SUPERNUS PHARMACEUTICALS INC
Form 10-Q
August 13, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from to

Commission File Number: 0-50440

SUPERNUS PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-2590184**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1550 East Gude Drive, Rockville, MD	**20850**
(Address of principal executive offices)	(Zip Code)

(301) 838-2500

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of outstanding shares of the registrant s common stock, par value $0.001 per share, as of the close of business on July 31, 2012 was 24,464,112.

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SUPERNUS PHARMACEUTICALS, INC.

FORM 10-Q QUARTERLY REPORT

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Supernus Pharmaceuticals, Inc.
Consolidated Balance Sheet

(in thousands, except share amounts)

	December 31, 2011	June 30, 2012 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 48,544	$ 47,242
Marketable Securities		29,150
Marketable securities restricted	245	259
Prepaid expenses and other	466	1,010
Deferred financing costs, current	144	144
Total current assets	49,399	77,805
Property and equipment, net	1,310	1,146
Purchased patents, net	912	798
Other assets	55	55
Deferred financing costs, long-term	2,054	161
Total assets	$ 53,730	$ 79,965
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 10,078	$ 9,175
Accrued compensation	1,547	1,335
Deferred revenue	232	365
Interest payable	138	259
Secured notes payable, current	6,775	10,747
Total current liabilities	18,770	21,881
Deferred revenue, net of current portion	465	183
Other non-current liabilities	1,399	1,432
Supplemental executive retirement plan	245	259
Secured notes payable, net of current portion	22,711	17,061
Warrant liability	697	1,169
Total liabilities	44,287	41,985
Stockholders equity:		
Series A convertible preferred stock, $0.001 par value 49,625,000 shares and 65,000,000 shares authorized at December 31, 2011 and June 30, 2012 respectively; 49,000,000 shares issued and outstanding at December 31, 2011 and 0 shares issued and outstanding at June 30, 2012; aggregate liquidation preference of $69,520 and zero at December 31, 2011 and	49	

June 30, 2012, respectively				
Common stock, $0.001 par value 62,625,000 shares and 130,000,000 shares authorized at December 31, 2011 and June 30, 2012 respectively; 1,662,321 and 24,461,216 shares issued and outstanding at December 31, 2011 and June 30, 2012, respectively;		2		24
Additional paid-in capital		49,362		97,209
Accumulated other comprehensive income		1		6
Accumulated deficit		(39,971)		(59,259)
Total stockholders equity		9,443		37,980
Total liabilities and stockholders equity	$	53,730	$	79,965

See accompanying notes.

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

	Three months ended June 30, 2011 (unaudited)	Three months ended June 30, 2012 (unaudited)	Six months ended June 30, 2011 (unaudited)	Six months ended June 30, 2012 (unaudited)
Revenues				
Development and milestone revenues	$ 750	91	$ 750	299
Total revenues	750	91	750	299
Costs and expenses				
Research and development	7,251	4,703	14,702	10,061
Selling, general and administrative	1,895	4,645	3,642	7,374
Total costs and expenses	9,146	9,348	18,344	17,435
Operating loss from continuing operations	(8,396)	(9,257)	(17,594)	(17,136)
Other income (expense):				
Interest income	12	32	27	52
Interest expense	(499)	(929)	(859)	(1,891)
Other income(expense)	(57)	141	(229)	(313)
Total other income (expense)	(544)	(756)	(1,061)	(2,152)
Loss from continuing operations	(8,940)	(10,013)	(18,655)	(19,288)
Discontinued Operations:				
Income from discontinued operations	1,563		229	
Net loss	$ (7,377)	(10,013)	$ (18,426)	(19,288)
Cumulative dividends on Series A convertible preferred stock	$ (858)	(286)	$ (1,715)	(1,143)
Net loss attributable to common stockholders	$ (8,235)	(10,299)	$ (20,141)	(20,431)
Loss per common share:				
Basic and Diluted				
Continuing operations	$ (6.15)	(0.61)	$ (12.78)	(2.21)
Discontinued operations	0.98		0.14	
Net loss	(5.17)	(0.61)	(12.64)	(2.21)
Weighted-average number of common shares:				
Basic	1,594,246	16,817,841	1,593,508	9,247,142
Diluted	1,594,246	16,817,841	1,593,508	9,247,142

See accompanying notes.

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

	Three months ended June 30, 2011	Three months ended June 30, 2012	Six months ended June 30, 2011	Six months ended June 30, 2012
	(unaudited)		(unaudited)	
Comprehensive loss:				
Net loss	$ (7,377)	(10,013)	$ (18,426)	(19,288)
Unrealized holding (losses) gains on marketable securities		(3)	2	6
Total comprehensive loss	$ (7,377)	(10,016)	$ (18,424)	(19,282)

See accompanying notes.

