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As filed with the Securities and Exchange Commission on February 13, 2012

Registration No. 333-171375

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**PRE-EFFECTIVE AMENDMENT NO. 3**

to

**FORM S-1**

**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**SUPERNUS PHARMACEUTICALS, INC.**

(Exact name of registrant as specified in its charter)

<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>2834</b> (Primary Standard Industrial Classification Code Number)	<b>20-2590184</b> (I.R.S. Employer Identification Number)
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**1550 East Gude Drive  
Rockville, MD 20850  
(301) 838-2500**

(Address, including zip code, and telephone number, including  
area code, of registrant's principal executive offices)

**Jack A. Khattar  
President and Chief Executive Officer  
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**Approximate date of commencement of proposed sale to public:**

As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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 the definitions 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

**The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant**

shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED FEBRUARY 13, 2012**

**PRELIMINARY PROSPECTUS**



**Shares**

**Supernus Pharmaceuticals, Inc.**

**Common Stock**  
**\$ \_\_\_\_\_ per share**

This is the initial public offering of our common stock. We are selling \_\_\_\_\_ shares of our common stock. We currently expect the initial public offering price to be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_ per share of common stock.

We have granted the underwriters an option to purchase up to \_\_\_\_\_ additional shares of common stock to cover over-allotments.

We have applied to list our common stock on the Nasdaq Global Market under the symbol "SUPN."

**Investing in our common stock involves risks. See "Risk Factors" on page 9.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	<u>Per Share</u>	<u>Total</u>
Public Offering Price	\$ _____	\$ _____
Underwriting Discount	\$ _____	\$ _____
Proceeds to Supernus (before expenses)	\$ _____	\$ _____

The underwriters expect to deliver the shares to purchasers on or about \_\_\_\_\_, 2012 through the book-entry facilities of The Depository Trust Company.

**Citigroup**

**Piper Jaffray**

**Cowen and Company**

**Stifel Nicolaus Weisel**

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We are responsible for the information contained in this prospectus. We have not authorized anyone to provide you with different information and we take no responsibility for any other information others may give you. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

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## SUMMARY

*This summary highlights selected information appearing elsewhere in this prospectus. While this summary highlights what we consider to be the most important information about us, you should carefully read this prospectus and the registration statement of which this prospectus is a part in their entirety before investing in our common stock, especially the risks of investing in our common stock which we discuss under "Risk Factors," the information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes beginning on page F-1.*

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

### Supernus Pharmaceuticals, Inc.

We are a specialty pharmaceutical company focused on developing and commercializing products for the treatment of central nervous system, or CNS, diseases. Our extensive expertise in product development has been built over the past 20 years: initially as a stand alone development organization, then as a U.S. subsidiary of Shire plc and, upon our acquisition of substantially all the assets of Shire Laboratories Inc. in late 2005, as Supernus Pharmaceuticals. We are developing several product candidates in neurology and psychiatry to address large market opportunities in epilepsy and attention deficit hyperactivity disorder, or ADHD, including ADHD patients with impulsive aggression. We intend to market our product candidates in the United States through our own focused sales force targeting specialty physicians, including neurologists and psychiatrists.

We use our proprietary technologies to enhance the therapeutic benefits of approved antiepileptic drugs, or AEDs, through advanced extended release formulations. Our two epilepsy product candidates are SPN-538 (extended release topiramate), for which we submitted a new drug application, or NDA, that was accepted for filing by the U.S. Food and Drug Administration, or the FDA, in November 2011, and SPN-804 (extended release oxcarbazepine) for which we submitted an NDA in December 2011. Our ADHD product candidates include SPN-810 (molindone hydrochloride), which is in a Phase IIb trial as a novel treatment for impulsive aggression in patients with ADHD, and SPN-812, which completed a Phase IIa trial as a novel non-stimulant treatment for ADHD. In addition to these four lead product candidates, we have several additional product candidates in various stages of development, including SPN-809, for which we submitted an investigational new drug application, or IND, in 2008. SPN-809 would represent a novel mechanism of action for the U.S. antidepressant market. We believe our broad and diversified portfolio of product candidates provides us with multiple opportunities to achieve our goal of becoming a leading specialty pharmaceutical company focused on CNS diseases.

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

<u>Product</u>	<u>Indication</u>	<u>Status</u>
SPN-538	Epilepsy	NDA accepted by FDA
SPN-804	Adjunctive therapy for epilepsy	NDA submitted
SPN-810	Impulsive Aggression in ADHD	Phase IIb
SPN-812	ADHD	Phase IIa
SPN-809	Depression	IND filed

### Our Late-Stage Neurology Portfolio

Epilepsy is a chronic neurological disorder characterized by recurrent convulsive seizures resulting from hyperactivity in the brain cells. It is estimated to affect 50 million people worldwide<sup>(1)</sup> and

(1) Bialer, M., *Key factors in the discovery and development of new antiepileptic drugs*, published January 2010 in *Nature*.

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2 million people in the United States.<sup>(2)</sup> Achieving reliable seizure control for patients, and avoiding the serious health and life dangers that can be associated with sudden unexpected, or breakthrough, seizures depends on patients being compliant and diligent in taking their medications. We believe there are a number of benefits associated with extended release products in epilepsy that create a significant market opportunity for us, including:

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(2) U.S. Centers for Disease Control and Prevention, *Epilepsy Self-Management Tools* (citing Dilorio, C., *The Prevention Research Centers' Managing Epilepsy Well Network*, published September 2010 in *Epilepsy & Behavior*).

- Extended release products have been shown to improve compliance and reduce breakthrough seizures.<sup>(3)</sup>

(3) Balzac, F., *Medication Noncompliance in Epilepsy*, published March 2006 in *Neurology Reviews*.

- Extended release products have been shown to reduce side effects and improve tolerability.<sup>(4)</sup>

(4) Miller, A.D., *Improved CNS tolerability following conversion from immediate- to extended-release carbamazepine*, published June 2004 in *Acta Neurologica Scandinavica*.

- Managed care plans have not limited the success of extended release products.<sup>(5)</sup>

(5) IMS Health data and Epilepsy Foundation, *Private Health Insurance and Medication Switching*.

- Extended release products generally have performed well in the market.<sup>(6)</sup>

(6) IMS Health data.

*SPN-538 (extended release topiramate)*

Our most advanced product candidate, SPN-538, is a novel oral once-daily extended release topiramate product for the treatment of epilepsy. Topiramate is marketed by Johnson & Johnson under the brand name Topamax and is available in a generic form. Topiramate is currently available only in immediate release form and is indicated for monotherapy and adjunctive therapy of epilepsy and for the treatment of migraine. It works by enhancing the inhibitory effect of the GABA (Gamma-Aminobutyric Acid) neurotransmitter that regulates neuronal excitability throughout the nervous system, blocking the excitatory effect of the glutamate neurotransmitter, blocking the sodium channel and inhibiting the carbonic anhydrase enzyme. The side effects associated with taking topiramate, which have tended to limit its use, include, among others, dizziness, fatigue, somnolence and slowing of certain cognitive functions.

SPN-538 is designed to improve patient compliance and to have a better tolerability profile compared to the current immediate release products that are taken multiple times per day. SPN-538's pharmacokinetic profile delivers lower peak plasma concentrations and lower input rate over an extended time period, resulting in smoother and more consistent blood levels of topiramate during the day compared to immediate release Topamax. We have conducted fourteen clinical trials in support of the development of SPN-538 and one additional clinical trial is ongoing. The NDA for SPN-538 was accepted for filing by the FDA in November 2011. We are pursuing a regulatory strategy under Section 505(b)(2) of the Federal Food, Drug and Cosmetic Act, which allows us to rely in our submission on the existing data and knowledge the FDA has from the NDA of Topamax.

*SPN-804 (extended release oxcarbazepine)*

Our second late-stage product candidate, SPN-804, is a novel oral once-daily extended release formulation of oxcarbazepine for which we submitted an NDA in December 2011. Oxcarbazepine is marketed by Novartis under the brand name Trileptal and is available in a generic form. Trileptal is indicated for monotherapy and adjunctive therapy of epilepsy. Oxcarbazepine is an active voltage-dependent sodium channel blocker that, despite its effectiveness in treating epilepsy, is associated with

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many side effects that tend to limit its use. The side effects associated with taking oxcarbazepine include, among others, dizziness, double vision, somnolence, nausea and vomiting.

With a novel pharmacokinetic profile that delivers lower peak plasma concentrations, a slower rate of input, smoother and more consistent blood levels compared to immediate release products such as Trileptal, we believe SPN-804 has the potential of improving the tolerability of oxcarbazepine by reducing the side effects experienced by patients. We have conducted nine clinical trials, including bioequivalence trials and a Phase III trial, and we are conducting two ongoing clinical trials to support the development of SPN-804. The NDA for SPN-804 was submitted to the FDA in December 2011. We are pursuing a Section 505(b)(2) regulatory strategy, which allows us to rely in our filing on the existing data and knowledge the FDA has from the NDA of Trileptal.

