SUPERNUS PHARMACEUTICALS INC
Form 10-Q
May 06, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from to

Commission File Number: 001-35518

SUPERNUS PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-2590184**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1550 East Gude Drive, Rockville, MD	**20850**
(Address of principal executive offices)	(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. x Yes o 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). x Yes o 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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of outstanding shares of the registrant s common stock, par value $0.001 per share, as of the close of business on May 4, 2015 was 47,762,504.

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SUPERNUS PHARMACEUTICALS, INC.

FORM 10-Q QUARTERLY REPORT

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015

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PART I FINANCIAL INFORMATION

Supernus Pharmaceuticals, Inc.

Consolidated Balance Sheets

(in thousands, except share amounts)

	March 31, 2015 (unaudited)	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 25,810	$ 36,396
Marketable securities	39,026	37,940
Accounts receivable, net	19,271	17,270
Inventories, net	13,702	13,441
Prepaid expenses and other current assets	3,696	3,845
Total current assets	101,505	108,892
Long term marketable securities	27,315	19,816
Property and equipment, net	2,481	2,448
Intangible assets, net	7,839	5,434
Other non-current assets	497	918
Total assets	$ 139,637	$ 137,508
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 859	$ 1,863
Accrued expenses	25,853	25,487
Deferred licensing revenue	143	143
Total current liabilities	26,855	27,493
Deferred licensing revenue, net of current portion	1,238	1,274
Convertible notes, net of discount	11,708	26,947
Other non-current liabilities	2,561	3,876
Derivative liabilities	2,691	6,564
Total liabilities	45,053	66,154
Stockholders equity:		
Common stock, $0.001 par value, 130,000,000 shares authorized at March 31, 2015 and December 31, 2014; 47,513,429 and 42,974,463 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	48	43
Additional paid-in capital	252,341	230,122
Accumulated other comprehensive loss	(65)	(154)
Accumulated deficit	(157,740)	(158,657)
Total stockholders equity	94,584	71,354
Total liabilities and stockholders equity	$ 139,637	$ 137,508

See accompanying notes.

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Supernus Pharmaceuticals, Inc.

Consolidated Statements of Operations

(in thousands, except share and per share data)

	Three Months ended March 31,	
	2015	2014
	(unaudited)	
Revenue		
Net product sales	$ 28,097	$ 8,995
Licensing revenue	36	86
Total revenue	28,133	9,081
Costs and expenses		
Cost of product sales	1,618	494
Research and development	3,683	4,482
Selling, general and administrative	19,402	17,527
Total costs and expenses	24,703	22,503
Operating income (loss)	3,430	(13,422)
Other income (expense)		
Interest income	113	102
Interest expense	(381)	(1,207)
Changes in fair value of derivative liabilities	(49)	677
Loss on extinguishment of debt	(2,134)	(1,693)
Total other income (expense)	(2,451)	(2,121)
Earnings (loss) before income taxes	979	(15,543)
Income tax expense	62	
Net income (loss)	$ 917	$ (15,543)
Income (loss) per common share:		
Basic	$ 0.02	$ (0.38)
Diluted	$ 0.02	$ (0.38)
Weighted-average number of common shares:		
Basic	44,563,299	41,129,055
Diluted	44,901,298	41,129,055

See accompanying notes.

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Supernus Pharmaceuticals, Inc.

Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

	Three Months ended March 31,	
	2015	2014
	(unaudited)	
Net income (loss)	$ 917	$ (15,543)
Other comprehensive income:		
Unrealized net gain on marketable securities	89	1
Other comprehensive income:	89	1
Comprehensive income (loss)	$ 1,006	$ (15,542)

See accompanying notes.

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Supernus Pharmaceuticals, Inc.

Consolidated Statements of Cash Flows

(in thousands)

	Three Months ended March 31,	
	2015	**2014**
	(unaudited)	
Cash flows from operating activities		
Net income (loss)	$ 917	$ (15,543)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:		
Loss on extinguishment of debt	2,134	1,693
Change in fair value of derivative liability	49	(677)
Unrealized gain on marketable securities	89	1
Depreciation and amortization	214	227
Amortization of deferred financing costs and debt discount	374	574
Share-based compensation expense	901	667
Changes in operating assets and liabilities:		
Accounts receivable	(2,001)	(4,671)
Inventories	(261)	(805)
Prepaid expenses and other assets	38	(660)
Accounts payable	(1,004)	(975)
Accrued expenses	366	(2,681)
Deferred product revenue, net		4,389
Deferred licensing revenue	(36)	(67)
Other non-current liabilities	(1,277)	(576)
Net cash provided by (used in) operating activities	503	(19,104)
Cash flows from investing activities		
Purchases of marketable securities	(17,315)	(9,406)
Sales and maturities of marketable securities	8,731	9,096
Purchases of property and equipment, net	(189)	(263)
Deferred legal fees	(2,463)	(1,056)
Net cash used in investing activities	(11,236)	(1,629)
Cash flows from financing activities		
Proceeds from issuance of common stock	147	6
Cash settlement of debt to equity conversion		(1)
Net cash provided by financing activities	147	5
Net change in cash and cash equivalents	(10,586)	(20,728)
Cash and cash equivalents at beginning of period	36,396	32,980
Cash and cash equivalents at end of period	$ 25,810	$ 12,252
Noncash financial activity:		
Conversion of convertible notes and interest make-whole	$ 21,176	$ 10,418

See accompanying notes.

