SUPERNUS PHARMACEUTICALS INC
Form 10-Q/A
January 20, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

For the transition period from to

Commission File Number: 001-35518

SUPERNUS PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

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

(301) 838-2500

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of outstanding shares of the registrant s common stock, par value $0.001 per share, as of the close of business on January 17, 2017 was 50,121,242.

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Explanatory Note

Unless the context requires otherwise, the words Supernus, we, our, and the Company refer to Supernus Pharmaceuticals, Inc. and its subsidiaries.

Supernus Pharmaceuticals, Inc. (the Company) is filing this Amendment No. 1 on Form 10-Q/A (the Amended Form 10-Q) to its Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2015 (the Original Form 10-Q), which was originally filed with the U.S. Securities and Exchange Commission (SEC) on November 9, 2015 (the Original Filing Date), to reflect the restatement of consolidated financial statements (Restatement) as described below.

In this Amended Form 10-Q for the fiscal quarter ended September 30, 2015, we are restating our previously issued and unaudited consolidated financial statements and the related disclosures for the three and nine month periods ended September 30, 2015 and 2014. As discussed in further detail below and in Note 2 to the accompanying consolidated financial statements, the Restatement is the result of a misapplication in the guidance on accounting for revenue recognition related to the sale of future revenues (as described below). We assessed the impact of this misapplication on our prior interim and annual consolidated financial statements and concluded that the impact was material to these consolidated financial statements. Consequently, we have restated the prior period consolidated financial statements identified above. All amounts in this Amended Form 10-Q affected by the Restatement reflect such amounts as restated. For a more detailed explanation of these matters and resulting restatements, please see Part I, Item 1: Financial Statements Note 2 to the Consolidated Financial Statements; Part I, Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations Restatement of Previously Issued Consolidated Financial Statements; and Part I, Item 4: Controls and Procedures.

For the convenience of the reader, this Amended Form 10-Q sets forth the Original Form 10-Q for the three month and nine month periods ended September 30, 2015 in its entirety, as amended by and to reflect the Restatement and includes certain restated information for the three month and nine month periods ended September 30, 2014.

Background of Restatement

In July 2014, the Company entered into a royalty monetization transaction and recorded the transaction with Healthcare Royalty Partners III, L.P. (HC Royalty) as revenue referencing guidance under ASC 605, Revenue Recognition. In August 2016, the Company was informed by its former independent registered public accounting firm, Ernst and Young LLP (EY), that a royalty monetization transaction for another client had recently been reviewed by the SEC s Office of the Chief Accountant (the OCA). The OCA had concluded that that transaction should have been recorded a liability rather than as revenue. Accordingly, Supernus undertook to re-evaluate the accounting for the 2014 transaction.

Having conferred with the Company s prior auditor, EY, and the Company s current auditor KPMG LLP (KPMG), in October 2016, the Company submitted to the OCA a request to post clear the Company s accounting for the royalty monetization transaction from 2014. In its submission, the Company concluded that the terms and conditions of the agreement met the criteria for revenue recognition under SAB 104 and ASC 605-10. On November 9, 2016, the OCA completed its review and informed the Company that the royalty monetization transaction should have been recorded as a debt obligation in 2014 in accordance with ASC 470-10-25. As a result, on November 10, 2016, the Company s Audit Committee concluded that the Company s consolidated financial statements for the years ended December 31, 2014 and December 31, 2015, and related reports of the Company s independent registered public accounting firms thereon, and the interim quarterly reports in those years beginning with the third quarter of 2014, and the interim quarterly reports for the first and second quarters in 2016 should no longer be relied upon and should be restated.