**Our Psychiatry Portfolio**

ADHD is a common CNS disorder characterized by developmentally inappropriate levels of inattention, hyperactivity, and impulsivity. ADHD affects an estimated 6% to 9% of all school-age children and 3% to 5% of adults in the United States.<sup>(7)</sup> An estimated 60% to 80% of children with ADHD continue to meet the criteria for ADHD into adolescence, and as many as 67% of children who have ADHD may have coexisting conditions such as oppositional defiant disorder, conduct disorder, anxiety disorder and depression.<sup>(8)</sup> In addition, approximately 25% of children with ADHD also exhibit persistent conduct problems, such as impulsive aggression.<sup>(9)</sup>

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(7) Dopheide, J.A., *Attention-Deficit-Hyperactivity Disorder: An Update*, published June 2009 in *Pharmacotherapy*.

(8) Floet, A.M.W., *Attention-Deficit/Hyperactivity Disorder*, published February 2010 in *Pediatrics in Review*.

(9) Jensen, P.S., *Consensus Report on Impulsive Aggression as a Symptom Across Diagnostic Categories in Child Psychiatry: Implications for Medication Studies*, published March 2007 in *Journal of the American Academy of Child and Adolescent Psychiatry*.

*SPN-810 (molindone hydrochloride)*

We are developing SPN-810 as a novel treatment for impulsive aggression in patients with ADHD. We initiated a Phase IIb trial of SPN-810 in the United States in June 2011 for which we expect results in the second half of 2012. If approved by the FDA, SPN-810 could be the first product available to address this serious, unmet medical need. SPN-810 is based on molindone hydrochloride, which was previously marketed in the United States as an anti-psychotic to treat schizophrenia under the trade name Moban. Molindone hydrochloride is unusual among anti-psychotics in that it is not associated with weight gain.

We have completed four clinical trials for SPN-810, including a Phase IIa trial in which we tested the safety and tolerability of immediate release molindone hydrochloride in children with ADHD who suffer from serious persistent conduct problems. This open-label, dose-ranging trial randomized 78 children, 6-12 years of age, into one of four treatment groups, which were given four different doses of immediate release molindone hydrochloride, between 10 mg and 40 mg per day, depending on weight, three times a day over a six-week treatment period, after 2-5 weeks of titration. SPN-810 was well tolerated in the trial with no clinically meaningful changes in standard hematology, clinical chemistry values, vital signs or electrocardiogram results. SPN-810 also showed improvements on the primary and secondary outcome measures, such as conduct problem and ADHD scales, across all four treatment groups.

*SPN-812*

We are developing SPN-812, which is currently in Phase II development, as a novel non-stimulant treatment for ADHD. SPN-812 is a selective norepinephrine reuptake inhibitor that we believe could

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be more effective and have a better side effect profile than other non-stimulant treatments for ADHD. We completed a proof-of-concept Phase IIa trial of SPN-812 in the first quarter of 2011, in which SPN-812 was well tolerated and demonstrated a statistically significant improvement over placebo as a treatment for ADHD. The trial was a randomized, double-blind, placebo-controlled trial in 52 adults with a current diagnosis of ADHD, with 26 subjects per treatment group. SPN-812 has not been developed and marketed in the United States and, therefore, it would be considered and reviewed by the FDA as a new chemical entity.

### ***Our Proprietary Technology Platforms***

We have a long track record of developing novel products by applying proprietary technologies to known drugs to improve existing therapies and to enable the treatment of new indications. Our key proprietary technology platforms include: Microtrol (multiparticulate delivery platform), Solutrol (matrix delivery platform) and EnSoTrol (osmotic delivery system). These technologies create customized product profiles designed to meet efficacy needs, permit more convenient and less frequent dosing, enhance patient compliance and improve tolerability in certain specific applications. Our proprietary technologies have been used in the following approved and marketed products: Carbatrol (carbamazepine), Equetro (carbamazepine), Adderall XR (mixed amphetamine salts), Sanctura XR (trospium chloride), Oracea (doxycycline) and Intuniv (guanfacine). We do not expect these products to contribute to our future cash position as we have either monetized the future revenues associated with them or we developed them when we were formerly Shire Laboratories. In addition, we have used our proprietary technologies to develop an oral formulation of treprostinil diethanolamine, which completed a Phase III trial of the oral formulation in support of an NDA submission for pulmonary arterial hypertension by United Therapeutics Corporation in December 2011.

### ***Our Strategy***

Our goal is to be a leading specialty pharmaceutical company developing and commercializing new medicines in neurology and psychiatry. Key elements of our strategy to achieve this goal are to:

- *Build in-house sales and marketing capabilities, focused on specialty markets in the United States, to promote SPN-538 and SPN-804.* We are currently focused on attaining regulatory approval for, and bringing to market, our two late-stage epilepsy product candidates, SPN-538 and SPN-804. As these product candidates progress towards U.S. regulatory approval, we intend to build our own targeted, specialty sales force to promote, if approved, SPN-538 and SPN-804 in the United States. We intend to direct our marketing efforts to high potential prescribers of both product candidates.
- *Continue to advance our product candidates in our psychiatry portfolio, including SPN-810 and SPN-812.* As part of our longer term strategy, we intend to further develop our product candidates in our psychiatry portfolio to enable further diversification of our pipeline and future growth. For example, in June 2011 we initiated a Phase IIb trial of SPN-810 for impulsive aggression in patients with ADHD.
- *Develop differentiated products by applying our technologies to known drug compounds.* We intend to continue to focus our development activities on known drug compounds and compounds with established mechanisms of action and thereby reduce the risks, costs and time typically associated with pharmaceutical product development. We intend to leverage our proprietary and in-licensed technologies and expand our patent portfolio to further develop and protect our diverse pipeline of product candidates.
- *Establish strategic partnerships to accelerate and maximize the potential of our product candidates worldwide.* We intend to continue to seek strategic collaborations with other pharmaceutical companies to commercialize our product candidates outside the United States. We believe that



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we are an attractive collaborator for pharmaceutical companies due to our broad portfolio of proprietary technologies and our product development track record.

- *Leverage our management team's expertise to develop and commercialize our broad portfolio of product candidates.* We intend to leverage the expertise of our executive management team in developing and commercializing innovative therapeutic products. We plan to continue to evaluate and develop additional CNS product candidates that we believe have significant commercial potential through our internal research and development efforts or, if appropriate, external collaborations.

### ***Risks Associated With Our Business***

Our ability to implement our business strategy is subject to numerous risks and uncertainties. As an early stage pharmaceutical company, we face many risks inherent in our business and our industry, as more fully described in the section entitled "Risk Factors" immediately following this summary, including the following:

- We are dependent on the success of our product candidates, which may never receive regulatory approval or be successfully commercialized.
- Final marketing approval of SPN-538, SPN-804 or any of our other product candidates by the FDA or other regulatory authorities may be delayed, limited, or denied, any of which would adversely affect our ability to generate operating revenues.
- We have never generated any revenues from the sales of our own products, and we may never achieve or maintain profitability.
- If other versions of extended or controlled release topiramate or oxcarbazepine are approved and successfully commercialized, especially if approved before SPN-538 or SPN-804, our business would be materially harmed.
- If the FDA or other applicable regulatory authorities approve generic products that compete with any of our product candidates, the sales of those product candidates may be adversely affected.

You should carefully consider all of the information set forth in this prospectus and, in particular, the information under the heading "Risk Factors," prior to making an investment in our common stock.

### ***Corporate Information***

We were incorporated in Delaware in 2005. Our principal executive office is located at 1550 East Gude Drive, Rockville, Maryland 20850. Our telephone number is (301) 838-2500.

We are the owner of various U.S. federal trademark registrations (®) and registration applications (TM), including the following marks referred to in this prospectus pursuant to applicable U.S. intellectual property laws: "Supernus®," "Microtrol®," "Solutrol®," "ProScreen®," "OptiScreen®," "ProPhile®," and the registered Supernus Pharmaceuticals logo. All other trademarks or trade names referred to in this prospectus are the property of their respective owners. Solely for convenience, the trademarks and trade names in this prospectus are referred to without the ® and TM symbols, but such references should not be construed as any indicator that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto.

## THE OFFERING

Common stock we are offering	shares
Common stock to be outstanding after this offering	shares
Over-allotment option	We have granted the underwriters an option for a period of up to 30 days to purchase up to additional shares of common stock at the initial public offering price.
Use of proceeds after expenses	We estimate that the net proceeds from this offering will be approximately \$ million, or approximately \$ million if the underwriters exercise their over-allotment option in full. We expect to use the net proceeds from this offering to fund our clinical trials and for other general corporate purposes.
Risk factors	You should read the "Risk Factors" section of this prospectus beginning on page 9 for a discussion of factors to consider carefully before deciding to invest in shares of our common stock.
Proposed NASDAQ Global Market symbol	SUPN

The number of shares of our common stock to be outstanding after this offering is based on 55,383,707 shares of common stock outstanding as of September 30, 2011 after giving effect to the conversion of 49,000,000 shares of our preferred stock outstanding as of September 30, 2011 into 49,000,000 shares of our common stock at the closing of this offering.

