

SUPERNUS PHARMACEUTICALS INC  
Form 10-Q  
August 05, 2016  
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**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, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35518

## SUPERNUS PHARMACEUTICALS, INC.

(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

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 29, 2016 was 49,508,476.



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**SUPERNUS PHARMACEUTICALS, INC.**

**FORM 10-Q QUARTERLY REPORT**

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016**

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Table of Contents**PART I FINANCIAL INFORMATION****Supernus Pharmaceuticals, Inc.****Consolidated Balance Sheets****(in thousands, except share amounts)**

|   | <b>June 30,<br/>2016<br/>(unaudited)</b> | <b>December 31,<br/>2015</b> |
|---|--|------------------------------|
| <b>Assets</b>   |  |                              |
| Current assets:   |  |                              |
| Cash and cash equivalents   | \$ 36,156                                | \$ 34,152                    |
| Marketable securities   | 24,058                                   | 28,038                       |
| Accounts receivable, net  | 34,281                                   | 25,908                       |
| Inventories, net  | 16,373                                   | 12,587                       |
| Prepaid expenses and other current assets   | 3,272                                    | 5,261                        |
| <b>Total current assets</b>   | <b>114,140</b>                           | <b>105,946</b>               |
| Long term marketable securities   | 67,809                                   | 55,009                       |
| Property and equipment, net   | 4,193                                    | 3,874                        |
| Deferred legal fees   | 16,386                                   | 22,503                       |
| Intangible assets, net  | 15,785                                   | 976                          |
| Other non-current assets  | 320                                      | 318                          |
| <b>Total assets</b>   | <b>\$ 218,633</b>                        | <b>\$ 188,626</b>            |
| <b>Liabilities and stockholders equity</b>  |  |                              |
| Current liabilities:  |  |                              |
| Accounts payable  | \$ 2,243                                 | \$ 4,314                     |
| Accrued sales deductions  | 35,019                                   | 26,794                       |
| Accrued expenses  | 28,102                                   | 24,813                       |
| Deferred licensing revenue  | 208                                      | 176                          |
| <b>Total current liabilities</b>  | <b>65,572</b>                            | <b>56,097</b>                |
| Deferred licensing revenue, net of current portion  | 1,606                                    | 1,390                        |
| Convertible notes, net  | 5,699                                    | 7,085                        |
| Other non-current liabilities   | 4,322                                    | 4,325                        |
| Derivative liabilities  | 412                                      | 854                          |
| <b>Total liabilities</b>  | <b>77,611</b>                            | <b>69,751</b>                |
| <b>Stockholders equity:</b>   |  |                              |
| Common stock, \$0.001 par value, 130,000,000 shares authorized at June 30, 2016 and December 31, 2015; 49,508,476 and 49,004,674 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively | 50                                       | 49                           |
| Additional paid-in capital  | 270,059                                  | 263,955                      |
| Accumulated other comprehensive income (loss)   | 549                                      | (488)                        |
| Accumulated deficit   | (129,636)                                | (144,641)                    |
| <b>Total stockholders equity</b>  | <b>141,022</b>                           | <b>118,875</b>               |
| <b>Total liabilities and stockholders equity</b>  | <b>\$ 218,633</b>                        | <b>\$ 188,626</b>            |

See accompanying notes.

Table of Contents**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, |            |
|---|-----------------------------|------------|---------------------------|------------|
|   | 2016                        | 2015       | 2016                      | 2015       |
|   | (unaudited)                 |            | (unaudited)               |            |
| Revenue   |                             |            |                           |            |
| Net product sales                                     | \$ 50,335                   | \$ 34,266  | \$ 93,360                 | \$ 62,363  |
| Licensing revenue                                     | 86                          | 786        | 135                       | 822        |
| Total revenue   | 50,421                      | 35,052     | 93,495                    | 63,185     |
| Costs and expenses                                    |                             |            |                           |            |
| Cost of product sales                                 | 2,751                       | 1,762      | 4,786                     | 3,380      |
| Research and development                              | 11,109                      | 6,878      | 21,671                    | 10,561     |
| Selling, general and administrative                   | 26,121                      | 23,336     | 51,281                    | 42,737     |
| Total costs and expenses                              | 39,981                      | 31,976     | 77,738                    | 56,678     |
| Operating income                                      | 10,440                      | 3,076      | 15,757                    | 6,507      |
| Other income (expense)                                |                             |            |                           |            |
| Interest income                                       | 363                         | 137        | 694                       | 250        |
| Interest expense                                      | (196)                       | (331)      | (375)                     | (712)      |
| Changes in fair value of derivative liabilities       | 123                         | 1          | 224                       | (48)       |
| Loss on extinguishment of debt                        |                             | (241)      | (382)                     | (2,375)    |
| Other income (expense)                                | 2                           | 25         | (1)                       | 25         |
| Total other income (expense)                          | 292                         | (409)      | 160                       | (2,860)    |
| Earnings before income taxes                          | 10,732                      | 2,667      | 15,917                    | 3,647      |
| Income tax expense                                    | 714                         | 662        | 912                       | 724        |
| Net income  | \$ 10,018                   | \$ 2,005   | \$ 15,005                 | \$ 2,923   |
| Income per common share:                              |                             |            |                           |            |
| Basic   | \$ 0.20                     | \$ 0.04    | \$ 0.30                   | \$ 0.06    |
| Diluted   | \$ 0.18                     | \$ 0.03    | \$ 0.28                   | \$ 0.06    |
| Weighted-average number of common shares outstanding: |                             |            |                           |            |
| Basic   | 49,427,825                  | 47,911,932 | 49,333,962                | 46,246,866 |
| Diluted   | 51,745,342                  | 52,273,549 | 51,484,686                | 47,687,992 |

See accompanying notes.





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**Supernus Pharmaceuticals, Inc.**

**Consolidated Statements of Comprehensive Income (Loss)**

(in thousands)

|   | Three Months ended June 30,<br>2016<br>(unaudited) |        | Six Months ended June 30,<br>2016<br>(unaudited) |       | 2015 |        |
|---|--|--------|--|-------|------|--------|
| Net income  | \$   | 10,018 | \$   | 2,005 | \$   | 15,005 |
| Other comprehensive income:                         |  |        |  |       |      |        |
| Unrealized net gain (loss) on marketable securities |  | 381    |  | (86)  |      | 1,037  |
| Other comprehensive income (loss):                  |  | 381    |  | (86)  |      | 1,037  |
| Comprehensive income                                | \$   | 10,399 | \$   | 1,919 | \$   | 16,042 |
|   |  |        |  |       | \$   | 2,923  |

See accompanying notes.

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## Supernus Pharmaceuticals, Inc.

## Consolidated Statements of Cash Flows

(in thousands)

|   | Six Months ended June 30, |                 |
|---|---------------------------|-----------------|
|   | 2016                      | 2015            |
|   | (unaudited)               |                 |
| <b>Cash flows from operating activities</b>                                       |                           |                 |
| Net income  | \$ 15,005                 | \$ 2,923        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                           |                 |
| Loss on extinguishment of debt  | 382                       | 2,375           |
| Change in fair value of derivative liability                                      | (224)                     | 48              |
| Depreciation and amortization   | 1,117                     | 431             |
| Non-cash interest expense, net/ interest income, net                              | 405                       | 524             |
| Share-based compensation expense  | 2,971                     | 2,020           |
| Changes in operating assets and liabilities:                                      |                           |                 |
| Accounts receivable   | (8,373)                   | (630)           |
| Inventories   | (3,786)                   | (151)           |
| Prepaid expenses and other assets   | 1,989                     | (738)           |
| Accounts payable  | (2,071)                   | 2,655           |
| Accrued sales deduction   | 8,225                     | 7,527           |
| Accrued expenses  | (2,249)                   | (1,261)         |
| Deferred licensing revenue  | 248                       | (72)            |
| Other non-current liabilities   | (4)                       | (482)           |
| <b>Net cash provided by operating activities</b>                                  | <b>13,635</b>             | <b>15,169</b>   |
| <b>Cash flows from investing activities</b>                                       |                           |                 |
| Purchases of marketable securities  | (23,693)                  | (34,274)        |
| Sales and maturities of marketable securities                                     | 15,658                    | 21,865          |
| Purchases of property and equipment   | (903)                     | (777)           |
| Deferred legal fees   | (3,688)                   | (6,278)         |
| <b>Net cash used in investing activities</b>                                      | <b>(12,626)</b>           | <b>(19,464)</b> |
| <b>Cash flows from financing activities</b>                                       |                           |                 |
| Proceeds from issuance of common stock  | 995                       | 1,009           |
| <b>Net cash provided by financing activities</b>                                  | <b>995</b>                | <b>1,009</b>    |
| Net change in cash and cash equivalents   | 2,004                     | (3,286)         |
| Cash and cash equivalents at beginning of period                                  | 34,152                    | 36,396          |
| Cash and cash equivalents at end of period  | \$ 36,156                 | \$ 33,110       |
| Supplemental cash flow information:   |                           |                 |
| Cash paid for interest  | \$ 247                    | \$ 504          |
| Non-cash financial activity:  |                           |                 |
| Conversion of convertible notes and interest make-whole                           | \$ 2,138                  | \$ 25,056       |
| Deferred legal fees included in accounts payable and accrued expenses             | \$ 5,537                  | \$              |

See accompanying notes.



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**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements**

**For the Six Months ended June 30, 2016 and 2015**

**(unaudited)**

**1. Organization and Business**

Supernus Pharmaceuticals, Inc. (the Company) was incorporated in Delaware on March 30, 2005, and commenced operations on December 22, 2005. 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 consolidated financial statements include the accounts of Supernus Pharmaceuticals, Inc. and Supernus Europe Ltd., 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, 2015 filed with the SEC.

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 and six months ended June 30, 2016 are not necessarily indicative of the Company's future financial results.