The Company is restating in this Amended Form 10-Q its consolidated financial statements for the three and nine month periods ended September 30, 2015 and 2014. The adjustments to our consolidated financial statements related to the 2014 royalty monetization transaction resulted in the following changes:

- The $30.0 million proceeds of the transaction have now been recorded in the third quarter of 2014 as non-recourse debt, rather than revenue;

- Revenue and operating income in the third quarter of 2014 have been reduced by approximately $30.0 million; and

- Royalties received by the counterparty to the royalty monetization transaction are now recognized by the Company as non-cash royalty revenue. The $30.0 million of non-recourse liability is reduced by the same amount, and then increased by the non-cash implied interest expense to be recognized.

The revisions referenced above result in noncash financial statement corrections, principally reducing net income and increasing liability, but will have no impact on the Company s current or previously reported cash and marketable securities position and no impact on net product sales.

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In connection with the Restatement, the Company also made the following corrections:

- Recording current tax expenses related to an increase in our reserve for an uncertain tax position related to alternative minimum taxes in the fourth quarter of 2014 that had been previously recognized in the second quarter of 2015;

- An adjustment was made to Statement Cash Flows for the nine months ended September 30, 2015 and 2014 to adjust cash used in investing activities, with an offset to cash provided by operations for certain accrued legal fees that have been deferred;

- The correction of an immaterial error, to correctly recognize stock compensation expense associated with the January 2014 stock option awards to the Board. These options have a twelve month vesting period, though the Company originally began recognizing compensation expense over a four-year vesting term. This error was corrected during 2015. Correcting this immaterial error results in an increase in selling, general, and administrative expense (SG&A) in 2014, and a corresponding decrease in SG&A expense in 2015; and

- The reclassification of a Certificate of Deposit (CD), originally purchased during the first quarter of 2015 and continually renewed on a quarterly basis, as a current marketable security. This CD has 91 days to maturity and the Company incorrectly classified this amount as cash and cash equivalents on the balance sheets at March 31, 2015, June 30, 2015, September 30, 2015 and December 31, 2015. We have corrected the balance sheets in all periods to reflect the reclassification from cash and cash equivalents to current marketable securities.

An explanation of the impact of each of these revisions on our financial statements is contained in Note 2 to the consolidated financial statements contained in Part I, Item 1: Financial Statements.

Items Amended in this Quarterly Report on Form 10-Q/A

The following items of this Amended Form 10-Q include restated financial data: (i) Part I, Item 1: Financial Statements; and (ii) Part I, Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations. In addition, Part I, Item 4: Controls and Procedures includes a statement of material weakness covering our controls over financial reporting.

Information not affected by the Restatement is unchanged and reflects the disclosures made as of the Original Filing Date and is not intended to speak as of any subsequent date. No statements made herein should be assumed to be accurate as of any subsequent date. Accordingly, this

Amended Form 10-Q should be read in conjunction with our subsequent filings with the SEC, as information in such filings may update or supersede certain information contained in this Amended Form 10-Q.

Restatement of Other Financial Statements

In addition to the restated financial information for the three and nine month periods ended September 30, 2015 and 2014, included in this Amended Form 10-Q, the Restatement requires the restatement of our audited consolidated financial statements and related disclosures for the years ended December 31, 2015 and December 31, 2014 and our unaudited condensed consolidated financial statements and related disclosures for the quarters ended March 31, 2015, June 30, 2015, March 31, 2016 and June 30, 2016. Concurrently with this filing, we are filing the following amended Forms 10-K and 10-Q with respect to these periods to address the corrections:

- Form 10-K/A for the year ended December 31, 2015, which contains restated audited consolidated financial statements and related disclosures for the years ended December 31, 2015 and 2014;

- Form 10-Q/A for the quarter ended March 31, 2016, which contains restated unaudited condensed consolidated financial statements and related disclosures for the three month periods ended March 31, 2016 and 2015; and

- Form 10-Q/A for the quarter ended June 30, 2016, which contains restated unaudited condensed consolidated financial statements and related disclosures for the three and six month periods ended June 30, 2016 and 2015.