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Supernus Pharmaceuticals, Inc.

Consolidated Statements of Cash Flows

(in thousands)

	Six Months Ended June 30, 2011		Six Months Ended June 30, 2012	
	(unaudited)			
Cash flows from operating activities				
Net loss	$	(18,426)	$	(19,288)
Income from discontinued operations		(229)		
Loss from continuing operations		(18,655)		(19,288)
Adjustments to reconcile loss from continuing operations to net cash used in operating activities:				
Gain on sale of property and equipment		(27)		
Change in fair value of warrant liability		(89)		472
Unrealized gain on marketable securities		2		6
Depreciation and amortization		427		438
Amortization of deferred financing costs		99		164
Stock-based compensation expense		(92)		105
Changes in operating assets and liabilities:				
Prepaid expenses and other assets		(1,292)		(544)
Accounts payable and accrued expenses		(715)		(1,115)
Interest payable		138		121
Deferred revenue				(149)
Other non-current liabilities		545		33
Net cash used in operating activities from continuing operations		(19,659)		(19,757)
Net cash provided by operating activities from discontinued operations		834		
Net cash used in operating activities		(18,825)		(19,757)
Cash flows from investing activities				
Purchases of marketable securities		(17,890)		(36,824)
Sales and maturities of marketable securities		16,435		7,674
Purchases of property and equipment, net		(416)		(160)
Net cash used in investing activities from continuing operations		(1,871)		(29,310)
Net cash used in investing activities		(1,871)		(29,310)
Cash flows from financing activities				
Proceeds from issuance of common stock, net of offering costs		1		52,408
Proceeds from issuance of secured notes payable		15,000		
Repayment of secured notes payable				(1,771)
Financing costs		(670)		(2,872)
Net cash provided by financing activities from continuing operations		14,331		47,765
Net cash used in financing activities from discontinued operations		(814)		
Net cash provided by financing activities		13,517		47,765
Net change in cash and cash equivalents		(7,179)		(1,302)
Cash and cash equivalents at beginning of period		23,741		48,544
Cash and cash equivalents at end of period	$	16,562	$	47,242
Supplemental cash flow information:				
Cash paid for interest Continuing operations	$	715	$	1,488
Cash paid for interest Discontinued operations	$	6,032	$	

Noncash conversion of preferred stock to common stock	$		$	49

See accompanying notes.

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Supernus Pharmaceuticals, Inc.
Notes to Consolidated Financial Statements

For the Three and Six Months Ended June 30, 2011 and 2012
(unaudited)

1. Organization and Business

Supernus Pharmaceuticals, Inc. (the Company) is a specialty pharmaceutical company focused on developing and commercializing products for the treatment of central nervous system diseases, including neurological and psychiatric disorders. The Company has several proprietary product candidates in clinical development that address large market opportunities in epilepsy and attention deficit hyperactivity disorder. One of these product candidates, Trokendi XRTM (formerly known as SPN-538) received tentative approval from the Food and Drug Administration (the FDA) on June 25, 2012.

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

The accompanying financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Since inception, the Company has incurred, and continues to incur, significant losses from operations.

The Company s current operating assumptions, which reflect management s best estimate of future revenue and operating expenses, indicate that current cash on hand, including the proceeds received from the sale of common stock in May 2012, should be sufficient to fund operations as currently planned into the second quarter of 2013. As a result, the Company envisions that it will need to raise additional capital prior to this time so as to be able to continue its business operations as currently conducted and fund deficits in operating cash flows.

Although the Company intends to raise additional capital, there can be no assurance that any financing will be available to the Company at any given time or available on favorable terms. The type, timing and terms of financing selected by the Company will be dependent upon the Company s cash needs, the availability of financing sources and the prevailing conditions in the financial markets.

3. 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., and included the accounts of its wholly-owned subsidiary, TCD Royalty Sub, LLC (TCD) through December 14, 2011, the date that the Company sold all of its equity interests in TCD. The assets, liabilities, and results of operations related to TCD are presented as discontinued operations for all periods in the accompanying consolidated financial statements. These companies are collectively referred to herein as Supernus or the Company. All intercompany transactions and balances have been eliminated in consolidation.

The Company s consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for interim financial information. In the opinion of management, the consolidated financial statements reflect all adjustments necessary to fairly present the Company s financial position, results of operations and cash flows for the periods presented. These adjustments are of a normal recurring nature.