The number of shares of our common stock outstanding immediately after this offering excludes:

- 2,469,065 shares of common stock issuable upon the exercise of options outstanding as of September 30, 2011, with exercise prices ranging from \$0.10 to \$1.76 per share and a weighted average exercise price of \$0.44 per share (of which options to acquire 1,132,629 shares of common stock were vested as of September 30, 2011);
- 2,147,228 additional shares of common stock reserved for future grants under our 2005 Stock Plan as of September 30, 2011; and
- 375,000 shares of common stock issuable upon the exercise of preferred stock warrants outstanding as of September 30, 2011 at an exercise price of \$1.00 per share, which will convert into common stock warrants upon the closing of this offering.

Unless otherwise indicated, all information in this prospectus:

- assumes the issuance and sale of shares of our common stock in the offering at the initial public offering price of \$ per share, the mid-point of the price range set forth on the cover page of this prospectus;
- assumes our planned -for- reverse stock split of our common stock to be effected in connection with this offering;
- assumes the automatic conversion of all outstanding shares of our preferred stock into 49,000,000 shares of common stock upon the closing of this offering; and
- assumes no exercise by the underwriters of their option to purchase up to shares of our common stock in this offering to cover over-allotments.

**SUMMARY FINANCIAL DATA**

We have derived our statement of operations data for the years ended December 31, 2008, 2009 and 2010 from our audited consolidated financial statements included in this prospectus. We have derived our balance sheet data as of September 30, 2011 and statement of operations data for each of the nine months ended September 30, 2010 and 2011 from our unaudited consolidated financial statements included in this prospectus. The unaudited consolidated financial statement data include, in our opinion, all adjustments (consisting only of normal recurring adjustments) that are necessary for a fair presentation of our consolidated financial position and consolidated results of operations for these periods.

Our historical results are not necessarily indicative of future operating results, and the results for the first nine months of 2011 are not necessarily indicative of results expected for the full year or for any other period. You should read this summary consolidated financial data in conjunction with the sections entitled "Risk Factors," "Capitalization," "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes, all included elsewhere in this prospectus.

	Year Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
(unaudited)					
(in thousands of dollars, except share and per share data)					
<b>Consolidated Statement of Operations Data:</b>					
Revenues					
Development and milestone revenues	\$ 2,697	\$ 1,550	\$ 106	\$ 97	\$ 761
Royalty revenues	6,192	44,963	13,404	8,635	9,887
<b>Total revenues</b>	<b>8,889</b>	<b>46,513</b>	<b>13,510</b>	<b>8,732</b>	<b>10,648</b>
Costs and expenses					
Research and development	30,463	29,260	35,149	26,080	23,127
General and administrative	4,287	4,649	5,080	3,388	5,143
<b>Total costs and expenses</b>	<b>34,750</b>	<b>33,909</b>	<b>40,229</b>	<b>29,468</b>	<b>28,270</b>
Income (loss) from operations	(25,861)	12,604	(26,719)	(20,736)	(17,622)
Other income (expense):					
Interest income	1,057	514	107	623	30
Interest expense	(8,678)	(12,658)	(12,393)	(9,831)	(10,599)
Other	—	—	542	54	30
<b>Total other income (expense)</b>	<b>(7,621)</b>	<b>(12,144)</b>	<b>(11,744)</b>	<b>(9,154)</b>	<b>(10,539)</b>
<b>Net income (loss)</b>	<b>\$ (33,482)</b>	<b>\$ 460</b>	<b>\$ (38,463)</b>	<b>\$ (29,890)</b>	<b>\$ (28,161)</b>
Cumulative dividends on Series A convertible preferred stock	\$ (3,430)	\$ (3,430)	\$ (3,430)	\$ (2,573)	\$ (2,573)
<b>Net income (loss) attributable to common stockholders</b>	<b>\$ (36,912)</b>	<b>\$ (2,970)</b>	<b>\$ (41,893)</b>	<b>\$ (32,463)</b>	<b>\$ (30,734)</b>
Net income (loss) per common share					
Basic	\$ (6.61)	\$ (0.53)	\$ (6.60)	\$ (5.12)	\$ (4.82)
Diluted	\$ (6.61)	\$ (0.53)	\$ (6.60)	\$ (5.12)	\$ (4.82)
Weighted average number of common shares					
Basic	5,587,467	5,653,506	6,351,883	6,345,420	6,377,163
Diluted	5,587,467	5,653,506	6,351,883	6,345,420	6,377,163
Net income (loss) used to compute pro forma net income (loss) per common share — basic and diluted (unaudited)(1)					
			\$ (38,463)		\$ (28,161)
Weighted-average number of shares used in calculating pro forma net income (loss) per share — basic and diluted (unaudited)(1)					
			55,351,883		55,377,163
Pro forma net income (loss) per share — basic and diluted(1)					
			\$ (0.69)		\$ (0.51)

(1) Pro forma net loss per share basic and diluted have been calculated assuming the conversion of all outstanding shares of our Series A convertible preferred stock into an aggregate of 49,000,000 shares of common stock upon completion of this offering, as if they had converted at the beginning of the period. Pro forma net loss per share basic and diluted do not give effect to the sale of shares of common stock that we are offering pursuant to this prospectus or any related estimated net proceeds therefrom. See Note 3 to our audited consolidated financial statements for an explanation of the method used to calculate the pro forma basic and diluted net income (loss) per common share and the per share amounts.

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The pro forma balance sheet data set forth below gives effect to the conversion of all outstanding shares of our Series A convertible preferred stock into an aggregate of 49,000,000 shares of common stock upon completion of this offering. The pro forma as adjusted balance sheet data set forth below gives further effect to the issuance and sale of \_\_\_\_\_ shares of our common stock in this offering at an assumed initial public offering price of \$ \_\_\_\_\_ per share, which is the midpoint of the price range listed on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

	As of September 30, 2011		
	Actual	Pro Forma (unaudited)	Pro Forma as Adjusted
	(in thousands of dollars)		
<b>Consolidated Balance Sheet Data:</b>			
Unrestricted cash and cash equivalents, and marketable securities	\$ 16,484	\$ 16,484	\$
Restricted cash and cash equivalents, and marketable securities	3,591	3,591	
Working capital	8,401	8,401	
Total assets	32,302	32,302	
Notes payable, including current portion	89,514	89,514	
Series A convertible preferred stock	49	—	
Accumulated deficit	(121,947)	(121,947)	
Total stockholders' deficit	(72,523)	(72,523)	

## RISK FACTORS

*Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below with all of the other information included in this prospectus before deciding to invest in our common stock. 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.*

### **Risks Related to Our Business and Industry**

***We are dependent on the success of our product candidates, which may never receive regulatory approval or be successfully commercialized.***

To date, we have expended significant time, resources, and effort on the development of our product candidates, and a substantial majority of our resources are now focused on seeking marketing approval for and planning for potential commercialization of our two most advanced product candidates, SPN-538 and SPN-804, in the United States. All of our other product candidates are in earlier stages of development and subject to the risks of failure inherent in developing drug products. Accordingly, our ability to generate significant product revenues in the near term will depend almost entirely on our ability to successfully obtain marketing approval for and commercialize SPN-538 and SPN-804. Neither SPN-538 nor SPN-804 are approved for marketing in any jurisdiction and, therefore, unless they obtain regulatory approval, they may never be commercialized.

Our ability to successfully commercialize any of our products candidates will depend, among other things, on our ability to:

- successfully complete our clinical trials;
- produce, through a validated process, sufficiently large quantities of our product candidates to permit successful commercialization;
- receive marketing approvals from the FDA and similar foreign regulatory authorities;
- establish commercial manufacturing arrangements with third-party manufacturers;
- build and maintain strong sales, distribution and marketing capabilities sufficient to launch commercial sales of our product candidates;
- establish collaborations with third parties for the commercialization of our product candidates in countries outside the United States, and such collaborators' ability to obtain regulatory and reimbursement approvals in such countries;
- secure acceptance of our product candidates from physicians, health care payors, patients and the medical community; and
- manage our spending as costs and expenses increase due to clinical trials, regulatory approvals and commercialization.

There are no guarantees that we will be successful in completing these tasks. If we are unable to successfully complete these tasks, we may not be able to commercialize SPN-538, SPN-804 or any of our other product candidates in a timely manner, or at all, in which case we may be unable to generate sufficient revenues to sustain and grow our business. In addition, although we believe that we have already incurred the majority of the costs related to the development of SPN-538 and SPN-804, if we experience unanticipated delays or problems, these costs could substantially increase and our business, financial condition and results of operations will be adversely affected.

***Final marketing approval of SPN-538, SPN-804 or any of our other product candidates by the FDA or other regulatory authorities may be delayed, limited, or denied, any of which would adversely affect our ability to generate operating revenues.***

Our business depends on the successful development and commercialization of our product candidates. We are not permitted to market any of our product candidates in the United States until we receive approval of an NDA from the FDA, or in any foreign jurisdiction until we receive the requisite approvals from such jurisdiction. Satisfaction of regulatory requirements typically takes many years, is dependent upon the type, complexity and novelty of the product and requires the expenditure of substantial resources. We cannot predict whether or when we will obtain regulatory approval to commercialize our product candidates and we cannot, therefore, predict the timing of any future revenues from these product candidates, if any.