### **Marketable Securities**

Marketable securities consist of investments in U.S. Treasuries, various U.S. governmental agency debt securities, corporate bonds and other fixed income securities. The Company's investments are classified as available for sale. Such securities are carried at estimated fair value, with any unrealized holding gains or losses reported, net of any tax effects reported, as accumulated other comprehensive income, which is a separate component of stockholders' equity. Realized gains and losses, and declines in value judged to be other-than-temporary, if any, are included in consolidated results of operations. A decline in the market value of any available for sale security below cost that is deemed to be other-than-temporary results in a reduction in fair value, which is charged to earnings in that period, and a new cost basis for the security is established. Dividend and interest income is recognized when earned. The cost of securities sold is calculated using the specific identification method. The Company places all investments with government, industrial, or financial institutions whose debt is rated as investment grade. The Company classifies all available-for-sale marketable securities with maturities greater than one year from the balance sheet date as non-current assets.

The Company established the Supernus Supplemental Executive Retirement Plan (SERP) for the sole purpose of receiving funds for executives from a previous SERP and providing a continuing deferral program under the Supernus SERP. As of June 30, 2016 and December 31, 2015, the fair value of the SERP was \$266,000 and \$263,000, respectively. The SERP assets were held in mutual fund investments. The fair value of these assets is included within other non-current assets on the consolidated balance sheets. A corresponding noncurrent liability is also included in the consolidated balance sheets to reflect the Company's obligation for the SERP. The Company has not made, and has no plans to make, contributions to the SERP. The securities are restricted in nature and can only be used for purposes of paying benefits under the SERP.

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**Accounts Receivable, net**

Accounts receivable are reported on 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. The Company recorded an allowance of approximately \$0.1 million as of June 30, 2016 and no accounts were written off as of December 31, 2015. The Company recorded an allowance of approximately \$4.8 million and \$3.8 million for expected sales discounts as of June 30, 2016 and December 31, 2015, respectively.

**Deferred Financing Costs**

Deferred financing costs consist of financing costs incurred by the Company in connection with the closing of the Company's 7.50% Convertible Senior Secured Notes due 2019 (the Notes) (see Note 8). The Company amortizes deferred financing costs over the term of the related debt using the effective interest method. When extinguishing debt, the related deferred financing costs are written off.

**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.

**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 healthcare 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 or estimated prior quarters' unpaid rebates. If actual future rebates vary from estimates, we may need to adjust balances of such rebates to reflect the actual expenditures of the Company with respect to these programs, 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 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.

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- **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. The Company will accept expired product six months prior and 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.

**Milestone Payments**

Milestone payments on licensing agreements are recognized as revenue when the collaborative partner acknowledges completion of the milestone and substantive effort (i.e., effort consistent with amount of the milestone) that 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 and six months ended June 30, 2016 and \$750,000 of milestone revenue during the three and six months ended June 30, 2015.

**Cost of Product Sales**

The cost of product sales consists 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 asset and 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.

**Recently Issued Accounting Pronouncements**



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In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-09,

Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The standard is intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax impact, classification on the statement of cash flows and forfeitures. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842). The standard requires a lessee to recognize assets and liabilities on the balance sheet for leases with lease terms greater than 12 months. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

In April 2015, FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. This ASU more closely aligns the treatment of debt issuance costs with debt discounts and premiums and requires debt issuance costs to be presented as a direct deduction from the carrying amount of the related debt. The amendments in this ASU are effective for financial statements issued for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. This guidance was applied on a retrospective basis and the Company was required to comply with the applicable disclosures for a change in accounting principle. The adoption of ASU 2015-03 resulted in a reclassification of deferred financing costs of \$104,000 from asset to liability classification on the Company's consolidated December 31, 2015 financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. ASU 2014-09 will eliminate transaction-and industry-specific revenue recognition guidance under current U.S. 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. The FASB has voted to approve a one-year deferral, changing the effective date to annual reporting periods beginning after December 15, 2017, with early adoption being permitted for periods ending after December 15, 2016. Entities can transition to the standard either retrospectively or as a cumulative effect adjustment as of the date of adoption. Presently, the Company is assessing what effect the adoption of ASU 2014-09 will have on our consolidated financial statements and accompanying notes and has not yet selected a method of adoption.

### 3. 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

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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 tier or 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 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).
- **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:

|   | <b>Fair Value Measurements at<br/>June 30, 2016<br/>(unaudited)</b> |  |  |  |
|---|---|--|--|--|
|   | <b>Total Carrying<br/>Value at<br/>June 30,<br/>2016</b>            | <b>Quoted Prices<br/>in Active<br/>Markets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| <b>Assets:</b>                            |   |  |  |  |
| Cash and cash equivalents                 | \$ 36,156   | \$ 36,156  | \$   | \$   |
| Marketable securities                     | 24,058  |  | 24,058   |  |
| Long term marketable securities           | 67,809  |  | 67,809   |  |
| Marketable securities - restricted (SERP) | 266   |  | 266  |  |
| Total assets at fair value                | \$ 128,289  | \$ 36,156  | \$ 92,133  | \$   |
| <b>Liabilities:</b>                       |   |  |  |  |
| Derivative liabilities                    | \$ 412  | \$   | \$   | \$ 412   |

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Fair Value Measurements at  
December 31, 2015

|  | Total Carrying<br>Value at<br>December 31,<br>2015 | Quoted Prices<br>in Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|--|--|---|--|
| <b>Assets:</b>                               |  |  |   |  |
| Cash and cash equivalents                    | \$ 34,152  | \$ 34,152  | \$  | \$   |
| Marketable securities                        | 28,038   |  | 28,038  |  |
| Long term marketable securities              | 55,009   |  | 55,009  |  |
| Marketable securities - restricted<br>(SERP) | 263  |  | 263   |  |
| Total assets at fair value                   | \$ 117,462   | \$ 34,152  | \$ 83,310   | \$   |
| <b>Liabilities:</b>                          |  |  |   |  |
| Derivative liabilities                       | \$ 854   | \$   | \$  | \$ 854   |

The fair value of the restricted marketable securities is included within other non-current assets in the consolidated balance sheets.

The Company's Level 1 assets include cash held with banks and money market funds.

Level 2 assets include the SERP assets, commercial paper and investment grade 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.

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Level 3 liabilities include the estimated fair value of the interest make-whole liability associated with the Company's Notes, which are recorded as derivative liabilities.

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, 2016, unaudited:

|                                 |                   |
|---------------------------------|-------------------|
| Volatility                      | 45%               |
| Stock Price as of June 30, 2016 | \$20.37 per share |
| Credit Spread                   | 900 bps           |
| Term                            | 10 months         |
| Dividend Yield                  | 0.0%              |

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

Changes in the fair value of 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 December 31, 2015 and June 30, 2016 that are included in the non-current liabilities section of the consolidated balance sheets, in thousands:

|  | <b>Six Months ended<br/>June 30, 2016<br/>(unaudited)</b> |       |
|--|---|-------|
| Balance at December 31, 2015   | \$  | 854   |
| Changes in fair value of derivative liabilities included in earnings |   | (224) |
| Reduction due to conversion of debt to equity                        |   | (218) |
| Balance at June 30, 2016   | \$  | 412   |

The carrying value, face value and estimated fair value of the Notes was approximately \$5.7 million, \$6.6 million and \$25.8 million, respectively, as of June 30, 2016. The fair value was estimated based on actual trade information as well as quoted prices provided by bond traders, which would be characterized within Level 2 of the fair value hierarchy. This fair value amount gives recognition to the value of the interest make-whole liability and the value of the conversion option. Upon issuance, these were accounted for as derivative liabilities and additional paid-in-capital, respectively.

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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:

At June 30, 2016 (unaudited):

| Available for Sale        | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---------------------------|----------------|------------------------|-------------------------|------------|
| Corporate debt securities | \$ 91,318      | 597                    | (48)                    | \$ 91,867  |

At December 31, 2015:

| Available for Sale        | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---------------------------|----------------|------------------------|-------------------------|------------|
| Corporate debt securities | \$ 83,535      | 5                      | (493)                   | \$ 83,047  |

The contractual maturities of the unrestricted available for sale marketable securities held by the Company were as follows, in thousands:

|                      | June 30, 2016<br>(unaudited) |
|----------------------|------------------------------|
| Less Than 1 Year     | \$ 24,058                    |
| 1-5 years            | 67,809                       |
| Greater Than 5 Years |                              |
| Total                | \$ 91,867                    |

The Company has not experienced any other-than-temporary losses on its marketable securities and restricted marketable securities. The cost of securities sold is calculated using the specific identification method.

#### 4. Inventories

Inventories consist of the following, in thousands:

|               | June 30,<br>2016<br>(unaudited) | December 31,<br>2015 |
|---------------|---------------------------------|----------------------|
| Raw materials | \$ 2,935                        | \$ 2,887             |

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|                 |           |           |
|-----------------|-----------|-----------|
| Work in process | 6,238     | 3,946     |
| Finished goods  | 7,200     | 5,754     |
|                 | \$ 16,373 | \$ 12,587 |

Table of Contents**5. Property and Equipment**

Property and equipment consist of the following, in thousands:

|  | <b>June 30,<br/>2016<br/>(unaudited)</b> | <b>December 31,<br/>2015</b> |
|--|--|------------------------------|
| Computer equipment                             | \$ 1,152                                 | \$ 1,112                     |
| Software                                       | 1,611                                    | 307                          |
| Lab equipment and furniture                    | 6,333                                    | 5,667                        |
| Leasehold improvements                         | 2,642                                    | 2,642                        |
| Construction in progress                       | 8  | 1,114                        |
|  | 11,746                                   | 10,842                       |
| Less accumulated depreciation and amortization | (7,553)                                  | (6,968)                      |
|  | \$ 4,193                                 | \$ 3,874                     |

Depreciation and amortization expense on property and equipment was approximately \$298,000 and \$585,000 for the three and six months ended June 30, 2016, and \$160,000 and \$317,000 for the three and six months ended June 30, 2015, respectively.