Internal Control Considerations

Management has assessed the effect of the restatement on the Company s internal control over financial reporting and believes that this restatement represents a material weakness in its internal control over financial reporting for all periods under restatement. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim consolidated financial statements will not be prevented or

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detected on a timely basis. For a discussion of management s consideration of the material weakness identified, see Part I, Item 4: Controls and Procedures included in this Quarterly Report. In addition, this Amended Form 10-Q includes currently-dated certifications from the Company s Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

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SUPERNUS PHARMACEUTICALS, INC.

FORM 10-Q/A QUARTERLY REPORT

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

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PART I FINANCIAL INFORMATION (Restated)

Supernus Pharmaceuticals, Inc.

Consolidated Balance Sheets

(in thousands, except share amounts)

	September 30, 2015 (unaudited) (restated)	December 31, 2014 (per 2015 Form 10K/A)	September 30, 2014 (unaudited) (restated)
Assets			
Current assets:			
Cash and cash equivalents	$ 25,641	$ 36,396	$ 37,780
Marketable securities	32,061	37,940	34,783
Accounts receivable, net	23,603	17,270	15,303
Inventories, net	14,742	13,441	11,145
Prepaid expenses and other current assets	6,468	3,679	3,791
Total current assets	102,515	108,726	102,802
Long term marketable securities	43,967	19,816	15,763
Property and equipment, net	3,210	2,448	2,500
Intangible assets, net	16,627	5,434	4,135
Other non-current assets	322	360	360
Total assets	$ 166,641	$ 136,784	$ 125,560
Liabilities and stockholders equity			
Current liabilities:			
Accounts payable	$ 2,812	$ 1,863	$ 1,573
Accrued sales deductions	18,820	8,461	7,298
Accrued expenses	21,654	17,656	13,112
Non-recourse liability related to sale of future royalties current portion	261		
Deferred licensing revenue	143	143	143
Total current liabilities	43,690	28,123	22,126
Deferred licensing revenue, net of current portion	1,167	1,274	1,310
Convertible notes, net of discount	7,939	26,223	25,732
Non-recourse liability related to sale of future royalties long term	30,287	30,025	30,127
Other non-current liabilities	3,815	3,876	3,015
Derivative liabilities	1,156	6,564	7,258
Total liabilities	88,054	96,085	89,568
Stockholders equity:			
Common stock, $0.001 par value, 130,000,000 shares authorized at September 30, 2015, December 31, 2014 and September 30, 2014; 48,686,657, 42,974,463 and 42,929,826 shares issued and outstanding at September 30, 2015, December 31, 2014 and September 30, 2014, respectively	49	43	43
Additional paid-in capital	261,006	230,263	229,225
Accumulated other comprehensive loss	(107)	(154)	(35)
Accumulated deficit	(182,361)	(189,453)	(193,241)

Total stockholders equity		78,587		40,699		35,992
Total liabilities and stockholders equity	$	166,641	$	136,784	$	125,560

See accompanying notes.

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Supernus Pharmaceuticals, Inc.

Consolidated Statements of Operations (Restated)

(in thousands, except share and per share data)

	Three Months ended September 30, 2015	2014	Nine Months ended September 30, 2015	2014
	(unaudited)		(unaudited)	
Revenue				
Net product sales	$ 38,551	$ 22,452	$ 100,914	$ 59,056
Royalty revenue	776	199	2,007	199
Licensing revenue	35	36	857	2,188
Total revenue	39,362	22,687	103,778	61,443
Costs and expenses				
Cost of product sales	2,248	1,321	5,628	3,476
Research and development	9,129	4,657	19,690	13,816
Selling, general and administrative	22,900	17,445	65,496	54,554
Total costs and expenses	34,277	23,423	90,814	71,846
Operating income (loss)	5,085	(736)	12,964	(10,403)
Other income (expense)				
Interest income	169	78	419	265
Interest expense	(292)	(1,289)	(1,004)	(3,774)
Interest expense non-recourse liability related to sale of future royalties	(998)	(326)	(2,530)	(326)
Changes in fair value of derivative liabilities	114	760	66	2,115
Loss on extinguishment of debt	(25)	(860)	(2,400)	(2,592)
Other income	5	2	30	2
Total other expense	(1,027)	(1,635)	(5,419)	(4,310)
Earnings (loss) before income taxes	4,058	(2,371)	7,545	(14,713)
Income tax expense	142		453	
Net income (loss)	$ 3,916	$ (2,371)	$ 7,092	$ (14,713)
Income (loss) per common share:				
Basic	$ 0.08	$ (0.06)	$ 0.15	$ (0.35)
Diluted	$ 0.08	$ (0.06)	$ 0.15	$ (0.35)
Weighted-average number of common shares outstanding:				
Basic	48,515,071	42,900,269	47,011,243	42,035,025
Diluted	51,590,797	42,900,269	51,059,466	42,035,025