With respect to our two most advanced product candidates, SPN-538 (extended release topiramate) and SPN-804 (extended release oxcarbazepine), we are pursuing a regulatory strategy pursuant to Section 505(b)(2) of the Federal Food, Drug and Cosmetic Act, or FDCA, which allows us to rely in our submissions on the existing data from the NDAs of Topamax and Trileptal, respectively. Section 505(b)(2) was enacted as part of the Drug Price Competition and Patent Term Restoration Act of 1984, or the Hatch-Waxman Amendments, and permits the submission of an NDA where at least some of the information required for approval comes from clinical trials not conducted by or for the applicant and for which the applicant has not obtained a right of reference. The FDA interprets Section 505(b)(2) of the FDCA to permit the applicant to rely upon the FDA's previous findings of safety and effectiveness for an approved product. The FDA requires submission of information needed to support any changes to a previously approved drug, such as published data or new studies conducted by the applicant or clinical trials demonstrating safety and effectiveness. The FDA could refuse to file our NDA submissions, request additional information before accepting our submissions for filing or require additional information to sufficiently demonstrate safety and effectiveness. For example, we initially submitted an NDA for SPN-538 in January 2011, but the FDA refused to file the NDA and raised questions relating to chemistry and manufacturing controls issues. The FDA accepted the NDA for filing in November 2011. In addition, in late December 2011, Upsher-Smith Laboratories, Inc., or Upsher-Smith, submitted a citizen petition to the FDA requesting that the FDA refrain from approving any application for extended-release topiramate that does not include an adequate and well-controlled clinical study demonstrating the safety and efficacy of the extended-release formulation. The citizen petition states that the FDA required Upsher-Smith to conduct such a study for its extended-release topiramate candidate and that it would be inequitable, in Upsher-Smith's opinion, for the FDA not to require other applicants for extended-release topiramate to conduct similar studies. To our knowledge, the FDA has not yet substantively responded to the citizen petition. If the FDA grants the petition and requires us to conduct a clinical study to demonstrate the safety or efficacy of SPN-538, the commercialization of SPN-538 could be delayed or prevented.

The FDA has substantial discretion in the drug approval process, including the ability to delay, limit or deny approval of a product candidate for many reasons. For example, irrespective of Upsher-Smith's citizen petition with respect to SPN-538, the FDA:

- could determine that we cannot rely on Section 505(b)(2) for SPN-538 or SPN-804;
- could determine that the information provided by us was inadequate, contained clinical deficiencies or otherwise failed to demonstrate the safety and effectiveness of SPN-538, SPN-804 or any of our product candidates for any indication;
- may not find the data from bioequivalence studies and/or clinical trials sufficient to support the submission of an NDA or to obtain marketing approval in the United States, including any findings that the clinical and other benefits of our product candidates outweigh their safety risks;

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- may disagree with our trial design or our interpretation of data from preclinical studies, bioequivalence studies and/or clinical trials, or may change the requirements for approval even after it has reviewed and commented on the design for our trials;
- may determine that we have identified the wrong reference listed drug or drugs or that approval of our Section 505(b)(2) application for SPN-538, SPN-804 or any of our other product candidates is blocked by patent or non-patent exclusivity of the reference listed drug or drugs;
- may identify deficiencies in the manufacturing processes or facilities of third party manufacturers with which we enter into agreements for the manufacturing of our product candidates;
- may approve our product candidates for fewer or more limited indications than we request, or may grant approval contingent on the performance of costly post-approval clinical trials;
- may change its approval policies or adopt new regulations; or
- may not approve the labeling claims that we believe are necessary or desirable for the successful commercialization of our product candidates.

Notwithstanding the approval of many products by the FDA pursuant to Section 505(b)(2), over the last few years, some pharmaceutical companies and others have objected to the FDA's interpretation of Section 505(b)(2). If the FDA changes its interpretation of Section 505(b)(2), or if the FDA's interpretation is successfully challenged in court, this could delay or even prevent the FDA from approving any Section 505(b)(2) application that we submit. Any failure to obtain regulatory approval of our product candidates would significantly limit our ability to generate revenues, and any failure to obtain such approval for all of the indications and labeling claims we deem desirable could reduce our potential revenues.

***Our trials may fail to demonstrate acceptable levels of safety and efficacy of our product candidates, which could prevent or significantly delay regulatory approval.***

We may be unable to sufficiently demonstrate the safety and efficacy of our product candidates to obtain regulatory approval. We must demonstrate with substantial evidence gathered in well-controlled studies, and to the satisfaction of the FDA with respect to approval in the United States (and to the satisfaction of similar regulatory authorities in other jurisdictions with respect to approval in those jurisdictions), that each product candidate is safe and effective for use in the target indication. The FDA may require us to conduct or perform additional studies or trials to adequately demonstrate safety and efficacy, which could prevent or significantly delay our receipt of regulatory approval and, ultimately, the commercialization of that product candidate.

In addition, the results from the trials that we have completed for our product candidates may not be replicated in future trials, or we may be unable to demonstrate sufficient safety and efficacy to obtain the requisite regulatory approvals for our product candidates. A number of companies in the pharmaceutical industry have suffered significant setbacks in advanced development, even after promising results in earlier trials. If our product candidates are not shown to be safe and effective, our clinical development programs could be delayed or might be terminated.

***Our product candidates may cause undesirable side effects or have other properties that delay or prevent their regulatory approval or limit their commercial potential.***

Undesirable side effects caused by any of our product candidates could cause us or regulatory authorities to interrupt, delay or halt development and could result in the denial of regulatory approval by the FDA or other regulatory authorities, and potential products liability claims. Immediate release topiramate and oxcarbazepine, drug compounds upon which our SPN-538 and SPN-804 product candidates are based, respectively, are known to cause various side effects, including dizziness, paresthesia, headaches, cognitive deficiencies such as memory loss and speech impediment, digestive

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problems, somnolence, double vision, gingival enlargement, nausea, weight gain, and fatigue. The use of SPN-538 and SPN-804 may cause similar side effects as compared to their reference products, or may cause additional or different side effects. Any undesirable side effects that are caused by any of our product candidates could have a material adverse effect upon that product candidate's development program and our business as a whole.

In addition, if any of our product candidates receive marketing approval, and we or others later identify undesirable side effects caused by the product candidate, a number of potentially significant negative consequences could result, including:

- regulatory authorities may withdraw approvals of the product candidate or otherwise require us to take the approved product off the market;
- regulatory authorities may require additional warnings, or a narrowing of the indication, on the product label;
- we may be required to create a medication guide outlining the risks of such side effects for distribution to patients;
- we may be required to modify the product in some way;
- the FDA may require us to conduct additional clinical trials or costly post-marketing testing and surveillance to monitor the safety or efficacy of the product;
- sales of approved product candidates may decrease significantly;
- we could be sued and held liable for harm caused to patients; and
- our reputation may suffer.

Any of these events could prevent us from achieving or maintaining the commercial success of our product candidates and could substantially increase commercialization costs.

***If other versions of extended or controlled release topiramate or oxcarbazepine are approved and successfully commercialized, especially if approved before SPN-538 or SPN-804, our business would be materially harmed.***

Other third parties may seek approval to manufacture and market their own versions of extended release topiramate or oxcarbazepine in the United States. If any of these parties obtain FDA approval before we do, they may be entitled to three years of marketing exclusivity. Such exclusivity would delay the commercialization of SPN-538 and SPN-804 and, as a result, we may never achieve significant market share for these product candidates. Consequently, revenues from product sales of these product candidates would be similarly delayed and our business, including our development programs, and growth prospects would suffer. For example, we are aware that Upsher-Smith is currently conducting a Phase III clinical trial for USL255 (extended release topiramate) and, in connection with our NDA submission for SPN-538, has filed a citizen petition with the FDA alleging that it would be inequitable, in Upsher-Smith's opinion, for the FDA not to require other applicants for extended-release topiramate to conduct similar studies. If the FDA grants the petition and requires us to conduct another clinical study of SPN-538, the approval of SPN-538 by the FDA could be delayed. If Upsher-Smith's USL255 product is approved by the FDA before SPN-538, then Upsher-Smith may obtain three years of marketing exclusivity based on its Phase III clinical trial, which would significantly delay our entry into the U.S. market. Even if SPN-538 is approved before USL255, we may not be entitled to any marketing exclusivity and, other than under circumstances in which third parties may infringe or are infringing our patents, we may not be able to prevent the submission or approval of another full NDA for any competitor's extended or controlled release topiramate product candidate, including USL255. In addition, we are aware of companies who are marketing outside of the United States modified-release oxcarbazepine products, such as Apydan, which is developed by Desitin Arzneimittel GmbH and requires twice-daily administration. If companies with modified-release oxcarbazepine products outside



of the United States pursue or obtain approval of their products within the United States before we do, such competing products may be granted three year marketing exclusivity, which would significantly delay SPN-804's entry into the U.S. market. Such a delay would limit the potential success of SPN-804 in the United States, and our business and growth prospects would be materially impaired. Accordingly, if any third party is successful in obtaining approval to manufacture and market their own versions of extended release topiramate or oxcarbazepine in the United States, we may not be able to recover expenses incurred in connection with the development of our product candidates or realize revenues from SPN-538 or SPN-804.