**6. Deferred Legal Fees and Intangible Assets**

Deferred legal fees have been incurred in connection with patent litigation for Oxtellar XR and Trokendi XR. As of June 30, 2016 and December 31, 2015, the Company had deferred legal fees of \$16.4 million and \$22.5 million, respectively.

The following sets forth the gross carrying amount and related accumulated amortization of the intangible asset, in thousands:

|                                  | Average Life   | <b>June 30, 2016<br/>(unaudited)</b> |                             | <b>December 31, 2015</b> |                             |
|----------------------------------|----------------|--------------------------------------|-----------------------------|--------------------------|-----------------------------|
|                                  |                | Gross Carrying<br>Amount             | Accumulated<br>Amortization | Gross Carrying<br>Amount | Accumulated<br>Amortization |
| Capitalized patent defense costs | 9.5 - 11 years | \$ 16,318                            | \$ 533                      | \$ 994                   | \$ 18                       |

The Company prevailed in a lawsuit related to Oxtellar XR in February 2016, at which time the Company began amortizing the costs associated with that litigation.

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The net book value of intangible assets was \$15.8 million as of June 30, 2016 and was \$1.0 million as of December 31, 2015. The increase in intangible assets reflects the successful outcome of the lawsuit related to Oxtellar XR in February 2016. There is an offsetting reduction in the amount carried as deferred legal fees, as described above. Amortization expense on intangible assets was approximately \$0.4 million and \$0.5 million for the three and six months ended June 30, 2016 and was approximately \$57,000 and \$115,000 for the three and six months ended June 30, 2015.

There were no indicators of impairment identified at June 30, 2016 or December 31, 2015.



Table of Contents**7. Accrued Expenses**

Accrued expenses are comprised of the following, in thousands:

|  | <b>June 30,<br/>2016<br/>(unaudited)</b> | <b>December 31,<br/>2015</b> |
|--|--|------------------------------|
| Accrued professional fees                        | \$ 12,051                                | \$ 10,057                    |
| Accrued compensation                             | 6,507                                    | 7,519                        |
| Accrued clinical trial and clinical supply costs | 3,225                                    | 3,677                        |
| Accrued product costs                            | 923                                      | 113                          |
| Accrued sales and marketing expenses             | 575                                      | 434                          |
| Accrued interest expense                         | 270                                      | 295                          |
| Other accrued expenses                           | 4,551                                    | 2,718                        |
|  | \$ 28,102                                | \$ 24,813                    |

**8. Convertible Senior Secured Notes**

The table below summarizes activity related to the Notes from issuance on May 3, 2013 through June 30, 2016, in thousands:

|  |           |
|--|-----------|
| Gross proceeds   | \$ 90,000 |
| Initial value of interest make-whole derivative reported as debt discount              | (9,270)   |
| Conversion option reported as debt discount and APIC                                   | (22,336)  |
| Conversion of debt to equity - principal   | (81,463)  |
| Conversion of debt to equity - accretion of debt discount and deferred financing costs | 25,003    |
| Accretion of debt discount and deferred financing costs                                | 5,151     |
| December 31, 2015 carrying value   | 7,085     |
| Conversion of debt to equity - principal   | (1,962)   |
| Conversion of debt to equity - accretion of debt discount and deferred financing costs | 424       |
| Accretion of debt discount and deferred financing costs                                | 152       |
| June 30, 2016 carrying value, unaudited  | \$ 5,699  |

During the six month period ended June 30, 2016, approximately \$2.0 million of the Notes were presented to the Company for conversion. Accordingly, the Company issued approximately 0.4 million shares of common stock in conversion of the principal amount of the Notes. As a result of the conversions, the Company incurred a loss of approximately \$0.4 million on extinguishment of debt during the six months ended June 30, 2016, which is included as a separate component of other income (expense) on the Consolidated Statement of Operations. During the six month period ended June 30, 2015, as a result of approximately \$25.3 million in note conversions, the Company incurred a loss of approximately \$2.4 million on extinguishment of debt.



Table of Contents**9. Summary Stockholders' Equity**

The following summary table provides details related to the activity in certain captions within Stockholders' Equity for the six month period ended June 30, 2016, in thousands:

|                                  | Common Stock | Additional Paid-in<br>Capital |
|----------------------------------|--------------|-------------------------------|
|                                  | (unaudited)  |                               |
| Balance, December 31, 2015       | \$ 49        | \$ 263,955                    |
| Share-based compensation         |              | 2,971                         |
| Exercise of stock options        | 1            | 995                           |
| Equity issued on note conversion |              | 2,138                         |
| Balance, June 30, 2016           | \$ 50        | \$ 270,059                    |

**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 8,000,000 shares of the Company's common stock upon the exercise of stock awards. 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. Share-based compensation recognized related to the grant of employee and non-employee stock options, SAR, potential Employee Stock Purchase Plan (ESPP) awards and non-vested stock was as follows, in thousands:

|                                     | Three Months ended June 30,<br>2016 |          | 2015     |          | Six Months ended June 30,<br>2016 |  | 2015 |  |
|-------------------------------------|-------------------------------------|----------|----------|----------|-----------------------------------|--|------|--|
|                                     | (unaudited)                         |          |          |          | (unaudited)                       |  |      |  |
| Research and development            | \$ 340                              | \$ 206   | \$ 628   | \$ 410   |                                   |  |      |  |
| Selling, general and administrative | 1,272                               | 912      | 2,343    | 1,610    |                                   |  |      |  |
| Total                               | \$ 1,612                            | \$ 1,118 | \$ 2,971 | \$ 2,020 |                                   |  |      |  |

The following table summarizes stock option and SAR activity:

| Number of<br>Options | Weighted-<br>Average<br>Exercise Price | Weighted-<br>Average<br>Remaining<br>Contractual |
|----------------------|--|--|
|----------------------|--|--|

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|   |           |    | Term (in years) |      |
|---|-----------|----|-----------------|------|
| Outstanding, December 31, 2015          | 2,699,007 | \$ | 8.94            | 7.92 |
| Granted (unaudited)                     | 1,024,150 |    | 13.01           |      |
| Exercised (unaudited)                   | (44,057)  |    | 4.69            |      |
| Forfeited or expired (unaudited)        | (6,750)   |    | 11.47           |      |
| Outstanding, June 30, 2016 (unaudited)  | 3,672,350 | \$ | 10.12           | 8.07 |
| As of December 31, 2015:                |           |    |                 |      |
| Vested and expected to vest             | 2,654,381 | \$ | 8.93            | 7.90 |
| Exercisable                             | 901,672   | \$ | 7.95            | 6.86 |
| As of June 30, 2016:                    |           |    |                 |      |
| Vested and expected to vest (unaudited) | 3,599,518 | \$ | 10.09           | 8.05 |
| Exercisable (unaudited)                 | 1,475,322 | \$ | 8.41            | 7.00 |

Table of Contents**11. Earnings per Share**

Basic income per common share is determined by dividing income attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration of common stock equivalents. Diluted income per share is computed by dividing the income 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, and potential ESPP awards, and the if-converted method is used to determine the dilutive effect of the Company's Notes.

The following common stock equivalents were excluded in the calculation of diluted income per share because their effect would be anti-dilutive as applied to the income from continuing operations applicable to common stockholders for the three and six months ended June 30, 2016 and 2015:

|  | Three Months ended June 30,<br>2016<br>(unaudited) | 2015   | Six Months ended June 30,<br>2016<br>(unaudited) | 2015      |
|--|--|--------|--|-----------|
| Shares underlying Convertible Senior Secured Notes                     |  |        |  | 2,791,624 |
| Warrants to purchase common stock                                      |  | 28,613 |  | 25,950    |
| Stock options, stock appreciation rights, and non-vested stock options | 1,124,100  |        | 1,159,100  |           |

The following table sets forth the computation of basic and diluted net income per share for the three and six months ended June 30, 2016 and 2015, in thousands, except share and per share amounts:

|   | Three Months ended June 30,<br>2016<br>(unaudited) |            | 2015 |            | Six Months ended June 30,<br>2016<br>(unaudited) |            | 2015 |            |
|---|--|------------|------|------------|--|------------|------|------------|
| Numerator, in thousands:                                    |  |            |      |            |  |            |      |            |
| Net income used for calculation of basic EPS                | \$   | 10,018     | \$   | 2,005      | \$   | 15,005     | \$   | 2,923      |
| Interest expense on convertible debt                        |  | 196        |      | 331        |  | 375        |      |            |
| Changes in fair value of derivative liabilities             |  | (123)      |      | (195)      |  | (224)      |      |            |
| Loss on extinguishment of debt                              |  |            |      | 241        |  | 382        |      |            |
| Loss on extinguishment of outstanding debt, as if converted |  | (849)      |      | (553)      |  | (1,183)    |      |            |
| Total adjustments   |  | (776)      |      | (176)      |  | (650)      |      |            |
| Net income used for calculation of diluted EPS              | \$   | 9,242      | \$   | 1,829      | \$   | 14,355     | \$   | 2,923      |
| Denominator:  |  |            |      |            |  |            |      |            |
| Weighted average shares outstanding, basic                  |  | 49,427,825 |      | 47,911,932 |  | 49,333,962 |      | 46,246,866 |
| Effect of dilutive potential common shares:                 |  |            |      |            |  |            |      |            |
| Shares underlying Convertible Senior Secured Notes          |  | 1,240,814  |      | 2,417,586  |  | 1,301,885  |      |            |
| Shares issuable to settle interest make-whole derivatives   |  | 52,563     |      | 246,105    |  | 71,537     |      |            |

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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Stock options, stock appreciation rights, and non-vested stock options | 1,024,140  | 1,697,926  | 777,302    | 1,441,126  |
| Total potential dilutive common shares                                 | 2,317,517  | 4,361,617  | 2,150,724  | 1,441,126  |
| Weighted average shares outstanding, diluted                           | 51,745,342 | 52,273,549 | 51,484,686 | 47,687,992 |
| Net income per share, basic  | \$ 0.20    | \$ 0.04    | \$ 0.30    | \$ 0.06    |
| Net income per share, diluted  | \$ 0.18    | \$ 0.03    | \$ 0.28    | \$ 0.06    |

**12. Income Taxes**

During the three and six months ended June 30, 2016, the Company had pre-tax income of \$10.7 million and \$15.9 million, respectively. The provision for Federal and state income taxes related to the pre-tax income has been largely offset by the utilization of available net operating loss carryforwards (NOLs). 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 NOLs to offset the expected tax expense.