See accompanying notes.

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Supernus Pharmaceuticals, Inc.

Consolidated Statements of Comprehensive Income (Loss)(Restated)

(in thousands)

	Three Months ended September 30, 2015	Three Months ended September 30, 2014	Nine Months ended September 30, 2015	Nine Months ended September 30, 2014
	(unaudited)		(unaudited)	
Net income (loss)	$ 3,916	$ (2,371)	$ 7,092	$ (14,713)
Other comprehensive (loss) income:				
Unrealized net gain (loss) on marketable securities	44	(36)	47	(35)
Other comprehensive income (loss):	44	(36)	47	(35)
Comprehensive income (loss)	$ 3,960	$ (2,407)	$ 7,139	$ (14,748)

See accompanying notes.

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Supernus Pharmaceuticals, Inc.

Consolidated Statements of Cash Flows (Restated)

(in thousands)

	Nine Months ended September 30, 2015 (unaudited)	2014
Cash flows from operating activities		
Net income (loss)	$ 7,092	$ (14,713)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Loss on extinguishment of debt	2,400	2,592
Change in fair value of derivative liability	(66)	(2,115)
Unrealized gain (loss) on marketable securities	47	(35)
Non-cash interest expense/income on liability related to sale of future royalties	2,530	326
Non-cash royalty revenue	(2,007)	(199)
Depreciation and amortization	651	701
Amortization of deferred financing costs and debt discount	646	1,599
Share-based compensation expense	3,011	2,125
Changes in operating assets and liabilities:		
Accounts receivable	(6,334)	(10,249)
Inventories	(1,301)	(3,993)
Prepaid expenses and other assets	(2,793)	(1,256)
Accounts payable	949	(1,584)
Accrued sales deductions	10,359	4,354
Accrued expenses	(459)	(598)
Deferred product revenue, net		(7,882)
Deferred licensing revenue	(107)	(168)
Other non-current liabilities	(21)	337
Net cash provided by (used in) operating activities	14,597	(30,758)
Cash flows from investing activities		
Purchases of marketable securities	(51,942)	(34,566)
Sales and maturities of marketable securities	33,671	41,987
Purchases of property and equipment	(1,240)	(475)
Deferred legal fees	(6,908)	(1,652)
Net cash (used in) provided by investing activities	(26,419)	5,294
Cash flows from financing activities		
Proceeds from issuance of common stock	1,067	265
Cash settlement of debt to equity conversion		(1)
Proceeds from sale of future royalties		30,000
Net cash provided by financing activities	1,067	30,264
Net change in cash and cash equivalents	(10,755)	4,800
Cash and cash equivalents at beginning of period	36,396	32,980
Cash and cash equivalents at end of period	$ 25,641	$ 37,780
Supplemental cash flow information:		
Cash paid for interest	$ 504	$ 1,502
Noncash financial activity:		

Conversion of convertible notes and interest make-whole	$	26,019	$	14,887
Exercise of warrants	$	652	$	
Deferred legal fees included in accrued expenses	$	6,866	$	1,497

See accompanying notes.