***If we do not obtain marketing exclusivity for our product candidates, our business may suffer.***

Under the Hatch-Waxman Amendments, three years of marketing exclusivity may be granted for the approval of new and supplemental NDAs, including Section 505(b)(2) applications, for, among other things, new indications, dosage forms, routes of administration, or strengths of an existing drug, or for a new use, if new clinical investigations that were conducted or sponsored by the applicant are determined by the FDA to be essential to the approval of the application. This exclusivity, which is sometimes referred to as clinical investigation exclusivity, prevents the FDA from approving an application under Section 505(b)(2) for the same conditions of use associated with the new clinical investigations before the expiration of three years from the date of approval. Such exclusivity, however, would not prevent the approval of another application if the applicant submits a Section 505(b)(1) NDA and has conducted its own adequate, well-controlled clinical trials demonstrating safety and efficacy, nor would it prevent approval of a generic product or Section 505(b)(2) product that did not incorporate the exclusivity-protected changes of the approved drug product. Under the Hatch-Waxman Amendments, newly-approved drugs and indications may also benefit from a statutory period of non-patent marketing exclusivity. The Hatch-Waxman Amendments provides five-year marketing exclusivity to the first applicant to gain approval of an NDA for a new chemical entity, or NCE, meaning that the FDA has not previously approved any other drug containing the same active pharmaceutical ingredient, or active moiety. Although protection under the Hatch-Waxman Amendments will not prevent the submission or approval of another full Section 505(b)(1) NDA, such an NDA applicant would be required to conduct its own preclinical and adequate, well-controlled clinical trials to demonstrate safety and effectiveness. If we are unable to obtain marketing exclusivity for our product candidates including SPN-538, our competitors may obtain approval of competing products more easily than if we had such marketing exclusivity, and our future revenues could be reduced, possibly materially.

***Delays or failures in the completion of testing of our product candidates would increase our costs and delay or limit our ability to generate revenues.***

Delays or failures in the completion of clinical trials for our product candidates could significantly raise our product development costs. We do not know whether current or planned trials will be completed on schedule, if at all. The commencement and completion of clinical development can be delayed or halted for a number of reasons, including:

- difficulties obtaining regulatory approval to commence a clinical trial or complying with conditions imposed by a regulatory authority regarding the scope or term of a clinical trial;
- delays in reaching or failure to reach agreement on acceptable terms with prospective clinical research organizations, or CROs, and trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- insufficient or inadequate supply or quantity of a product candidate for use in trials;
- difficulties obtaining institutional review board or ethics committee approval to conduct a trial at a prospective site;

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- challenges recruiting and enrolling patients to participate in clinical trials for a variety of reasons, including competition from other programs for the treatment of similar conditions;
- severe or unexpected drug-related side effects experienced by patients in a clinical trial;
- difficulty retaining patients who have initiated a clinical trial but may be prone to withdraw due to side effects from the therapy, lack of efficacy or personal issues; and
- clinical holds imposed by the FDA.

Clinical trials may also be delayed as a result of ambiguous or negative interim results. In addition, clinical trials may be suspended or terminated by us, an institutional review board or ethics committee overseeing the clinical trial at a trial site (with respect to that site), the FDA or other regulatory authorities due to a number of factors, including:

- failure to conduct the clinical trial in accordance with regulatory requirements or the trial protocols;
- observations during inspection of the clinical trial operations or trial sites by the FDA or other regulatory authorities that ultimately result in the imposition of a clinical hold;
- unforeseen safety issues; or
- lack of adequate funding to continue the trial.

In addition, failure to conduct the clinical trial in accordance with regulatory requirements or the trial protocols may also result in the inability to use the data to support product approval. Additionally, changes in regulatory requirements and guidance may occur, and we may need to amend clinical trial protocols to reflect these changes. Amendments may require us to resubmit our clinical trial protocols to institutional review boards or ethics committee for reexamination, which may impact the costs, timing or successful completion of a clinical trial. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of our product candidates. If we experience delays in completion of, or if we terminate any of our clinical trials, our ability to obtain regulatory approval for our product candidates may be materially harmed, and our commercial prospects and ability to generate product revenues will be diminished.

***We expect intense competition and, if our competitors develop or market alternatives for treatments of our target indications, our commercial opportunities will be reduced or eliminated.***

The pharmaceutical industry is characterized by rapidly advancing technologies, intense competition and a strong emphasis on proprietary therapeutics. We face competition from a number of sources, some of which may target the same indications as our product candidates, including large pharmaceutical companies, smaller pharmaceutical companies, biotechnology companies, academic institutions, government agencies and private and public research institutions. The availability of competing products will limit the demand and the price we are able to charge for any of our product candidates that are commercialized unless we are able to differentiate them. We anticipate that we will face intense competition when and if our product candidates are approved by regulatory authorities and we begin the commercialization process. For instance, there are over 15 branded products, as well as their generic counterparts, on the U.S. market indicated to treat epilepsy. In addition, competition in the attention deficit hyperactivity disorder, or ADHD, market in the United States has increased with the launch of several products in recent years, including the launch of generic versions of branded drugs such as Adderall XR. As a result, we may not be able to recover expenses incurred in connection with the development of our product candidates or realize revenues from any commercialized product.

In addition to already marketed competing products, we believe certain companies are developing other products which could compete with our product candidates should they be approved by

regulatory authorities. For example, according to Datamonitor, as of April 2010, there were 47 compounds in preclinical and clinical development for epilepsy across the United States, Japan, France, Germany, Italy, Spain and the United Kingdom. Datamonitor reported that approximately 15 were in late-stage (Phase II or later) clinical trials as of April 2010. We are also aware that Upsher-Smith announced the initiation of a Phase III clinical trial for USL255 (extended release topiramate) for the management of epilepsy in adults. If successful, such competing product could limit the potential success of SPN-538, and our growth prospects would be materially impaired. In addition, we are aware of companies who are marketing outside of the United States modified-release oxcarbazepine products, such as Apydan which is developed by Desitin Arzneimittel GmbH and requires twice-daily administration. If companies with modified-release oxcarbazepine products outside of the United States obtain approval for their products within the United States prior to us, such competing products may obtain three years of marketing exclusivity, which would significantly delay our entry into the U.S. market and limit the potential success of SPN-804. Further, new developments, including the development of other drug technologies, may render our product candidates obsolete or noncompetitive. As a result, our product candidates may become obsolete before we recover expenses incurred in connection with their development or realize revenues from any commercialized product.

Further, many competitors have substantially greater:

- capital resources;
- research and development resources and experience, including personnel and technology;
- drug development, clinical trial and regulatory resources and experience;
- sales and marketing resources and experience;
- manufacturing and distribution resources and experience;
- name recognition; and
- resources, experience and expertise in prosecution and enforcement of intellectual property rights.

As a result of these factors, our competitors may obtain regulatory approval of their products more rapidly than we are able to or may obtain patent protection or other intellectual property rights that limit or block us from developing or commercializing our product candidates. Our competitors may also develop drugs that are more effective, more useful, better tolerated, subject to fewer or less severe side effects, more widely prescribed or accepted or less costly than ours and may also be more successful than us in manufacturing and marketing their products. If we are unable to compete effectively with the products of our competitors or if such competitors are successful in developing products that compete with any of our product candidates that are approved, our business, results of operations, financial condition and prospects may be materially adversely affected. Mergers and acquisitions in the pharmaceutical industry may result in even more resources being concentrated at competitors. Competition may increase further as a result of advances made in the commercial applicability of technologies and greater availability of capital for investment.

***If the FDA or other applicable regulatory authorities approve generic products that compete with any of our product candidates, the sales of those product candidates would be adversely affected.***

Once an NDA, including a Section 505(b)(2) application, is approved, the product covered thereby becomes a "listed drug" which can, in turn, be cited by potential competitors in support of approval of an abbreviated new drug application, or ANDA. The FDCA, FDA regulations and other applicable regulations and policies provide incentives to manufacturers to create modified, non-infringing versions of a drug to facilitate the approval of an ANDA or other application for generic substitutes. These manufacturers might only be required to conduct a relatively inexpensive study to show that their

product has the same active ingredient(s), dosage form, strength, route of administration, and conditions of use, or labeling, as our product candidate and that the generic product is bioequivalent to ours, meaning it is absorbed in the body at the same rate and to the same extent as our product candidate. These generic equivalents, which must meet the same quality standards as branded pharmaceuticals, would be significantly less costly than ours to bring to market and companies that produce generic equivalents are generally able to offer their products at lower prices. Thus, after the introduction of a generic competitor, a significant percentage of the sales of any branded product is typically lost to the generic product. Accordingly, competition from generic equivalents to our product candidates would materially adversely impact our revenues, profitability and cash flows and substantially limit our ability to obtain a return on the investments we have made in our product candidates.