During the three and six months ended June 30, 2016, the Company recorded \$0.7 million and \$0.9 million of current tax expense, respectively, primarily related to an increase in our reserve for an uncertain tax position related to the Alternative Minimum Tax.

Table of Contents**13. Commitments and Contingencies**

The Company has concurrent leases for office and lab space that extend through April 2020. The Company may elect to extend the term of the leases for an additional five-year term. The leases provide for a tenant improvement allowance of approximately \$2.1 million in aggregate. During the three and six months ended June 30, 2016, none of the allowance was utilized. During the three and six months ended June 30, 2015, \$0.2 million of the allowance was utilized and is included in fixed assets and deferred rent. As of June 30, 2016, \$0.5 million remains available for tenant improvements. Rent expense for the leased facilities and leased vehicles for the Company's sales representatives for the three and six months ended June 30, 2016 was approximately \$0.7 million and \$1.3 million, respectively. Rent expense for the leased facilities and leased vehicles for the three and six months ended June 30, 2015 was approximately \$0.6 million and \$1.2 million, respectively.

Future minimum lease payments under non-cancelable operating leases as of June 30, 2016 are as follows, in thousands, unaudited:

|                          |    |       |
|--------------------------|----|-------|
| Year ending December 31: |    |       |
| 2016 (remaining)         | \$ | 681   |
| 2017                     |    | 1,312 |
| 2018                     |    | 1,314 |
| 2019                     |    | 1,341 |
| Thereafter               |    | 454   |
|                          | \$ | 5,102 |

The Company has obtained exclusive licenses from third parties for proprietary rights to support the product candidates in the Company's psychiatry portfolio. Under license agreements with Afecta Pharmaceuticals, Inc. (Afecta), the Company has obtained exclusive worldwide rights to selected product candidates, including an exclusive license to SPN-810 (molindone hydrochloride). The Company does not owe any future milestone payments for SPN-810. The Company is obligated to pay royalties in the low-single digits to Afecta based on worldwide net sales of each of these products.

The Company has also entered into a purchase and sale agreement with Rune Healthcare Limited (Rune), where the Company obtained the exclusive worldwide rights to a product concept from Rune. There are no future milestone payments due to Rune under this agreement. If the Company receives approval to market and sell any products based on the Rune product concept for SPN-809 (viloxazine hydrochloride), the Company is obligated to pay royalties to Rune based on net sales worldwide in the low-single digits.

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**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 the 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, 2015 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 9, 2016.*

*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, which 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, in this Quarterly Report on Form 10-Q the trade names are referred to without the TM symbols and the trademark registrations are referred to without the circled R, 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 (CNS) diseases.

Oxtellar XR and Trokendi XR are the first once-daily extended release oxcarbazepine and topiramate products indicated for patients with epilepsy in the U.S. market. These products differ from immediate release products by offering once-daily dosing and unique pharmacokinetic characteristics which we believe can have very positive clinical effects for some patients. We believe a once-daily dosing regimen improves adherence, making it more probable that patients maintain sufficient levels of medication in their bloodstream to protect against seizures. In addition, the unique smooth and steady pharmacokinetic profiles of our once-daily formulations reduce the peak to trough fluctuation in blood level that are typically associated with immediate release products, which we believe may result in increased adverse events (AEs), more symptomatic side effects and decreased efficacy.



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In addition, we are developing multiple product candidates in psychiatry to address large unmet medical needs and market opportunities. With SPN-810 (molindone hydrochloride), we are developing a product candidate to treat impulsive aggression (IA) in patients who have attention deficit hyperactivity disorder (ADHD). There are currently no approved products indicated for the treatment of IA. We subsequently plan to develop SPN-810 for treatment of IA in other CNS diseases, such as autism, bipolar disorder, schizophrenia, and some forms of dementia. With SPN-812 (viloxazine hydrochloride), we are developing this product candidate to treat patients who have ADHD.

The table below summarizes our current pipeline of novel products and product candidates.

| <b>Product</b>     | <b>Indication</b>      | <b>Status</b>  |
|--------------------|------------------------|----------------|
| <b>Oxtellar XR</b> | Epilepsy               | Launched       |
| <b>Trokendi XR</b> | Epilepsy*              | Launched       |
| <b>SPN-810</b>     | Impulsive Aggression** | Phase III      |
| <b>SPN-812</b>     | ADHD                   | Phase IIb      |
| <b>SPN-809</b>     | Depression             | Phase II ready |

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\* Supplemental New Drug Application (sNDA) submitted in August 2015 for treatment in adults for prophylaxis of migraine headache.

\*\* Initial program is in patients with ADHD, with a plan to follow on in other indications, such as IA in patients with autism, bipolar disorder, schizophrenia, and some forms of dementia.

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We are continuing to expand our intellectual property portfolio to provide additional protection for our technologies, products, and product candidates. We currently have seven U.S. patents issued covering Oxtellar XR and six U.S. patents issued covering Trokendi XR, providing patent protection expiring no earlier than 2027 for each product.

*Commercial Products*

*Trokendi XR*

Trokendi XR, the first once-daily extended release topiramate product indicated for patients with epilepsy in the U.S. market, is designed to improve patient adherence over immediate release products, which must be taken multiple times per day.

We remain in discussions with the United States Food and Drug Administration (FDA) regarding the sNDA on migraine headache. The FDA requested that the Company resubmit the Trokendi XR product label with migraine as an indication in a different format prior to completing its review. No additional new data, studies or analyses for efficacy or safety were required by the FDA. We have submitted the revised label, and a targeted PDUFA date has been set for the third quarter of 2016.

*Oxtellar XR*

Oxtellar XR is the only once-daily extended release oxcarbazepine product indicated for the treatment of patients with epilepsy in the U.S. as adjunctive therapy.

In a retrospective medical chart review of 200 patients treated with immediate release oxcarbazepine or Oxtellar XR, Oxtellar XR was associated with a significantly lower rate of inpatient hospitalization stays, lower rate of emergency department visits, and a higher rate of compliance. The patient charts were obtained from 17 geographically and clinically diverse sites across the U.S. and included non-academic and academic affiliated practices, general neurology, pediatric neurology, and epilepsy centers.

We expect the number of prescriptions filled for Oxtellar XR and Trokendi XR to continue to increase through the end of 2016 and in subsequent years. Data from Intercontinental Marketing Services (IMS) shows 238,531 prescriptions filled for both drugs during the six months ended June 30, 2016, representing a growth of 43.9% as compared to the 165,776 prescriptions reported for the six months ended June 30, 2015. For the three months ended June 30, 2016, data from IMS shows 123,758 prescriptions filled for both drugs, representing a growth of 38.9% as compared to the 89,086 prescriptions reported for the three months ended June 30, 2015.

We have received Paragraph IV Notice Letters concerning Oxtellar XR and Trokendi XR from various third-parties. In response to these Paragraph IV notice letters, we have initiated litigation against these third parties alleging infringement of our intellectual property rights. We

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intend to vigorously defend our intellectual property rights in each of these cases. We anticipate continuing to incur increasing amounts of legal fees and related expenses for these cases as they progress. On February 8, 2016, the Company announced a court ruling that three patents covering Oxtellar XR were valid and that Actavis, plc infringed two of these three patents by submitting an abbreviated new drug application (ANDA) to the FDA. (See Part II, Item 1 Legal Proceedings in this Quarterly Report on Form 10-Q for additional information).

### *Product Candidates*

#### *SPN-810*

We are developing SPN-810 as a novel treatment for IA in patients who have ADHD. Our Phase III clinical trial (P301) is being conducted under a Special Protocol Assessment (SPA). SPN-810 has been granted fast-track designation by the FDA. We initiated two Phase III clinical trials in 2015 (P301 and P302) and began dosing patients during the first quarter of 2016. We expect patient enrollment to continue through the end of 2016 and into 2017. We continue to expect launching SPN-810, if approved by the FDA, according to the current timeline in 2019.

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*SPN-812*

SPN-812 is being developed as a novel non-stimulant treatment for ADHD. We initiated a Phase IIb dose ranging trial during 2015 and began dosing patients during the first quarter of 2016. Patient enrollment has been completed, and last visit for the last patient occurred during the third quarter. We continue to project that we will have data from this Phase IIb trial available by early 2017. In April 2016, we initiated an open-label trial in which 84% of the patients completing the Phase IIb trial have been enrolled.

We expect to incur significant research and development expenses related to the continued development of each of our product candidates, with a total cost of approximately \$100 million for each of the two programs through FDA approval.

**Collaboration Update**

Recently, Shire announced positive results of SHP465 Safety and Efficacy Study in Children and Adolescents with ADHD. The study addresses a key FDA requirement, keeping SHP465 on track for resubmission in the fourth quarter of 2016 and potential launch in second half of 2017, if it is approved by the FDA. SHP465 was originally developed by Shire Laboratories, the former division of Shire that subsequently became Supernus Pharmaceuticals. Based on the agreement between Supernus and Shire, Shire will pay to Supernus a single digit percentage royalty on net sales of the product.

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

The significant accounting policies and bases of presentation for our consolidated financial statements are described in Note 2 Summary of Significant Accounting Policies. The preparation of our financial statements in accordance with Generally Accepted Accounting Principles (GAAP), requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

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

***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 ).

We derive our estimated sales deductions from an analysis of historical levels of deductions specific to each product. In addition, we also consider the impact of anticipated changes in product price, sales trends and changes in managed care coverage and co-pay assistance.