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Supernus Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements

For the Three and Nine Months ended September 30, 2015 and 2014

(unaudited)

1. Organization and Business

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

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

2. Restatement of Financial Statements

In July 2014, the Company entered into a royalty monetization transaction and recorded the transaction as revenue. In October 2016, the Company submitted to the U.S. Securities and Exchange Commission s (the SEC) Office of the Chief Accountant (the OCA) a request for post-accounting review of the royalty monetization transaction. On November 9, 2016, the OCA completed its review and informed the Company that the royalty monetization transaction should have been recorded as a debt obligation in 2014. As a result, on November 10, 2016, the Company s Audit Committee concluded that the Company s financial statements for the years ended December 31, 2014 and December 31, 2015, and the interim quarterly reports in those years beginning with the third quarter of 2014, and the interim quarterly reports for the first and second quarters in 2016 and related reports of the Company s independent registered public accounting firms thereon, should no longer be relied upon and will be restated.

The Company is restating in this Quarterly Report its financial statements for the three and nine month periods ended September 30, 2015 and September 30, 2014. This restatement results in noncash, financial statement corrections and will have no impact on the Company s current or previously reported cash and marketable securities position or net product sales.

The Company has also made corrections to reflect (i) the recording during the fourth quarter of 2014 of a current tax expense related to an increase in our reserve for an uncertain tax position related to alternative minimum taxes that had been previously recognized in the second quarter of 2015 and (ii) an increase in Selling, General and Administrative Expense in 2014 which is fully offset by a corresponding decrease in

Selling, General and Administrative Expense in 2015. This adjustment is the result of the recognition of stock compensation expense over a period of twelve months as opposed to four years related to certain option grants granted in January 2014. Additionally, during the first quarter of 2015, the Company purchased a Certificate of Deposit (CD) that has been continually renewed on a quarterly basis. This CD has 91 days to maturity and the Company incorrectly classified this amount as cash and cash equivalents on the balance sheets at March 31, 2015, June 30, 2015, September 30, 2015 and December 31, 2015. We have corrected the balance sheets in all periods to reflect the reclassification from cash and cash equivalents to current marketable securities. An adjustment was made to the Statement of Cash Flows for the nine month periods ended September 30, 2015 and 2014 to change cash used in investing activities, with an offset to cash provided by operations for certain accrued legal fees that have been deferred.

The impact of the restatement and other corrections on the condensed Consolidated Balance Sheet, Consolidated Statement of Operations and Consolidated Statement of Cash Flows as of and for the three and nine month periods ended September 30, 2015 and September 30, 2014 is presented below, in thousands except share and per share data.

Three Months Ended September 30, 2015

Consolidated Statement of Operations (unaudited)	As Previously Reported	Restatement Adjustments	Other Corrections	As Restated
Royalty revenue	$	$ 776	$	$ 776
Total revenue	38,586	776		39,362
Operating income	4,309	776		5,085
Interest expense non-recourse liability related to sale of future royalties		(998)		(998)
Total other expense	(29)	(998)		(1,027)
Earnings before income taxes	4,280	(222)		4,058
Income tax expense	58		84	142
Net income	4,222	(222)	(84)	3,916
Income per common share: Basic	0.09	(0.01)		0.08

Nine Months Ended September 30, 2015

Consolidated Statement of Operations (unaudited)	As Previously Reported	Restatement Adjustments	Other Corrections	As Restated
Royalty revenue	$	$ 2,007	$	$ 2,007
Total revenue	101,771	2,007		103,778
Selling, general and administrative	65,637		(141)	65,496
Total costs and expenses	90,955		(141)	90,814
Operating income	10,816	2,007	141	12,964
Interest expense non-recourse liability related to sale of future royalties		(2,530)		(2,530)
Total other expense	(2,889)	(2,530)		(5,419)
Earnings before income taxes	7,927	(523)	141	7,545
Income tax expense	782		(329)	453
Net income	7,145	(523)	470	7,092