***We have limited sales and marketing experience and resources, and we may not be able to effectively market and sell our product candidates in the United States, if approved.***

We are preparing the build-out of our commercial infrastructure to launch our product candidates within the United States. We have limited sales or marketing experience. To develop internal sales and marketing capabilities, we will have to invest significant amounts of financial and management resources, some of which will be committed prior to any confirmation that SPN-538, SPN-804 or any other of our product candidates will be approved. If the commercial launch of SPN-538 or SPN-804 is delayed for a protracted period of time as a result of FDA requirements or other reasons, we would incur significant expenses prior to being able to realize any revenues. Further, we could face a number of additional risks in establishing internal sales and marketing capabilities, including:

- we may not be able to attract talented and qualified personnel to build an effective marketing or sales force;
- the cost of establishing a marketing or sales force may not be justifiable in light of the revenues generated by any of our product candidates, if approved; and
- our direct sales and marketing efforts may not be successful.

If we are unable to establish adequate sales and marketing capabilities, we may not be able to generate product revenues and may never become profitable.

***We intend to rely on third party collaborators to market and commercialize our product candidates outside of the United States, who may fail to effectively commercialize our product candidates.***

Outside of the United States we currently plan to utilize strategic partners or contract sales forces, where appropriate, to assist in the commercialization of our product candidates, if approved. We currently possess limited resources and may not be successful in establishing collaborations or co-promotion arrangements on acceptable terms, if at all. We also face competition in our search for collaborators and co-promoters. By entering into strategic collaborations or similar arrangements, we will rely on third parties for financial resources and for development, commercialization, sales and marketing and regulatory expertise. Any collaborators may fail to develop or effectively commercialize our product candidates because they cannot obtain the necessary regulatory approvals, they lack adequate financial or other resources or they decide to focus on other initiatives. Any failure of our third party collaborators to successfully market and commercialize our product candidates outside of the United States would diminish our revenues and harm our results of operations.

***Limitations on our patent rights relating to our product candidates may limit our ability to prevent third parties from competing against us.***

Our success will depend on our ability to obtain and maintain patent protection for our proprietary technologies and our product candidates, preserve our trade secrets, prevent third parties from infringing upon our proprietary rights and operate without infringing upon the proprietary rights of

others. To that end, we seek patent protection in the United States and internationally for our product candidates. Our policy is to actively seek to protect our proprietary position by, among other things, filing patent applications in the United States and abroad (including Europe, Canada and certain other countries when appropriate) relating to proprietary technologies that are important to the development of our business.

The strength of patents in the pharmaceutical industry involves complex legal and scientific questions and can be uncertain. Patent applications in the United States and most other countries are confidential for a period of time until they are published, and publication of discoveries in scientific or patent literature typically lags actual discoveries by several months or more. As a result, we cannot be certain that we were the first to conceive inventions covered by our patents and pending patent applications or that we were the first to file patent applications for such inventions. In addition, we cannot be certain that our patent applications will be granted, that any issued patents will adequately protect our intellectual property or that such patents will not be challenged, narrowed, invalidated or circumvented.

We also rely upon unpatented trade secrets, unpatented know-how and continuing technological innovation to develop and maintain our competitive position, which we seek to protect, in part, by confidentiality agreements with our employees and our collaborators and consultants. We also have agreements with our employees and selected consultants that obligate them to assign their inventions to us. It is possible that technology relevant to our business will be independently developed by a person that is not a party to such an agreement. Furthermore, if the employees and consultants that are parties to these agreements breach or violate the terms of these agreements, we may not have adequate remedies, and we could lose our trade secrets through such breaches or violations. Further, our trade secrets could otherwise become known or be independently discovered by our competitors. Any failure to adequately prevent disclosure of our trade secrets and other proprietary information could have a material adverse impact on our business.

In addition, the laws of certain foreign countries do not protect proprietary rights to the same extent or in the same manner as the United States, and therefore, we may encounter problems in protecting and defending our intellectual property in certain foreign jurisdictions.

***If we are sued for infringing intellectual property rights of third parties, it will be costly and time consuming, and an unfavorable outcome in that litigation would have a material adverse effect on our business.***

Our commercial success depends upon our ability and the ability of our collaborators to develop, manufacture, market and sell their approved products and our product candidates and use our proprietary technologies without infringing the proprietary rights of third parties. Numerous U.S. and foreign issued patents and pending patent applications, which are owned by third parties, exist in the fields in which we and our collaborators are developing product candidates. As the pharmaceutical industry expands and more patents are issued, the risk increases that our collaborators' approved products and our product candidates may give rise to claims of infringement of the patent rights of others. There may be issued patents of third parties of which we are currently unaware, that may be infringed by our collaborators' approved products or our product candidates including SPN-538 and SPN-804, which could prevent us from being able to commercialize these product candidates. Because patent applications can take many years to issue, there may be currently pending applications which may later result in issued patents that our collaborators' approved products or our product candidates may infringe.

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We may be exposed to, or threatened with, future litigation by third parties alleging that our collaborators' approved products and product candidates infringe their intellectual property rights. If one of our collaborators' approved products and product candidates is found to infringe the intellectual property rights of a third party, we or our collaborators could be enjoined by a court and required to pay damages and could be unable to commercialize the applicable approved products and product candidates unless we obtain a license to the patent. A license may not be available to us on acceptable terms, if at all. In addition, during litigation, the patent holder could obtain a preliminary injunction or other equitable relief which could prohibit us from making, using or selling our approved product candidates, pending a trial on the merits, which may not occur for several years.

There is a substantial amount of litigation involving patent and other intellectual property rights in the pharmaceutical industry generally. If a third party claims that we or our collaborators infringe its intellectual property rights, we may face a number of issues, including, but not limited to:

- infringement and other intellectual property claims which, regardless of merit, may be expensive and time-consuming to litigate and may divert our management's attention from our core business;
- substantial damages for infringement, which we may have to pay if a court decides that the product at issue infringes on or violates the third party's rights, and, if the court finds that the infringement was willful, we could be ordered to pay treble damages and the patent owner's attorneys' fees;
- a court prohibiting us from selling our approved product candidate, if any, unless the third party licenses its rights to us, which it is not required to do;
- if a license is available from a third party, we may have to pay substantial royalties, fees or grant cross-licenses to our intellectual property rights; and
- redesigning our product candidates so they do not infringe, which may not be possible or may require substantial monetary expenditures and time.

***We may become involved in lawsuits to protect or enforce our patents, which could be expensive, time consuming and unsuccessful.***

Competitors may infringe our patents. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time consuming. For example, we are involved in the following matters related to Paragraph IV Certification Notice Letters that we have received in connection with our collaborators' products. In connection with an ANDA, a Paragraph IV Certification Notice Letter notifies the FDA that one or more patents listed in the FDA's Approved Drug Product List (Orange Book) is alleged invalid, unenforceable or will not be infringed by the ANDA product.

- *Sanctura XR Litigation.* We are involved in a patent infringement matter filed in response to three Paragraph IV Certification Notice Letters that we received in June 2009, November 2009 and April 2010 regarding an ANDA submitted to the FDA by each of Watson Laboratories, Inc., Sandoz Inc. and Paddock Laboratories, Inc., respectively, requesting approval to market and sell generic versions of Sanctura XR trospium chloride extended release capsules, a product that is manufactured and sold by Allergan, Inc., which is the marketing partner of Endo Pharmaceuticals Solutions Inc. The ANDA filers alleged in their respective original notice letters that the U.S. Patent Number 7,410,978 issued to us is invalid, unenforceable and/or will not be infringed by the respective company's manufacture, use or sale of the product described in its ANDA submission. Our patent covers extended-release formulations containing trospium chloride and expires on February 1, 2025, and is licensed to Endo Pharmaceuticals Solutions Inc. Each of the ANDA filers subsequently amended their respective notice letters to include other

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U.S. patents related to Sanctura XR trospium chloride (specifically, U.S. Patent Nos. 7,759,359; 7,763,635; 7,781,448; and 7,781,449). We intend to support Allergan, Inc. and Endo Pharmaceuticals Solutions Inc. in their efforts to contest this matter.

- *Oracea Litigation.* We are involved in a patent infringement matter filed in response to four Paragraph IV Certification Notice Letters that we received in November 2010, January 2011, April 2011 and September 2011 regarding an ANDA, submitted to the FDA by each of Lupin Limited, Sandoz Inc., Impax Laboratories, Inc. and Amneal Pharmaceuticals LLC, respectively, requesting approval to market and sell generic versions of Oracea doxycycline, a product that is manufactured and sold by Galderma Laboratories, L.P. The ANDA filers alleged in their respective original notice letters that the U.S. Patent Number 7,749,532 issued to us is invalid, unenforceable and/or will not be infringed by the manufacture, use or sale of the product described in their ANDA submissions. In addition, we have received in October 2010, a complaint for Declaratory Judgment from Mylan alleging invalidity of the 7,749,532 patent. This matter was tried in July 2011. The District Court for the District of Delaware held that Mylan infringed certain claims of the patent, and that the claims are valid. Our patent covers once-daily formulations of doxycycline, including methods of their use in treating rosacea and processes regarding their preparation, and expires on December 19, 2027, and is licensed to Galderma Laboratories, L.P. We intend to support Galderma Laboratories, L.P. in this matter.
- *Intuniv Litigation.* We are involved in several patent infringement actions filed in response to Paragraph IV Certification Notice Letters that we received in March, April and October 2010, and February and October 2011, regarding ANDAs submitted to the FDA requesting approval to market and sell generic versions of Intuniv, a product that is manufactured and sold by Shire plc. The defendants in these cases are Teva Pharmaceuticals USA, Inc. and Teva Pharmaceutical Industries, Ltd; Actavis Elizabeth LLC and Actavis Inc.; Anchen Pharmaceuticals, Inc. and Anchen, Inc.; Watson Pharmaceuticals, Inc., Watson Laboratories, Inc. - Florida Watson Pharma, Inc. and ANDA, Inc.; Impax Laboratories, Inc.; and Mylan Pharmaceuticals Inc. and Mylan Inc. The ANDA filers allege that our U.S. Patent Numbers 6,287,599 and 6,811,794 are invalid, unenforceable and/or will not be infringed by the manufacture, use or sale of the product described in its ANDA submissions. Our patents cover extended-release formulations containing guanfacine hydrochloride, with the latest patent expiration in 2022. Both of these patents are licensed to Shire plc. We intend to support Shire plc in its efforts to contest this matter.