*Deferred Legal Fees*

Deferred legal fees are comprised of costs incurred in connection with the defense of patents for Oxtellar XR and Trokendi XR. Amortization of the deferred legal fees will begin upon successful outcome of the on-going litigation. Deferred legal fees will be charged to expense in the event of an unsuccessful outcome of the on-going litigation.

*Research and Development Expenses*

Research and development (R&D) expenditures are expensed as incurred. Research and development costs consist primarily of employee-related expenses, including salaries and benefits; share-based compensation expense; expenses incurred under agreements with clinical research organizations (CROs), investigative sites, consultants and other vendors that conduct the Company's clinical trials; the cost of acquiring and manufacturing clinical trial materials; the cost of manufacturing materials used in process validation, to the extent that those materials are manufactured prior to receiving regulatory approval for those products and are not expected to be sold commercially; facilities costs that do not have an alternative future use; related depreciation and other allocated expenses; license fees for and milestone payments related to in-licensed products and technologies; and costs associated with animal testing activities and regulatory approvals.

Table of Contents*Accrued Clinical Expenses*

Clinical trials are inherently complex, often involving multiple service providers, and can include payments made to investigator physicians at study sites. Because billing for services often lags by a substantial amount of time, we often are required to estimate a significant portion of our accrued clinical expenses. This process involves reviewing open contracts and communicating with our subject matter expert personnel and the appropriate service provider personnel to identify services that have been performed on our behalf. We accrue for the estimated but unbilled services performed and the associated costs incurred.

Payments to service providers can either be based on hourly rates for services or based on performance driven milestones. When accruing clinical expenses, we estimate the time period over which services will be performed during the life of the entire clinical program, the total cost of the program, and the level of effort to be expended in each intervening period. To the maximum extent possible, we work with each service provider to provide an estimate for unbilled services as of the end of the calendar quarter. This includes estimates for payments to site investigators. We work diligently to minimize estimates based solely on company generated calculations. If the service provider underestimates or overestimates the cost associated with a trial or service at any given point in time, adjustments to research and development expenses may be necessary in future periods. Historically, our estimated accrued clinical expenses have closely approximated actual expenses incurred.

**Results of Operations***Comparison of the three months ended June 30, 2016 and June 30, 2015*

|   | <b>Three Months ended June 30,</b> |             | <b>Increase/<br/>(decrease)</b> |
|---|------------------------------------|-------------|---------------------------------|
|   | <b>2016</b>                        | <b>2015</b> |                                 |
|   | <b>(unaudited, in thousands)</b>   |             |                                 |
| <b>Revenue</b>                                  |                                    |             |                                 |
| Net product sales                               | \$ 50,335                          | \$ 34,266   | 16,069                          |
| Licensing revenue                               | 86                                 | 786         | (700)                           |
| Total revenues                                  | 50,421                             | 35,052      |                                 |
| <b>Costs and expenses</b>                       |                                    |             |                                 |
| Cost of product sales                           | 2,751                              | 1,762       | 989                             |
| Research and development                        | 11,109                             | 6,878       | 4,231                           |
| Selling, general and administrative             | 26,121                             | 23,336      | 2,785                           |
| Total costs and expenses                        | 39,981                             | 31,976      |                                 |
| Operating income                                | 10,440                             | 3,076       |                                 |
| <b>Other income (expense)</b>                   |                                    |             |                                 |
| Interest income                                 | 363                                | 137         | 226                             |
| Interest expense                                | (196)                              | (331)       | 135                             |
| Changes in fair value of derivative liabilities | 123                                | 1           | 122                             |
| Loss on extinguishment of debt                  |                                    | (241)       | 241                             |
| Other income                                    | 2                                  | 25          | (23)                            |
| Total other income (expenses)                   | 292                                | (409)       |                                 |
| Earnings before income taxes                    | 10,732                             | 2,667       |                                 |
| Income tax                                      | 714                                | 662         | 52                              |
| Net income                                      | \$ 10,018                          | \$ 2,005    |                                 |



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**Net Product Sales.** The increase in net product sales for the three months ended June 30, 2015 as compared to the three months ended June 30, 2016 was primarily driven by increased prescriptions. Net product sales are based on gross revenue from shipments to distributors, less estimates for discounts, rebates, other sales deductions and returns. The table below lists our net product sales by product comparison, in thousands, unaudited:

|             | Net Product Sales           |           |                       |
|-------------|-----------------------------|-----------|-----------------------|
|             | Three Months ended June 30, | 2015      | Change in Net Product |
|             | 2016                        |           | Sales (%)             |
|             | (unaudited)                 |           |                       |
| Trokendi XR | \$ 37,663                   | \$ 26,279 | 43.3%                 |
| Oxtellar XR | 12,672                      | 7,987     | 58.7%                 |
| Total       | \$ 50,335                   | \$ 34,266 | 46.9%                 |

**Cost of Product Sales.** Cost of product sales during the three months ended June 30, 2016 was \$2.8 million as compared to \$1.8 million for the three months ended June 30, 2015, an increase of \$1.0 million or 56.1%. This increase is primarily due to sales increases.

**Research and Development Expenses.** R&D expenses during the three months ended June 30, 2016 were \$11.1 million as compared to \$6.9 million for the three months ended June 30, 2015, an increase of \$4.2 million or 61.5%. This increase is primarily due to preclinical and late stage clinical trials for SPN-810 and SPN-812 as well as manufacture and scale-up of dosage form manufacturing. During the second half of 2015, we initiated two Phase III trials for SPN-810 and a Phase IIb trial for SPN-812. We expect R&D costs to increase significantly in 2016, as we continue to advance these trials and the related development activities for both of these programs.

**Selling, General and Administrative Expenses.** Our selling, general and administrative (SG&A) expenses were \$26.1 million during the three months ended June 30, 2016 as compared to \$23.3 million for the three months ended June 30, 2015, an increase of \$2.8 million or 11.9%. The increase in SG&A expenses is primarily due to the development of promotional material and preparation for the launch of the migraine indication for Trokendi XR.

**Interest Income.** During the three months ended June 30, 2016 and June 30, 2015, we recognized \$0.4 million and \$0.1 million, respectively, of interest income earned on our cash and marketable securities.

**Interest Expense.** Interest expense was \$0.2 million during the three months ended June 30, 2016 as compared to \$0.3 million incurred for the three months ended June 30, 2015. The decrease was due to a decrease in the principal amount of our outstanding 7.5% Convertible Senior Secured Notes due in 2019 (the Notes) from \$10.7 million at June 30, 2015 to \$6.6 million at June 30, 2016.



*Changes in Fair Value of Derivative Liability.* During the three months ended June 30, 2016, we recognized a non-cash gain of \$0.1 million related to a change in estimated fair value of the interest make-whole derivative liability related to our Notes. This gain is primarily due to the passage of time.

*Loss on Extinguishment of Debt.* During the three months ended June 30, 2016, there was no loss on extinguishment of debt as no Notes were converted. During the three months ended June 30, 2015, we recognized a non-cash loss on extinguishment of debt of \$0.2 million related to the conversion of \$3.9 million of our Notes.

*Income Tax.* During the three months ended June 30, 2016, we recorded \$0.7 million of current tax expense related primarily to an increase in our reserve for an uncertain tax position related to the Alternative Minimum Tax. During the three months ended June 30, 2015, we recorded \$0.7 million of current tax expense related to an increase in our reserve for an uncertain tax position related to the Alternative Minimum Tax.

*Net Income.* We realized net income of \$10.0 million during the three months ended June 30, 2016, compared to net income of \$2.0 million during the three months ended June 30, 2015, an increase of \$8.0 million. This change was primarily due to the revenue generated from our two commercial products, Oxtellar XR and Trokendi XR, offset by increased research expenses incurred for the late stage studies for our two product candidates and an increase in marketing expenditures.

Table of Contents*Comparison of the six months ended June 30, 2016 and June 30, 2015*

|   | Six Months ended June 30,<br>2016 |        | 2015 |         | Increase/<br>(decrease) |
|---|-----------------------------------|--------|------|---------|-------------------------|
|   | (unaudited, in thousands)         |        |      |         |                         |
| <b>Revenue</b>                                  |                                   |        |      |         |                         |
| Net product sales                               | \$                                | 93,360 | \$   | 62,363  | 30,997                  |
| Licensing revenue                               |                                   | 135    |      | 822     | (687)                   |
| Total revenues                                  |                                   | 93,495 |      | 63,185  |                         |
| <b>Costs and expenses</b>                       |                                   |        |      |         |                         |
| Cost of product sales                           |                                   | 4,786  |      | 3,380   | 1,406                   |
| Research and development                        |                                   | 21,671 |      | 10,561  | 11,110                  |
| Selling, general and administrative             |                                   | 51,281 |      | 42,737  | 8,544                   |
| Total costs and expenses                        |                                   | 77,738 |      | 56,678  |                         |
| Operating income                                |                                   | 15,757 |      | 6,507   |                         |
| <b>Other income (expense)</b>                   |                                   |        |      |         |                         |
| Interest income                                 |                                   | 694    |      | 250     | 444                     |
| Interest expense                                |                                   | (375)  |      | (712)   | 337                     |
| Changes in fair value of derivative liabilities |                                   | 224    |      | (48)    | 272                     |
| Loss on extinguishment of debt                  |                                   | (382)  |      | (2,375) | 1,993                   |
| Other (expense) income                          |                                   | (1)    |      | 25      | (26)                    |
| Total other income (expenses)                   |                                   | 160    |      | (2,860) |                         |
| Earnings before income taxes                    |                                   | 15,917 |      | 3,647   |                         |
| Income tax                                      |                                   | 912    |      | 724     | 188                     |
| Net income                                      | \$                                | 15,005 | \$   | 2,923   |                         |

**Net Product Sales.** The increase in net product sales for the six months ended June 30, 2015 as compared to the six months ended June 30, 2016 was primarily driven by increased prescriptions. Net product sales are based on gross revenue from shipments to distributors, less estimates for discounts, rebates, other sales deductions and returns. The table below lists our net product sales by product comparison, in thousands, unaudited:

|             | Net Product Sales |           | Change in Net Product |  |
|-------------|-------------------|-----------|-----------------------|--|
|             | 2016              | 2015      | Sales (%)             |  |
|             | (unaudited)       |           |                       |  |
| Trokendi XR | \$ 69,983         | \$ 47,205 | 48.3%                 |  |
| Oxtellar XR | 23,377            | 15,158    | 54.2%                 |  |
| Total       | \$ 93,360         | \$ 62,363 | 49.7%                 |  |

**Cost of Product Sales.** Cost of product sales during the six months ended June 30, 2016 was \$4.8 million as compared to \$3.4 million for the six months ended June 30, 2015, an increase of \$1.4 million or 41.6%. This increase is primarily due to sales increases.