Nine Months Ended September 30, 2015

Consolidated Statements of Cash Flows (unaudited)	As Previously Reported	Restatement Adjustments	Other Corrections	As Restated
Net cash provided by operating activities	$ 12,189		$ 2,408	$ 14,597
Net cash used in investing activities	(23,358)		(3,061)	(26,419)
Net change in cash and cash equivalents	(10,102)		(653)	(10,755)

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As of September 30, 2015

Consolidated Balance Sheet (unaudited)	As Previously Reported	Restatement Adjustments	Other Corrections	As Restated
Cash and cash equivalents	$ 26,294		$ (653)	$ 25,641
Marketable securities	31,408		653	32,061
Accrued expenses	21,353		301	21,654
Non-recourse liability related to sale of future royalties current portion		261		261
Total current liabilities	43,128	261	301	43,690
Non-recourse liability related to sale of future royalties long term		30,287		30,287
Total liabilities	57,205	30,548	301	88,054
Accumulated deficit	(151,512)	(30,548)	(301)	(182,361)
Total stockholders equity	109,436	(30,548)	(301)	78,587

As of December 31, 2014

Consolidated Balance Sheet	As Previously Reported	Restatement Adjustments	Other Corrections	As Restated
Accrued expenses	17,026		630	17,656
Total current liabilities	27,493		630	28,123
Non-recourse liability related to sale of future royalties long term		30,025		30,025
Total liabilities	65,430	30,025	630	96,085
Additional paid-in capital	230,122		141	230,263
Accumulated deficit	(158,657)	(30,025)	(771)	(189,453)
Total stockholders equity	71,354	(30,025)	(630)	40,699

Three Months Ended September 30, 2014

Consolidated Statement of Operations (unaudited)	As Previously Reported	Restatement Adjustments	Other Corrections	As Restated
Royalty revenue	$	$ 199	$	$ 199
Revenue from royalty agreement	30,000	(30,000)		
Total revenue	52,488	(29,801)		22,687
Selling, general and administrative	17,343		102	17,445
Total costs and expenses	23,321		102	23,423
Operating income (loss)	29,167	(29,801)	(102)	(736)
Interest expense non-recourse liability related to sale of future royalties		(326)		(326)
Total other expense	(1,309)	(326)		(1,635)
Earnings before income taxes	27,858	(30,127)	(102)	(2,371)
Net Income (loss)	27,858	(30,127)	(102)	(2,371)
Income (loss) per common share: Basic	0.65	(0.71)		(0.06)
Income (loss) per common share: Diluted	0.39	(0.45)		(0.06)
	50,825,633	(7,925,364)		42,900,269

Weighted average number of common shares - Diluted	

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Nine Months Ended September 30, 2014

Consolidated Statement of Operations (unaudited)	As Previously Reported	Restatement Adjustments	Other Corrections	As Restated
Royalty revenue	$	$ 199	$	$ 199
Revenue from royalty agreement	30,000	(30,000)		
Total revenue	91,244	(29,801)		61,443
Selling, general and administrative	54,452		102	54,554
Total costs and expenses	71,744		102	71,846
Operating Income (loss)	19,500	(29,801)	(102)	(10,403)
Interest expense non-recourse liability related to sale of future royalties		(326)		(326)
Total other expense	(3,984)	(326)		(4,310)
Earnings before income taxes	15,516	(30,127)	(102)	(14,713)
Net income (loss)	15,516	(30,127)	(102)	(14,713)
Income (loss) per common share: Basic	0.37	(0.72)		(0.35)
Income (loss) per common share: Diluted	0.13	(0.48)		(0.35)
Weighted average number of common shares - Diluted	50,378,186	(8,343,161)		42,035,025

Nine Months Ended September 30, 2014

Consolidated Statements of Cash Flows (unaudited)	As Previously Reported	Restatement Adjustments	Other Corrections	As Restated
Net cash provided by (used in) operating activities	$ 739	(30,000)	$ (1,497)	$ (30,758)
Net cash provided by investing activities	3,797		1,497	5,294
Net cash provided by financing activities	264	30,000		30,264