Unless a court determines that our patents are invalid or unenforceable, we do not expect an adverse decision in any of the foregoing matters will have a material adverse effect on our business as we have monetized the future revenues associated with each of Sanctura XR, Oracea and Intuniv. However, in any infringement proceeding including the foregoing, a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the technology in question. An adverse result in any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our patent application at risk of not issuing.

Interference proceedings brought by the U.S. Patent and Trademark Office, or USPTO, may be necessary to determine the priority of inventions with respect to our patents and patent applications or those of our collaborators. An unfavorable outcome could require us to cease using the technology or to attempt to license rights to it from the prevailing party. Our business could be harmed if a prevailing party does not offer us a license on terms that are acceptable to us. Litigation or interference proceedings may fail and, even if successful, may result in substantial costs and distraction of our management and other employees. We may not be able to prevent, alone or with our collaborators, misappropriation of our proprietary rights, particularly in countries where the laws may not protect those rights as fully as in the United States.

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Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, there could be public announcements of the results of hearings, motions or other interim proceeding or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock. There can be no assurance that our product candidate will not be subject to same risks.

***The commercial success of our product candidates, if approved, depends upon attaining market acceptance by physicians, patients, third party payors and the medical community.***

Even if our product candidates are approved for sale by the appropriate regulatory authorities, physicians may not prescribe our approved product candidates, in which case we would not generate the revenues we anticipate. Market acceptance of any of our product candidates by physicians, patients, third party payors and the medical community depends on, among other things:

- our ability to provide acceptable evidence of safety and efficacy;
- acceptance by physicians and patients of each product candidate as a safe and effective treatment;
- perceived advantages of our product candidates over alternative treatments;
- relative convenience and ease of administration of our product candidates compared to existing treatments;
- any labeling restrictions placed upon each product candidate in connection with its approval;
- the prevalence and severity of the adverse side effects of each of our product candidates;
- the clinical indications for which each of our product candidates is approved, including any potential additional restrictions placed upon each product candidate in connection with its approval;
- prevalence of the disease or condition for which each product candidate is approved;
- the cost of treatment in relation to alternative treatments, including generic products;
- the extent to which each product is approved for inclusion on formularies of hospitals and managed care organizations;
- any negative publicity related to our or our competitors' products, including as a result of any related adverse side effects;
- the effectiveness of our or any current or future collaborators' sales, marketing and distribution strategies;
- pricing and cost effectiveness; and
- the availability of adequate reimbursement by third parties.

For example, new AEDs that were introduced in the market as new chemical entities, or NCEs, historically have not quickly gained significant market share against existing molecules in the epilepsy market, because physicians are often reluctant to change a stable patient's existing therapy (even for a NCE) and risk a breakthrough seizure in their patients. Although our epilepsy product candidates are not NCEs, if approved, they would be subject to the risk that they will not be able to gain significant market share against existing AEDs. If our product candidates do not achieve an adequate level of acceptance by physicians, third-party payors and patients, we may not generate sufficient revenues from these product candidates to become or remain profitable on a timely basis, if at all.



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***Even if our product candidates receive regulatory approval, they may be subject to restrictions or withdrawal from the market and we may be subject to penalties if we fail to comply with regulatory requirements.***

Even if U.S. regulatory approval is obtained, the FDA may still impose significant restrictions on a product's indicated uses or marketing or impose ongoing requirements for potentially costly post-approval studies. Our product candidates would also be, and our collaborators' approved products are, subject to ongoing FDA requirements governing the labeling, packaging, storage, advertising, promotion, recordkeeping and submission of safety and other post-market information. In addition, manufacturers of drug products and their facilities are subject to continual review and periodic inspections by the FDA and other regulatory authorities for compliance with current good manufacturing practices, or GMP, regulations. If we, our collaborators or a regulatory authority discovers previously unknown problems with a product, such as side effects of unanticipated severity or frequency, or problems with the facility where the product is manufactured, a regulatory authority may impose restrictions on that product or the manufacturer, including requiring withdrawal of the product from the market or suspension of manufacturing. If we, our collaborators, our collaborators' approved products or our product candidates, or the manufacturing facilities for our collaborators' approved products or our product candidates fail to comply with applicable regulatory requirements, a regulatory authority may:

- issue warning letters or untitled letters;
- impose civil or criminal penalties;
- suspend regulatory approval;
- suspend any ongoing bioequivalence and/or clinical trials;
- refuse to approve pending applications or supplements to applications filed by us;
- impose restrictions on operations, including costly new manufacturing requirements, or suspension of production; or
- seize or detain products or require us to initiate a product recall.

In addition, if any of our product candidates are approved, our product labeling, advertising and promotion would be subject to regulatory requirements and continuing regulatory review. The FDA strictly regulates the promotional claims that may be made about prescription products. In particular, a product may not be promoted for uses that are not approved by the FDA as reflected in the product's approved labeling. If we receive marketing approval for our product candidates, physicians may nevertheless prescribe our product candidates to their patients in a manner that is inconsistent with the approved label. The FDA and other authorities actively enforce the laws and regulations prohibiting the promotion of off-label uses, and a company that is found to have improperly promoted off-label uses may be subject to significant sanctions. The federal government has levied large civil and criminal fines against companies for alleged improper promotion and has enjoined several companies from engaging in off-label promotion. If we are found to have promoted off-label uses, we may be enjoined from such off-label promotion and become subject to significant liability, which would have an adverse effect on our reputation, business and revenues, if any.

***If we fail to produce our product candidates in the volumes that we require on a timely basis, or fail to comply with stringent regulations applicable to pharmaceutical drug manufacturers, we may face delays in the development and commercialization of our product candidates.***

We do not currently own or operate manufacturing facilities for the production of any of our product candidates beyond Phase II clinical trials, nor do we have plans to develop our own manufacturing operations for Phase III clinical materials or commercial products in the foreseeable future. We currently depend on third-party contract manufacturers for the supply of the active

pharmaceutical ingredients for our product candidates, including drug substance for our preclinical research and clinical trials. For SPN-538 and SPN-804, we currently rely on single suppliers for raw materials including drug substance and single manufacturers for the product candidates, and expect to rely on third-party suppliers and manufacturers for the final commercial products. Any future curtailment in the availability of raw materials could result in production or other delays with consequent adverse effects on us. In addition, because regulatory authorities must generally approve raw material sources for pharmaceutical products, changes in raw material suppliers may result in production delays or higher raw material costs.

The manufacture of pharmaceutical products requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. Pharmaceutical companies often encounter difficulties in production, particularly in scaling up production, of their products. These problems include manufacturing difficulties relating to production costs and yields, quality control, including stability of the product and quality assurance testing, shortages of qualified personnel, as well as compliance with federal, state and foreign regulations. In responding to the FDA's refusal-to-file letter for the SPN-538 NDA, we had to address chemistry and manufacturing controls issues. If we are unable to demonstrate stability in accordance with commercial requirements, or if our manufacturers were to encounter difficulties or otherwise fail to comply with their obligations to us, our ability to obtain FDA approval and market our product candidates would be jeopardized. In addition, any delay or interruption in the supply of clinical trial supplies could delay or prohibit the completion of our bioequivalence and/or clinical trials, increase the costs associated with conducting our bioequivalence and/or clinical trials and, depending upon the period of delay, require us to commence new trials at significant additional expense or to terminate a trial.

Manufacturers of pharmaceutical products need to comply with GMP requirements enforced by the FDA through their facilities inspection programs. These requirements include, among other things, quality control, quality assurance and the maintenance of records and documentation. Manufacturers of our product candidates may be unable to comply with these GMP requirements and with other FDA and foreign regulatory requirements. A failure to comply with these requirements may result in fines and civil penalties, suspension of production, suspension or delay in product approval, product seizure or recall, or withdrawal of product approval. If the safety of any of our product candidates is compromised due to failure to adhere to applicable laws or for other reasons, we may not be able to obtain regulatory approval for such product candidate or successfully commercialize such product candidate, and we may be held liable for any injuries sustained as a result. Any of these factors could cause a delay in clinical developments, regulatory submissions, approvals or commercialization of our product candidates, entail higher costs or result in our being unable to effectively commercialize our product candidates. Furthermore, for our two most advanced product candidates, SPN-538 and SPN-804, we are presently negotiating agreements with leading contract manufacturing organizations, or CMOs, headquartered in North America for the manufacture of the final commercial products. If we fail to obtain the required commercial quantities on a timely basis and at commercially reasonable prices, we may be unable to meet demand for our approved product candidates, if any, and would lose potential revenues.