**Research and Development Expenses.** R&D expenses during the six months ended June 30, 2016 were \$21.7 million as compared to \$10.6 million for the six months ended June 30, 2015, an increase of \$11.1 million or 105.2%. This

increase is primarily due to preclinical and late stage clinical trials for SPN-810 and SPN-812 as well as manufacture of SPN-810 and SPN-812 clinical trial materials and manufacturing scale-up. During the second half of 2015, we initiated two Phase III trials for SPN-810 and a Phase IIb

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trial for SPN-812. We expect R&D costs to increase significantly in 2016, as we continue to advance these trials and the related development activities for both of these programs.

**Selling, General and Administrative Expenses.** Our SG&A expenses were \$51.3 million during the six months ended June 30, 2016 as compared to \$42.7 million for the six months ended June 30, 2015, an increase of \$8.6 million or 20.0%. The increase in SG&A expenses is primarily due to the development of promotional material and preparation for the launch of the migraine indication for Trokendi XR in 2016, as well as supply chain and Medical Affairs programs to support our commercial products.

**Interest Income.** During the six months ended June 30, 2016 and June 30, 2015, we recognized \$0.7 million and \$0.3 million, respectively, of interest income earned on our cash and marketable securities.

**Interest Expense.** Interest expense was \$0.4 million during the six months ended June 30, 2016 as compared to \$0.7 million incurred for the six months ended June 30, 2015. The decrease of \$0.3 million was primarily due to a decrease in the principal amount of our outstanding Notes from \$10.7 million at June 30, 2015 to \$6.6 million at June 30, 2016.

**Changes in Fair Value of Derivative Liability.** During the six months ended June 30, 2016, we recognized a non-cash gain of \$0.2 million related to a change in estimated fair value of the interest make-whole derivative liability related to our Notes. This gain is primarily due to the passage of time. During the six months ended June 30, 2015, we recognized a non-cash loss of \$48,000 related to a change in estimated fair value of the warrant liability of \$336,000, offset by \$288,000 of interest make-whole derivative liability related to our Notes. This loss was primarily due to the increase of our stock price.

**Loss on Extinguishment of Debt.** During the six months ended June 30, 2016, we recognized a non-cash loss on extinguishment of debt of \$0.4 million related to the conversion of \$2.0 million of our Notes. During the six months ended June 30, 2015, we recognized a non-cash loss on extinguishment of debt of \$2.4 million related to the conversion of \$25.3 million of our Notes.

**Income Tax.** During the six months ended June 30, 2016, we recorded \$0.9 million of current tax expense related primarily to an increase in our reserve for an uncertain tax position related to the Alternative Minimum Tax. During the six months ended June 30, 2015, we recorded \$0.7 million of current tax expense related to an increase in our reserve for an uncertain tax position related to the Alternative Minimum Tax.

*Net Income.* We realized net income of \$15.0 million during the six months ended June 30, 2016, compared to net income of \$2.9 million during the six months ended June 30, 2015, an increase of \$12.1 million. This change was primarily due to the revenue generated from our two commercial products, Oxtellar XR and Trokendi XR, offset by increased expenses incurred for the late stage studies for our two product candidates and an increase in marketing expenditures.

### **Liquidity and Capital Resources**

We believe with continued increasing levels of net product sales, we will have sufficient resources to finance our operations, including the increased R&D expenses for our clinical programs. We expect to incur significantly increased R&D expenses to support the development of SPN-810 and SPN-812 including the late stage trials for SPN-810 and SPN-812.

Our working capital at June 30, 2016 was \$48.6 million, a decrease of \$1.2 million compared to our working capital of \$49.8 million at December 31, 2015. Our long term marketable securities at June 30, 2016 were \$67.8 million, an increase of \$12.8 million compared to our long term marketable securities of \$55.0 million at December 31, 2015.

Our stockholders' equity increased by \$22.1 million during the six months ended June 30, 2016 primarily as a result of the issuance of shares related to the conversion of our Notes, coupled with net income of \$15.0 million.

We expect to continue to incur significant sales and marketing expenses related to the commercial support of Oxtellar XR and Trokendi XR. In addition, we expect to incur substantial expenses related to our R&D efforts, primarily related to the development of SPN-810 and SPN-812 as we continue to advance these clinical programs.

In addition to income from operations, we have historically financed our business through the sale of our debt and equity securities. Our most recent financing occurred on May 3, 2013, when we issued \$90.0 million aggregate principal amount of Notes to qualified institutional buyers, the initial purchasers of the Notes (Initial Purchasers). We issued the Notes under an Indenture, dated May 3, 2013. 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. 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 assets, whether now owned or hereafter acquired.

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As of June 30, 2016, holders of the Notes have converted a total of approximately \$83.4 million of the Notes. Cumulatively, through June 30, 2016, we issued a total of approximately 15.7 million shares of common stock in conversion of the principal amount of the Notes and issued an additional 2.2 million shares of common stock and paid approximately \$1.7 million cash in settlement of the interest make-whole provision related to the converted Notes.

We believe our current working capital and long term marketable securities, along with increased revenues from increasing product sales, will be sufficient to finance the Company. Our operations were profitable in each quarter of 2015 and each of the first two quarters of 2016.

We expect continued profitability in 2016 as we continue to increase sales while also increasing activities and spending to advance our clinical product candidates. We expect significant variability from quarter to quarter in our level of profitability primarily due to variability in R&D expenditures for clinical trials and SG&A expenditures for marketing activities.

On December 17, 2014, the SEC declared effective our registration statement on Form S-3. We may offer and sell securities at a maximum aggregate offering price of up to \$112.8 million. In addition, in this shelf registration statement we registered the resale of 12,749,328 shares of our common stock then held by two selling security holders. As these security holders have subsequently sold on the open market or distributed to their limited partners all of the shares, we will not resell any of these shares under this registration statement. In the event that we need additional working capital, this registration statement provides an efficient manner for us to complete securities offering to raise such funds.

### *Cash Flows*

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

|  | Six Months ended June 30, |            | Increase/<br>(decrease) |
|--|---------------------------|------------|-------------------------|
|  | 2016                      | 2015       |                         |
|  | (unaudited)               |            |                         |
| Net cash provided by (used in):                      |                           |            |                         |
| Operating activities                                 | \$ 13,635                 | \$ 15,169  | (1,534)                 |
| Investing activities                                 | (12,626)                  | (19,464)   | 6,838                   |
| Financing activities                                 | 995                       | 1,009      | (14)                    |
| Net increase (decrease) in cash and cash equivalents | \$ 2,004                  | \$ (3,286) |                         |

### *Operating Activities*

Net cash provided by operating activities is comprised of two components; cash provided by (used in) operating income and cash used in changes in working capital. Results for the six months ended June 30, 2016 and June 30, 2015 are summarized below, in thousands:

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|   | Six Months ended June 30,<br>2016 |         | (unaudited)<br>2015 |        | Increase/<br>(decrease) |
|---|-----------------------------------|---------|---------------------|--------|-------------------------|
| Cash provided by operating income                     | \$                                | 19,656  | \$                  | 8,321  | 11,335                  |
| Cash (used in) provided by changes in working capital |                                   | (6,021) |                     | 6,848  | (12,869)                |
| Net cash provided by operating activities             | \$                                | 13,635  | \$                  | 15,169 |                         |

The increase in cash used in changes in working capital is primarily driven by increases in accounts receivable and inventory from increased revenue and decreases in accounts payable due to timing of payments.

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The changes in certain operating assets and liabilities are, in thousands:

|  | Six Months ended June 30, |                     | Explanation of Change   |
|--|---------------------------|---------------------|---|
|  | 2016                      | (unaudited)<br>2015 |   |
| Increase in accounts receivable                          | \$ (8,373)                | \$ (630)            | Increased sales.  |
| Increase in inventory                                    | (3,786)                   | (151)               | Increased inventory to support sales growth.  |
| Decrease (increase) in prepaid expenses and other assets | 1,989                     | (738)               | Progress of clinical trials.  |
| Increase in accounts payable and accrued expenses        | 3,905                     | 8,921               | Increased expenses, primarily for clinical trial accruals and accrued net sales deductions. |
| Other  | 244                       | (554)               |   |
|  | \$ (6,021)                | \$ 6,848            |   |

***Investing Activities***

We invest excess cash in accordance with our investment policy. Marketable securities consist of investments which mature in four years or less, including United States Treasury and various government agency debt securities, as well as investment grade securities in industrial and financial institutions. Fluctuations in investing activities between periods relate exclusively to the timing of marketable security purchases and the related maturities of these securities.

Net cash used in investing activities for the six months ended June 30, 2016 of \$12.6 million related to net purchase of marketable securities of \$8.0 million, deferred legal fees of \$3.7 million, and property and equipment purchases of \$1.0 million. Net cash used in investing activities for the six months ended June 30, 2015 consisted of \$19.5 million related to net purchase of marketable securities of \$12.4 million, an increase in deferred legal fees of \$6.3 million, and property and equipment purchases of \$0.8 million.

***Financing Activities***

Net cash provided by financing activities was \$1.0 million for the six months ended June 30, 2016, \$1.0 million for the six months ended June 30, 2015 and resulted from proceeds received from stock option exercises.