As of September 30, 2014

Consolidated Balance Sheet (unaudited)	As Previously Reported	Restatement Adjustments	Other Corrections	As Restated
Non-recourse liability related to sale of future royalties long term		30,127		30,127
Total liabilities	60,206	30,127	(765)	89,568
Additional paid-in capital	229,123		102	229,225
Accumulated deficit	(163,012)	(30,127)	(102)	(193,241)
Total stockholders equity	66,119	(30,127)		35,992

3. Summary of Significant Accounting Policies

Basis of Presentation

The Company s unaudited consolidated financial statements include the accounts of Supernus Pharmaceuticals, Inc. and Supernus Europe Ltd. These are collectively referred to herein as Supernus or the Company. All significant intercompany transactions and balances have been eliminated in consolidation. The Company s unaudited consolidated financial statements have been prepared in accordance with 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/A. Therefore, these financial statements should be read in conjunction with the Company s Annual Report on Form 10-K/A for the year ended December 31, 2015 filed with the SEC.

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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 nine months ended September 30, 2015 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 highly rated government or private sector or industrial 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 September 30, 2015, the fair value of the SERP was $267,000 and was held in cash securities. As of December 30, 2014, the estimated fair value of the mutual fund investment securities within the SERP was approximately $305,000. 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.

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. No accounts have been written off in 2015 and 2014. The Company recorded an allowance of approximately $4.7 million and $4.1 million for estimated sales discounts as of September 30, 2015 and December 31, 2014, respectively.

Revenue Recognition

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

Our products are distributed through wholesalers and pharmaceutical distributors. Each of these wholesalers and distributors will take title and ownership to the product upon physical receipt of the product and then distribute our products to pharmacies. For the three and nine months ended September 30, 2015, the revenue for Oxtellar XR and Trokendi XR was recognized contemporaneously upon shipment of finished products to wholesalers, net of allowances for estimated sales deductions and returns.

Beginning in the second quarter of 2014, the Company began recognizing revenue for Trokendi XR, net of estimated sales deductions, at the time of shipments to wholesalers. Prior to this change in accounting estimate, the Company recognized revenue for Trokendi XR once delivery had occurred and all sales deductions were known or reasonably estimated. The effect of this change was to increase net product sales by $7.9 million, which represents the impact of the deferred product revenue at December 31, 2013, and cost of product sales by $0.5 million for the nine months ended September 30, 2014.

During the three and nine months ended September 30, 2015, the Company recorded a $2.9 million reduction to net revenue related to a change in estimate associated with its accrued sales deductions of $18.8 million at September 30, 2015. The change in estimate reflects returns experience associated with our initial launch shipments, which have now passed their expiry dating.

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Royalty Revenue

In the third quarter of 2014, the Company received a $30.0 million payment pursuant to a royalty agreement related to the purchase by HC Royalty of certain of the Company s rights under the agreement with United Therapeutics Corporation related to the commercialization of Orenitram. We have recorded a non-recourse liability related to this transaction and have begun to amortize this amount to recognize royalty revenue as royalties are received by HC Royalty from United Therapeutics. We also recognize non-cash interest expense related to this liability that accrues at an effective interest rate determined based on projections of HC Royalty s rate of return. We recognized royalty revenue of $2.0 million and $0.2 million for the nine months ended September 30, 2015 and 2014, respectively. We recognized interest expense of $2.5 million and $0.3 million for the nine months ended September 30, 2015 and 2014, respectively.