Certain notes and other information have been omitted from the interim consolidated financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these financial statements should be read in

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conjunction with the Company s financial statements for the year ended December 31, 2011 filed as part of the Company s Registration Statement on Form S-1/A (File No. 333-171375) (the Registration Statement).

The results of operations for the three and six months ended June 30, 2012 are not necessarily indicative of the Company s future financial results. Certain amounts within current assets in the 2011 financial statements have been reclassified to conform with the current year s presentation.

Use of Estimates

The preparation of the financial statements in accordance with U.S. GAAP requires the Company to make estimates and judgments in certain circumstances that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. In preparing these consolidated financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. On an ongoing basis, the Company evaluates its estimates, including those related to revenue recognition, fair value of assets and common stock, income taxes, preclinical study and clinical trial accruals and other contingencies. Management bases its estimates on historical experience or on various other assumptions, including information received from its service providers, which it believes to be reasonable under the circumstances. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Company considers all investments in highly liquid financial instruments with an original maturity of three months or less to be cash equivalents.

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. Management classifies the Company s short-term investments as available-for-sale. Such securities are carried at estimated fair value, with any material 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 as interest income when earned. The cost of securities sold is calculated using the specific identification method. The Company places all investments with highly rated financial institutions.

Marketable Securities Restricted

The Company has established the Supernus Supplemental Executive Retirement Plan (SERP) for the sole purpose of receiving funds for two executives from the Shire Laboratories, Inc. SERP and providing a continuing deferral program under the Supernus SERP. As of December 31, 2011 and June 30, 2012, the estimated fair value of the mutual fund investment securities within the SERP of approximately $245,000 and $259,000 respectively, has been recorded as restricted marketable securities. 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 can only be used for purposes of paying benefits under the SERP.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents and marketable securities. The counterparties are various corporations and financial institutions of high credit standing.

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Substantially all of the Company s cash and cash equivalents are maintained with well known, national, financial institutions. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, management believes they bear minimal risk. The Company has not experienced any losses on its deposits of cash, cash equivalents, short-term investments and restricted investments, and management believes that its guidelines for investment of its excess cash maintain safety and liquidity through diversification and investment maturity less than one year.

Fair Value of Financial Instruments

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

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

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

• Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

• Level 2 Inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (interest rates, yield curves, etc.) and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

• 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:

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	Total Carrying Value at December 31, 2011	Fair Value Measurements at December 31, 2011 Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets:				
Cash and cash equivalents	$ 48,544	$ 48,544	$	$
Marketable securities restricted	245		245	
Total assets at fair value	$ 48,789	$ 48,544	$ 245	$
Liabilities:				
Warrant liability	$ 697	$	$	$ 697

	Total Carrying Value at June 30, 2012	Fair Value Measurements at June 30, 2012 Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands) (unaudited)			
Cash and cash equivalents	$ 47,242	$ 40,792	$ 6,450	$
Marketable securities	29,150		29,150	
Marketable securities restricted	259		259	
Total assets at fair value	$ 76,651	$ 40,792	$ 35,859	$
Liabilities:				
Warrant liability	$ 1,169	$	$	$ 1,169

The Company s Level 1 assets include money market funds and U.S. Treasuries and government agency debt securities with quoted prices in active markets. At December 31, 2011, Level 2 assets include mutual funds in which the SERP assets are invested. At June 30, 2012, Level 2 assets include mutual funds in which the SERP assets are invested, corporate bonds and other fixed income securities. Level 2 securities are valued using third-party pricing sources that apply applicable inputs and other relevant data into their models to estimate fair value.

Level 3 liabilities include the fair market value of outstanding warrants to purchase Common Stock recorded as a derivative liability. Prior to the IPO on May 1, 2012, these warrants provided the right to purchase Series A Preferred Stock that were converted to the right to purchase common stock upon the completion of the IPO. The fair value of the preferred stock warrant liability was calculated using a probability-weighted expected return model (PWERM). The fair value of the common stock warrant liability has been calculated using a Monte-Carlo simulation on a Black-Scholes lattice model with the following assumptions:

Exercise Price	$4 - $5 per share
Volatility	80%
Stock Price	$9.36 per share
Term	8.6 - 9.6 years
Dividend Yield	0.0%
Risk-Free Rate	1.4% - 1.6%

Significant changes to these assumptions or probability weightings would result in increases/decreases to the fair value of the outstanding warrants.

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Changes in the fair value of the warrants are recognized in Other income/loss on the Consolidated Statement of Comprehensive Income. The following table presents information about the Company s common stock warrant liability as of June 30, 2012:

		Six Months Ended June 30, 2012 (in thousands) (unaudited)
Balance at December 31, 2011	$	697
Changes in fair value of warrants included in earnings		472