***Contractual Obligations and Commitments***



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The following table summarizes our contractual obligations and commitments as of June 30, 2016 (except as noted below), in thousands, unaudited:

|                                  | Less than<br>1 Year | 1 - 3<br>Years | 3 - 5<br>Years | Greater than<br>5 Years | Total     |
|----------------------------------|---------------------|----------------|----------------|-------------------------|-----------|
| Convertible Senior Secured Notes | \$                  | \$             | \$             | \$                      | \$        |
| Interest on Convertible Notes    | 493                 | 986            |                |                         | 1,479     |
| Operating leases (1)             | 1,346               | 2,629          | 1,127          |                         | 5,102     |
| Purchase obligations (2)         | 4,056               |                |                |                         | 4,056     |
| Total (3)                        | \$ 5,895            | \$ 3,615       | \$ 7,702       | \$                      | \$ 17,212 |

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(1) Our commitments for operating leases relate to our lease of fleet vehicles and office and laboratory space as of June 30, 2016.

(2) Relates primarily to agreements and purchase orders with contractors for the conduct of clinical trials, other research and development activities and sales and marketing activities.

(3) This table does not include (a) any milestone payments which may become payable to third parties under license agreements or contractual agreements regarding our clinical trials as the timing and likelihood of such payments are not known, (b) any royalty payments to third parties as the amounts, timing and likelihood of such payments are not known and (c) contracts that are entered into in the ordinary course of business which are not material in the aggregate in any period presented above.

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We have obtained exclusive licenses from third parties for proprietary rights to support the product candidates in our psychiatry portfolio. Under license agreements with Afecta Pharmaceuticals, Inc. (Afecta), we have an exclusive option to evaluate Afecta's CNS pipeline and to obtain exclusive worldwide rights to selected product candidates, including an exclusive license to SPN-810. We do not owe any future milestone payments for SPN-810. We will be obligated to pay royalties to Afecta based on net sales worldwide of our product candidates in the low-single digits.

We have also entered into a purchase and sale agreement with Rune HealthCare Limited (Rune), where we obtained the exclusive worldwide rights to a product concept from Rune. There are no future milestone payments owing to Rune under this agreement. If we receive approval to market and sell any products based on the Rune product concept for SPN-809 (viloxazine hydrochloride), we will be obligated to pay royalties to Rune based on net sales worldwide in the low-single digits.

***Off-Balance Sheet Arrangements***

We do not currently have, nor have we ever had, any relationships with unconsolidated entities or financial partnerships, such 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.

**Recently Issued Accounting Pronouncements**

For a discussion of new accounting pronouncements, see Note 2 in the notes to the consolidated financial statements in Part I, Item 1 of this report.

**Jumpstart Our Business Startups Act of 2012**

The JOBS Act permits an emerging growth company such as ours to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have chosen to opt out of this provision. As a result, we will continue to comply with new or revised accounting standards as required when they are adopted. This decision to opt out of the extended transition period under the JOBS Act is irrevocable.

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

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The primary objective of our investment activities is to preserve our capital and to fund operations. We also seek to maximize income from our investments without assuming significant interest rate or default risk. Our exposure to market risk is confined to our cash, cash equivalents, marketable securities and long term marketable securities. As of June 30, 2016, we had unrestricted cash, cash equivalents, marketable securities and long term marketable securities of \$128.0 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, marketable securities and because we hold these securities and our long term marketable 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 other than the interest make-whole payment associated with our Notes.

We engage with a limited number of vendors where we pay for services recorded in currencies other than the U.S. dollar and may be subject to fluctuations in foreign currency rates. 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 decreased our net income by approximately \$6,000 for the three months ended June 30, 2016. Conversely, a hypothetical 10% depreciation in Euro exchange rates against the U.S. dollar from prevailing market rates would have increased our net income by approximately \$6,000 for the three months ended June 30, 2016. We do not believe that inflation and changing prices over the three and six months ended June 30, 2016 and June 30, 2015 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 (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

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accumulated and communicated to our management, including our Chief Executive Officer (CEO) and our Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosures.

We conducted an evaluation under the supervision and with the participation of our management, including the CEO and CFO, 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 CEO and CFO concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2016.

Our management, including the CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors 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**

In the first quarter of 2016, we implemented a new financial accounting system. The software package which was selected has been implemented in numerous publicly held manufacturing and service companies within the U.S. It is supported by a major software provider in the U.S.

The primary impetus for this change was to retire a platform that the Company had outgrown and which lacked much of the additional functionality required to support the Company's expanded operations. We believe incorporating this additional functionality into an upgraded system will provide a stronger base and enhance our overall control environment. The implementation was not made in response to any significant deficiency or material weakness in our internal control over financial reporting.

Management believes the new system has been successfully implemented and is functioning as required.

Other than the new financial accounting system implementation, there have been no changes in our internal control over financial reporting during the period covered by this report 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. We have filed such claims for infringement of the Orange Book patents listed for our products Oxtellar XR and Trokendi XR.

*Supernus Pharmaceuticals, Inc. v. Actavis, Inc., et al., C.A. Nos. 13-4740; 14-1981 (RMB)(JS) (D.N.J.)*  
*Supernus Pharmaceuticals, Inc. v. Actavis, Inc., et al., Appeal No. 2016-1619 (Fed. Cir.)*

We received a Paragraph IV Notice Letter against two of our Oxtellar XR Orange Book patents (United States Patent Nos. 7,722,898 and 7,910,131) from generic drug maker Watson Laboratories, Inc. Florida (WLF) n/k/a Actavis Laboratories FL, Inc. (Actavis Labs FL) on June 26, 2013. On August 7, 2013, we filed a lawsuit against Actavis, Inc., Actavis Labs FL, Actavis Pharma, Inc., Watson Laboratories, Inc., and ANDA, Inc. (collectively Actavis) alleging infringement of United States Patent Nos. 7,722,898 and 7,910,131. We received a second Paragraph IV Notice Letter against a later-issued Oxtellar XR Orange Book Patent (United States Patent No. 8,617,600) on February 20, 2014. On March 28, 2014, we filed a second lawsuit against Actavis alleging infringement of United States Patent No. 8,617,600. We have since listed four additional Orange Book patents: United States Patent Nos. 8,821,930, 9,119,791, 9,351,975, and 9,370,525. Our United States Patent Nos. 7,722,898, 7,910,131, 8,617,600, 8,821,930, 9,119,791, 9,351,975, and 9,370,525 generally cover once-a-day oxcarbazepine formulations and methods of treating seizures using those formulations. The FDA Orange Book lists all seven of our Oxtellar XR patents as expiring on April 13, 2027.

Both Complaints filed in the U.S. District Court for the District of New Jersey allege, inter alia, that Actavis infringed our 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 our patents. The two cases were consolidated for all purposes on October 8, 2015.

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A seven-day bench trial for the consolidated action involving United States Patent Nos. 7,722,898, 7,910,131, and 8,617,600 was held between November 18 and December 4, 2015. On February 5, 2016, the Court issued an opinion and order finding that: (i) Actavis' s ANDA products infringe United States Patent Nos. 7,722,898 and 7,910,131; (ii) Actavis' s ANDA products do not infringe U.S. Patent No. 8,617,600; and (iii) United States Patent Nos. 7,722,898, 7,910,131, and 8,617,600 are valid. The Court entered a final judgment on February 18, 2016: (i) enjoining the FDA from approving Actavis' s ANDA before the expiration date of United States Patent Nos. 7,722,898 and 7,910,131; and (ii) enjoining Actavis from commercially manufacturing, using, offering to sell, or selling within the United States, or importing into the United States, Actavis' s ANDA products until the expiration of United States Patent Nos. 7,722,898 and 7,910,131. On February 19, 2016, Actavis filed a Notice of Appeal to the United States Court of Appeals for the Federal Circuit. The parties executed a Partial Settlement Agreement in May 2016 that provided for the dismissal of all appeals, cross-appeals, claims, and counterclaims concerning U.S. Patent Nos. 8,617,600, 8,821,930, and 9,119,791. The appeal with respect to United States Patent Nos. 7,722,898 and 7,910,131 (docketed on February 24, 2016) is pending.

***Supernus Pharmaceuticals, Inc. v. Actavis, Inc., et al., C.A. Nos. 15-2499 (RMB)(JS) (D.N.J.)***

We received a Paragraph IV Notice Letter against United States Patent No. 8,821,930 from Actavis Labs FL on February 21, 2015. On April 7, 2015, we filed a third lawsuit against Actavis alleging infringement of United States Patent No. 8,821,930.

The Complaint filed in the U.S. District Court for the District of New Jersey alleges, inter alia, that Actavis infringed United States Patent No. 8,821,930 by submitting to the FDA an ANDA seeking to market a generic version of Oxtellar XR prior to the expiration of United States Patent No. 8,821,930.

The parties executed a Partial Settlement Agreement in May 2016 that provided for the dismissal of both parties' claims and counterclaims concerning U.S. Patent No. 8,821,930.

***Supernus Pharmaceuticals, Inc. v. TWi Pharmaceuticals, Inc., et al., C.A. Nos. 15-369 (RMB)(JS) (D.N.J.)***

We received a Paragraph IV Notice Letter against United States Patent Nos. 7,722,898, 7,910,131, 8,617,600, and 8,821,930 from generic drug maker TWi Pharmaceuticals, Inc. on December 9, 2014. On January 16, 2015, we filed a lawsuit against TWi Pharmaceuticals, Inc. and TWi International LLC (d/b/a TWi Pharmaceuticals USA) (collectively TWi) alleging infringement of United States Patent Nos. 7,722,898, 7,910,131, 8,617,600, and 8,821,930.