Sales Deductions

Allowances for estimated sales deductions are provided for the following:

- Rebates. Rebates include mandated discounts under the Medicaid Drug Rebate Program, the Medicare coverage gap program, as well as negotiated discounts with commercial health-care providers. Rebates are amounts owed after the final dispensing of products to a benefit plan participant and are based upon contractual agreements or legal requirements with the public sector (e.g. Medicaid) and with private sector benefit providers. The allowance for rebates is based on statutory and contractual discount rates and expected claimed rebates paid based on a plan provider s utilization. Rebates are generally invoiced and paid quarterly in arrears so that the accrual balance consists of an estimate of the amount expected to be incurred for the current quarter s activity, plus an accrual balance for known prior quarters unpaid rebates. If actual future rebates vary from estimates, we may need to adjust prior period accruals, which would affect revenue in the period of adjustment.

- Chargebacks. Chargebacks are discounts that occur when contracted customers purchase directly from an intermediary distributor or wholesaler. Contracted customers, which currently consist primarily of Public Health Service institutions and Federal government entities purchasing via the Federal Supply Schedule, generally purchase the product at a discounted price. The distributor or wholesaler, in turn, charges back the difference between the price initially paid by the distributor or wholesaler and the discounted price paid to the distributor or wholesaler by the customer. The allowance for distributor/wholesaler chargebacks is based on known sales to contracted customers.

- Distributor/Wholesaler deductions and discounts. U.S. specialty distributors and wholesalers are offered various forms of consideration including allowances, service fees and prompt payment discounts as consideration for distributing our products. Distributor allowances and service fees arise from contractual agreements with distributors and are generally a percentage of the purchase price paid by the distributors and wholesalers. Wholesale customers are offered a prompt pay discount for payment within a specified period.

- Co-pay assistance. Patients who pay in cash or have commercial insurance and meet certain eligibility requirements may receive co-pay assistance from the Company. The intent of this program is to reduce the patient s out of pocket costs. Liabilities for co-pay assistance are based on actual program participation and estimates of program redemption using data provided by third-party administrators.

- Returns. Sales of our products are not subject to a general right of return; however, the Company will accept product that is damaged or defective when shipped directly from our warehouse and 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 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 zero and $750,000 of milestone revenue during the three and nine months ended September 30, 2015, respectively, and zero and $2.0 million of milestone revenue during the three and nine months ended September 30, 2014, respectively.

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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

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-05, Customer s Accounting for Fees Paid in a Cloud Computing Arrangement. This ASU provides guidance about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the software license element of the arrangement is consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, then it should account for the arrangement as a service contract. The amendments in this ASU are effective for financial statements issued for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. The Company has elected to adopt the amendment early. The adoption of this standard had no impact on the Company s financial results.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. Under this new guidance, entities that measure inventory using any method other than last-in, first-out or the retail inventory method will be required to measure inventory at the lower of cost and net realizable value. The amendments in this ASU, which should be applied prospectively, are effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of ASU No. 2015-11 on our consolidated financial statements and related disclosures.

In April 2015, the 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 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 has been applied on a retrospective basis and the impact is reflected in the as previously reported column in Note 2. The adoption of ASU 2015-03 resulted in a reclassification of deferred financing costs of $765,000, $724,000 and $129,000 from asset to liability classification on the Company s consolidated financial statements as of September 30, 2014, December 31, 2014 and September 2015, respectively.

In August 2014, the FASB issued ASU No. 2014-15 Disclosure of Uncertainties About an Entity s Ability to Continue as a Going Concern . The new standard requires management to perform interim and annual assessments of an entity s ability to continue to meet its obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. We do not believe the adoption of the new standard will have a significant impact on our consolidated 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 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. Earlier adoption is not permitted. 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.

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The Company has evaluated all other ASUs issued through the date the consolidated financials were issued and believes that no other ASU will have a material impact on the Company s consolidated financial statements.

4. Fair Value of Financial Instruments

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

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

- Level 1 Inputs are unadjusted quoted prices in active markets for identical assets 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:

		Fair Value Measurements at September 30, 2015 (unaudited) (restated)		
	Total Carrying Value at September 30,	Quoted Prices in Active	Significant Other Observable	Significant Unobservable