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Supernus Pharmaceuticals, Inc.
Notes to Consolidated Financial Statements

For the Three Months ended March 31, 2015 and 2014
(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 (CNS) diseases, including neurological and psychiatric disorders. The Company markets two epilepsy products, Oxtellar XR and Trokendi XR, and has several proprietary product candidates in clinical development that address the psychiatry market.

The Company commenced the commercialization of Oxtellar XR and Trokendi XR in 2013.

2. 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 the requirements of the U.S. Securities and Exchange Commission (SEC) for interim financial information.

As permitted under Generally Accepted Accounting Principles in the United States (U.S. GAAP), certain notes and other information have been omitted from the interim unaudited 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 Annual Report on Form 10-K for the year ended December 31, 2014.

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.

The results of operations for the three months ended March 31, 2015 are not necessarily indicative of the Company s future financial results.

Accounts Receivable, net

Accounts receivable are reported in the consolidated balance sheets at outstanding amounts, less an allowance for doubtful accounts and 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 accounts have been written off in 2015 and 2014. The Company recorded an allowance of approximately $3.4 million and $4.1 million for expected sales discounts as of March 31, 2015 and December 31, 2014, respectively.

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Revenue Recognition

Revenue from product sales is recognized when persuasive evidence of an arrangement exists; delivery has occurred and title to 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. Product sales are recorded net of estimated rebates, chargebacks, discounts, co-pay assistance and other deductions as well as estimated product returns (collectively, sales deductions).Our products are distributed through wholesalers and pharmaceutical distributors. Each of these wholesalers and distributors will take title and ownership to the product upon physical receipt of the product and then distribute our products to pharmacies. For the three months ended March 31, 2015, the revenue for Oxtellar XR and Trokendi XR was recognized contemporaneously upon shipment of finished product to wholesalers, net of allowances for estimated sales deductions and returns. For the three months ended March 31, 2014, Oxtellar XR revenue was recognized contemporaneously upon shipment of finished product to wholesalers, net of allowances for estimated sales deductions and returns. The Trokendi XR revenue for the three months ended March 31, 2014 was recognized for prescriptions filled during the fourth quarter of 2013. During the three month period ended March 31, 2014, the Company recorded shipments of Trokendi XR to wholesalers as deferred revenue i.e., sales price net of known sales deductions (e.g. prompt pay discounts and other similar charges defined below). At the time, we lacked the experiential data which would allow us to estimate all remaining sales rebates, allowances and returns. The Company moved to contemporaneous revenue recognition for Trokendi XR in the second quarter of 2014.

Sales Deductions

Allowances for estimated sales deductions are provided for the following:

- Rebates. Rebates include mandated discounts under the Medicaid Drug Rebate Program, the Medicare coverage gap 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 a plan provider s utilization. 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 as consideration for distributing our products. 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. The intent of this program is to reduce the patient s out of pocket costs. Liabilities for co-pay assistance are 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.

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Milestone Payments

Milestone payments on licensing agreements are 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. The Company recorded no milestone revenue during the three months ended March 31, 2015 and 2014.

Cost of Product Sales

The cost of product sales consist primarily of materials, third-party manufacturing costs, freight and distribution costs, allocation of labor, quality control and assurance, and other manufacturing overhead costs.

Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax reporting bases of assets and liabilities and are measured using enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Valuation allowances are established to reduce deferred tax assets to the amounts expected to be realized.

The Company accounts for uncertain tax positions in its consolidated financial statements when it is more-likely-than-not that the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. The Company s policy is to recognize any interest and penalties related to income taxes in income tax expense.

During the three months ended March 31, 2015, the Company had pre-tax income of $1.0 million. The provision for Federal and state income taxes related to such pre-tax income has been largely offset by the utilization of available net operating loss carryforwards (NOL s). Accordingly, the Company reduced its valuation allowance against its deferred tax assets and recognized an income tax expense for the jurisdictions that did not have sufficient NOL s to offset the expected tax expense.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 will eliminate transaction- and industry-specific revenue recognition guidance under current GAAP and replace it with a principles-based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize

revenue based on the value of transferred goods or services as they occur in the contract. The ASU also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. Entities can transition to the standard either retrospectively or as a cu