The Complaint filed in the U.S. District Court for the District of New Jersey alleges, inter alia, that TWi infringed our Oxtellar XR patents by submitting to the FDA an ANDA seeking to market a generic version of Oxtellar XR prior to the expiration of our patents. Filing the Complaint within 45 days of receiving TWi's Paragraph IV certification notice entitles Supernus to an automatic stay preventing the FDA from approving TWi's ANDA for 30 months from the date of our receipt of the first Paragraph IV certification notice. On February 13, 2015, TWi answered the Complaint and denied the substantive allegations of the complaint. TWi also asserted Counterclaims seeking declaratory judgments of non-infringement and invalidity of United States Patent Nos. 7,722,898 and 7,910,131. On March 20, 2015, we filed our Reply, denying the substantive allegations of those Counterclaims.

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Following an October 7, 2015 Markman hearing, the Court issued a claim construction order for this case on October 9, 2015. The case is proceeding through fact and expert discovery.

### *Supernus Pharmaceuticals, Inc. v. Actavis, Inc., et al., C.A. Nos. 15-8342 (RMB)(JS) (D.N.J.)*

We received a Paragraph IV Notice Letter against United States Patent No. 9,119,791 from Actavis Labs FL on October 15, 2015. On November 25, 2015, we filed a fourth lawsuit against Actavis alleging infringement of United States Patent No. 9,119,791.

The Complaint filed in the U.S. District Court for the District of New Jersey alleges, inter alia, that Actavis infringed United States Patent No. 9,119,791 by submitting to the FDA an ANDA seeking to market a generic version of Oxtellar XR prior to the expiration of United States Patent No. 9,119,791. On January 29, 2016, Actavis answered the Complaint, denying the substantive allegations of that Complaint. Actavis Labs FL also asserted Counterclaims seeking declaratory judgments of non-infringement and invalidity of United States Patent No. 9,119,791. On March 4, 2016, we filed our Reply, denying the substantive allegations of those Counterclaims. The court has not yet issued a scheduling order.

### *Supernus Pharmaceuticals, Inc. v. Actavis, Inc., C.A. No. 14-6102 (SDW)(LDW) (D.N.J.)*

We received three Paragraph IV Notice Letters against six Trokendi XR Orange Book patents, namely United States Patent Nos. 8,298,576, 8,298,580, 8,663,683, 8,877,248, 8,889,191, and 8,992,989 from generic drug maker Actavis Laboratories FL, Inc.

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These patents cover once-a-day topiramate formulations and methods of treating seizures using those formulations. On October 1, 2014, we initiated a lawsuit against Actavis; the lawsuit alleges infringement of the Trokendi XR Orange Book patents. The FDA Orange Book currently lists United States Patent No. 8,298,576 as expiring on April 4, 2028 and United States Patent Nos. 8,298,580, 8,663,683, 8,877,248, 8,889,191, and 8,992,989 as expiring on November 16, 2027.

This action for patent infringement filed in the U.S. District Court for the District of New Jersey alleges that Actavis infringed the Trokendi XR patents by, inter alia, submitting to the FDA an ANDA seeking to market a generic version of Trokendi XR prior to the expiration of these patents. Actavis answered these allegations with affirmative defenses and counterclaims of noninfringement and invalidity of the patents in suit. Filing its October 1, 2014 Complaint within 45 days of receiving the first of three Actavis Laboratories FL, Inc. Paragraph IV Notice Letters entitles Supernus to an automatic stay preventing the FDA from approving Actavis' s ANDA for 30 months from the date of our receipt of such Notice Letter.

This case has been consolidated for pretrial purposes with two other actions pending in the District of New Jersey concerning infringement of the Trokendi XR Orange Book patents, those actions being C.A. No. 14-7272 (against Zydus Pharmaceuticals (USA) Inc. and Cadila Healthcare Limited) and C.A. No. 15-326 (against Par Pharmaceutical Companies, Inc. and Par Pharmaceutical, Inc.). The Company has since entered into a settlement agreement with Par (see below). A Rule 16 scheduling conference was held on April 14, 2015. The Court issued a Scheduling Order on May 22, 2015, which was amended several times, most recently on July 15, 2016. The Court issued its Markman Opinion and Order on March 9, 2016. The Court adopted Supernus' s definitions of five of the seven disputed terms, and did not adopt any of Actavis' s definitions. Fact discovery ended on May 4, 2016. The case is proceeding through expert discovery, which closes on September 23, 2016. The Court' s Amended Scheduling Order states that no summary judgment motions shall be filed. No date has been set for trial.

***Supernus Pharmaceuticals, Inc. v. Zydus Pharmaceuticals (USA) Inc., C.A. No. 14-7272 (SDW)(LDW) (D.N.J.)***

We received three Paragraph IV Notice Letters against six Trokendi XR Orange Book patents, namely United States Patent Nos. 8,298,576, 8,298,580, 8,663,683, 8,877,248, 8,889,191, and 8,992,989 from generic drug maker Zydus Pharmaceuticals (USA) Inc. These patents cover once-a-day topiramate formulations and methods of treating seizures using those formulations. On November 21, 2014, we initiated a lawsuit against Zydus Pharmaceuticals (USA) Inc. and Cadila Healthcare Limited (collectively Zydus); the lawsuit alleges infringement of the Trokendi XR Orange Book patents. The FDA Orange Book currently lists United States Patent No. 8,298,576 as expiring on April 4, 2028 and United States Patent Nos. 8,298,580, 8,663,683, 8,877,248, 8,889,191 and 8,992,989 as expiring on November 16, 2027.

This action for patent infringement filed in the U.S. District Court for the District of New Jersey alleges that Zydus infringed the Trokendi XR patents by, inter alia, submitting to the FDA an ANDA seeking to market a generic version of Trokendi XR prior to the expiration of these patents. Zydus answered these allegations with affirmative defenses and counterclaims of noninfringement and invalidity of the patents in suit. Filing its November 21, 2014 Complaint within 45 days of receiving the first of three Paragraph IV Notice Letters from Zydus Pharmaceuticals (USA) Inc. entitles Supernus to an automatic stay preventing the FDA from approving Zydus' s ANDA for 30 months from the date of our receipt of such Notice Letter.

This case has been consolidated for pretrial purposes with two other actions pending in the District of New Jersey concerning infringement of the Trokendi XR Orange Book patents, those actions being C.A. No. 14-6102 (against Actavis, Inc., Actavis Laboratories FL, Inc., Actavis plc, Actavis Pharma, Inc., Watson Laboratories, Inc., and ANDA, Inc.) and C.A. No. 15-326 (against Par Pharmaceutical Companies, Inc. and Par



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Pharmaceutical, Inc.). The Company has since entered into a settlement agreement with Par (see below). A Rule 16 scheduling conference was held on April 14, 2015. The Court issued a Scheduling Order on May 22, 2015, which was amended several times, most recently on July 15, 2016. The Court issued its Markman Opinion and Order on March 9, 2016. The Court adopted Supernus's definitions of five of the seven disputed terms, and did not adopt any of Zydus's definitions. Fact discovery ended on May 4, 2016. The case is proceeding through expert discovery, which closes on September 23, 2016. The Court's Amended Scheduling Order states that no summary judgment motions shall be filed. No date has been set for trial.

### *Supernus Pharmaceuticals, Inc. v. Par Pharmaceutical Companies, Inc., C.A. No. 15-326 (SDW)(LDW) (D.N.J.)*

We received three Paragraph IV Notice Letters against six Trokendi XR Orange Book patents, namely United States Patent Nos. 8,298,576, 8,298,580, 8,663,683, 8,877,248, 8,889,191, and 8,992,989 from generic drug maker Par Pharmaceutical, Inc. These patents cover once-a-day topiramate formulations and methods of treating seizures using those formulations. On January 16, 2015, we initiated a lawsuit against Par; the lawsuit alleges infringement of the Trokendi XR Orange Book patents. The FDA Orange Book currently lists United States Patent No. 8,298,576 as expiring on April 4, 2028 and United States Patent Nos. 8,298,580, 8,663,683, 8,877,248, 8,889,191, and 8,992,989 as expiring on November 16, 2027.

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This action for patent infringement filed in the U.S. District Court for the District of New Jersey alleges that Par infringed the Trokendi XR patents by, inter alia, submitting to the FDA an ANDA seeking to market a generic version of Trokendi XR prior to the expiration of these patents. Par answered these allegations with affirmative defenses and counterclaims of noninfringement and invalidity of the patents in suit. Filing its January 16, 2015 Complaint within 45 days of receiving the first of three Paragraph IV Notice Letters from Par Pharmaceutical, Inc. entitles Supernus to an automatic stay preventing the FDA from approving Par's ANDA for 30 months from the date of our receipt of such Notice Letter.

The Company announced on October 15, 2015 that it has entered into a settlement agreement with Par regarding this case. The settlement permits Par to begin selling a generic version of Trokendi XR on April 1, 2025, or earlier under certain circumstances. The agreement is subject to a consent judgment that was entered by the U.S. District Court for the District of New Jersey. In the consent judgment, Par acknowledges that the Orange Book-listed patents for Trokendi XR owned by Supernus, namely United States Patent Nos. 8,298,576, 8,298,580, 8,663,683, 8,877,248, 8,889,191, and 8,992,989, are valid and enforceable with respect to Par's ANDA product, and would be infringed by Par's ANDA product. The agreement has been submitted to the applicable governmental agencies.

**Item 1A. Risk Factors**

Any investment in our business involves a high degree of risk. Before making an investment decision, you should carefully consider the information we include in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes, and the additional information in the other reports we file with the Securities and Exchange Commission along with the risks described in our Annual Report on Form 10-K for the year ended December 31, 2015. 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.

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

**(a) Sales of Unregistered Securities.**

During the three months ended June 30, 2016, the Company granted options to employees to purchase an aggregate of 7,400 shares of common stock at an exercise price of \$17.16 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(a)(2) of the Securities Act as transactions not involving any public offering.

**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

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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

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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 4, 2016

By: /s/ Jack A. Khattar  
Jack A. Khattar  
President, Secretary and Chief Executive Officer

DATED: August 4, 2016

By: /s/ Gregory S. Patrick  
Gregory S. Patrick  
Vice President and Chief Financial Officer

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**EXHIBIT INDEX**

| <b>Number</b> | <b>Description</b>   |
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