise deliverable upon conversions in excess thereof (based on the simple average of the daily VWAP for the 10 trading days ending on and including the trading day immediately preceding the conversion date).

We may not have the ability to raise the funds necessary to pay the interest on our Notes, the principal amount of the Notes when due at maturity, redemption or otherwise, the amount of cash due upon conversion of the Notes, if relevant, or the fundamental change purchase price due when a holder submits its Notes for purchase upon the occurrence of a fundamental change, and the agreements governing our existing and future indebtedness may contain limitations on our ability to pay certain of such cash obligations.

Our Notes bear interest annually at a rate of 7.50% per year which interest is payable semi-annually on May 1 and November 1 beginning on November 1, 2013. In addition, in certain circumstances, we are obligated to pay additional interest on the Notes. At maturity or on the redemption date, if any, the entire outstanding principal amount of the Notes will become due and payable by us with respect to Notes that have not been previously converted or purchased by us. Also, upon the occurrence of an event of default, we may be required to repay the principal amount of Notes. Also, upon the occurrence of a fundamental change, holders may require us to purchase, for cash, all or a portion of their Notes at a fundamental change purchase price. Further, if we obtain stockholder approval, we may elect to settle conversions of the Notes partially or entirely in cash.

Such payments could be significant, and there can be no assurance that we will have sufficient financial resources, or will be able to arrange financing, so that we can make such payments when due. The terms of the Indenture that govern the Notes may limit our ability to obtain such financing. In addition, the occurrence of a fundamental change may cause an event of default under agreements governing our or our existing or future subsidiaries' indebtedness. Agreements governing any future debt may also restrict our ability to make certain of the required cash payments even if we have sufficient funds to make them. Furthermore, our ability to satisfy such cash obligations may be limited by law or regulatory authority. In addition, if we fail to pay such cash obligations, we will be in default under the Indenture. A default under the Indenture or the fundamental change itself could also lead to a default under agreements governing our indebtedness, which in turn may result in the acceleration of other indebtedness we may then have. If the repayment of the other indebtedness were to be accelerated, we may not have sufficient funds to repay that indebtedness and to make such payments.

The fundamental change provisions of the Notes may delay or prevent an otherwise beneficial takeover attempt of us.

The fundamental change purchase rights, which will allow holders to require us to purchase all or a portion of their Notes upon the occurrence of a fundamental change, and the provisions requiring an increase to the conversion rate for conversions in connection with a make-whole fundamental change may in certain circumstances delay or prevent a takeover of us and the removal of incumbent management that might otherwise be beneficial to investors.

The number of shares of our common stock that may be issued upon conversion of the Notes may have an adverse effect on our stock price.

The holders of Notes have the right to convert the Notes into an aggregate of 16,983,531 shares of our common at any time. In addition, in certain instances we may issue additional shares of our common stock to holders who convert their Notes in order to satisfy our obligation to pay an interest make-whole payment to these note holders or who convert their Notes in connection with a transaction that constitutes a “make-whole fundamental change” under the Indenture governing the Notes. The possibility that we may issue a substantial number of shares of common stock to the holders of Notes in connection with conversions and thus substantially increase the number of issued shares of our common stock outstanding may have an adverse effect on our stock price for as long as the Notes remain outstanding.

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

(a) Sales of Unregistered Securities.

During the three months ended June 30, 2013, the Company granted options to an employee to purchase an aggregate of 500 shares of common stock at an exercise price of \$5.40 per share. The options are exercisable for a period of ten years from the grant date. These issuances were exempt from registration in reliance on Section 4(2) of the Securities Act as transactions not involving any public offering.

On May 3, 2013, the Company issued \$90.0 million aggregate principal amount of 7.50% Convertible Senior Secured Notes due 2019 (the "Notes") to qualified institutional buyers, the initial purchasers of the Notes. The Company issued the Notes under an Indenture, dated May 3, 2013, between the Company and U.S. Bank National Association, as Trustee and Collateral Agent. The issuance of the Notes was exempt from registration in reliance on Rule 144A promulgated under the Securities Act.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

The following exhibits are filed or furnished as part of this Quarterly Report on Form 10-Q:

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) (filed herewith).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) (filed herewith).

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 (filed herewith).

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document



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.

SUPERNUS  
PHARMACEUTICALS, INC.

DATED: August 14, 2013    By: /s/ Jack A. Khattar  
Jack A. Khattar  
President, Secretary and  
Chief Executive Officer

DATED: August 14, 2013    By: /s/ Gregory S. Patrick  
Gregory S. Patrick  
Vice President and Chief  
Financial Officer



EXHIBIT INDEX

Number	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
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.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document