***We depend on collaborators to work with us to develop, manufacture and commercialize their and our product candidates.***

We have a license agreement with United Therapeutics to use one of our proprietary technologies for an oral formulation of treprostinil diethanolamine, or treprostinil, for the treatment of pulmonary arterial hypertension, or PAH, as well as for other indications. This oral formulation is the subject of an NDA that United Therapeutics submitted to the FDA for PAH in December 2011. If United Therapeutics receives approval to market and sell this product candidate, we are entitled to receive single digit gross royalties based on worldwide net sales. We are also entitled to receive milestones and

royalties for use of this formulation in other indications. If we materially breach any of our obligations under the license agreement, however, we could lose the potential to receive any future royalty payments thereunder, which could be financially significant to us.

We also have a license agreement with Especificos Stendhal, S.A., DE C.V. and we may enter into additional collaborations in the future. Our future collaboration agreements may have the effect of limiting the areas of research and development that we may pursue, either alone or in collaboration with third parties. Much of the potential revenues from these future collaborations may consist of contingent payments, such as payments for achieving development milestones and royalties payable on sales of developed products. The milestone and royalty revenues that we may receive under these collaborations will depend upon our collaborators' ability to successfully develop, introduce, market and sell new products. Future collaboration partners may fail to develop or effectively commercialize products using our product candidates or technologies because they, among other things:

- may change the focus of their development and commercialization efforts or may have insufficient resources to effectively develop our product candidates. Pharmaceutical and biotechnology companies historically have re-evaluated their development and commercialization priorities following mergers and consolidations, which have been common in recent years in these industries. The ability of some of our product candidates to reach their potential could be limited if our future collaborators decrease or fail to increase development or commercialization efforts related to those product candidates;
- may decide not to devote the necessary resources due to internal constraints, such as limited personnel with the requisite scientific expertise or limited cash resources, or the belief that other drug development programs may have a higher likelihood of obtaining marketing approval or may potentially generate a greater return on investment;
- may develop and commercialize, either alone or with others, drugs that are similar to or competitive with the product candidates that are the subject of their collaborations with us;
- may not have sufficient resources necessary to carry the product candidate through clinical development, marketing approval and commercialization;
- may fail to comply with applicable regulatory requirements;
- may not be able to obtain the necessary marketing approvals; or
- may breach or terminate their arrangement with us.

If collaboration partners fail to develop or effectively commercialize our product candidates for any of these reasons, we may not be able to replace the collaboration partner with another partner to develop and commercialize the product candidate under the terms of the collaboration. Further, even if we are able to replace the collaboration partner, we may not be able to do so on commercially favorable terms. As a result, the development and commercialization of the affected product candidate could be delayed, curtailed or terminated because we may not have sufficient financial resources or capabilities to continue development and commercialization of the product candidate on our own, which could adversely affect our results of operations.

***We rely and will continue to rely on outsourcing arrangements for certain of our activities, including clinical research of our product candidates and manufacturing of our compounds and product candidates beyond Phase II clinical trials.***

We rely on outsourcing arrangements for some of our activities, including manufacturing, preclinical and clinical research, data collection and analysis. We may have limited control over these third parties and we cannot guarantee that they will perform their obligations in an effective and timely

manner. Our reliance on third parties, including third-party CROs and CMOs entails risks including, but not limited to:

- non-compliance by third parties with regulatory and quality control standards;
- sanctions imposed by regulatory authorities if compounds supplied or manufactured by a third party supplier or manufacturer fail to comply with applicable regulatory standards;
- the possible breach of the agreements by the CROs or CMOs because of factors beyond our control or the insolvency of any of these third parties or other financial difficulties, labor unrest, natural disasters or other factors adversely affecting their ability to conduct their business; and
- termination or non-renewal of an agreement by the third parties, at a time that is costly or inconvenient for us, because of our breach of the manufacturing agreement or based on their own business priorities.

We do not own or operate manufacturing facilities for the production of any of our product candidates beyond Phase II clinical trials, nor do we have plans to develop our own manufacturing operations for Phase III clinical materials or commercial products in the foreseeable future. We currently depend on third-party CMOs for all of our required raw materials and drug substance for our preclinical research and clinical trials. For SPN-538 and SPN-804, we currently rely on single suppliers for raw materials including drug substance and single manufacturers for the product candidates, and expect to rely on third-party suppliers and manufacturers for the final commercial products. If any of these vendors is unable to perform its obligations to us, including due to violations of the FDA's requirements, our ability to meet regulatory requirements or projected timelines and necessary quality standards for successful manufacturing of the various required lots of material for our development and commercialization efforts would be adversely affected. For example, in responding to the FDA's refusal-to-file letter for the SPN-538 NDA, we had to address chemistry and manufacturing controls issues. Further, if we were required to change vendors, it could result in delays in our regulatory approval efforts and significantly increase our costs. Accordingly, the loss of any of our current or future third-party manufacturers or suppliers could have a material adverse effect on our business, results of operations, financial condition and prospects.

We do not have any current contractual relationships for the manufacture of commercial supplies of any of our product candidates. For our two most advanced product candidates, SPN-538 and SPN-804, we are presently negotiating agreements with leading CMOs headquartered in North America for the manufacture of the final commercial products. The number of third-party manufacturers with the expertise, required regulatory approvals and facilities to manufacture drug substance and final drug product on a commercial scale is limited. Therefore, we may not be able to enter into such arrangements with third-party manufacturers in a timely manner, on acceptable terms or at all. Failure to secure such contractual arrangements would harm the commercial prospects for our product candidates, our costs could increase and our ability to generate revenues could be delayed.

***We have in-licensed or acquired a portion of our intellectual property necessary to develop certain of our psychiatry product candidates, and if we fail to comply with our obligations under any of these arrangements, we could lose such intellectual property rights.***

We are a party to and rely on several arrangements with third parties, such as those with Afecta Pharmaceuticals, Inc., or Afecta, and Rune Healthcare Limited, or Rune, which give us rights to intellectual property that is necessary for the development of certain of our product candidates including SPN-810 and SPN-809, respectively. In addition, we may enter into similar arrangements in the future. Our current arrangements impose various development, royalty and other obligations on us. If we materially breach these obligations or if Afecta or Rune fail to adequately perform their respective obligations, these exclusive arrangements could be terminated, which would result in our inability to develop, manufacture and sell products that are covered by such intellectual property.

***Even if our product candidates receive regulatory approval in the United States, we or our collaborators may never receive approval to commercialize our product candidates outside of the United States.***

In order to market any products outside of the United States, we must establish and comply with numerous and varying regulatory requirements of other jurisdictions regarding safety and efficacy. Approval procedures vary among jurisdictions and can involve product testing and administrative review periods different from, and greater than, those in the United States. The time required to obtain approval in other jurisdictions might differ from that required to obtain FDA approval. The regulatory approval process in other jurisdictions may include all of the risks detailed above regarding FDA approval in the United States as well as other risks. For example, legislation analogous to Section 505(b)(2) of the FDCA in the United States, which relates to the ability of an NDA applicant to use published data not developed by such applicant, may not exist in other countries. In territories where data is not freely available, we may not have the ability to commercialize our products without negotiating rights from third parties to refer to their clinical data in our regulatory applications, which could require the expenditure of significant additional funds.

In addition, regulatory approval in one jurisdiction does not ensure regulatory approval in another, but a failure or delay in obtaining regulatory approval in one jurisdiction may have a negative effect on the regulatory processes in others. Failure to obtain regulatory approvals in other jurisdictions or any delay or setback in obtaining such approvals could have the same adverse effects detailed above regarding FDA approval in the United States. As described above, such effects include the risks that any of our product candidates may not be approved for all indications requested, which could limit the uses of our product candidates and have an adverse effect on their commercial potential or require costly post-marketing studies.

***Guidelines and recommendations published by various organizations can reduce the use of our product candidates.***

Government agencies promulgate regulations and guidelines directly applicable to us and to our product candidates. In addition, professional societies, practice management groups, private health and science foundations and organizations involved in various diseases from time to time may also publish guidelines or recommendations to the health care and patient communities. Recommendations of government agencies or these other groups or organizations may relate to such matters as usage, dosage, route of administration and use of concomitant therapies. Recommendations or guidelines suggesting the reduced use of our product candidates or the use of competitive or alternative products that are followed by patients and health care providers could result in decreased use of our product candidates.

***We are subject to uncertainty relating to payment or reimbursement policies which, if not favorable for our product candidates, could hinder or prevent our commercial success.***

Our ability or our collaborators' ability to commercialize our product candidates, including SPN-538 and SPN-804, successfully will depend in part on the coverage and reimbursement levels set by governmental authorities, private health insurers, managed care organizations and other third-party payors. As a threshold for coverage and reimbursement, third-party payors generally require that drug products have been approved for marketing by the FDA. Third-party payors also are increasingly challenging the effectiveness of and prices charged for medical products and services. Government authorities and these third-party payors have attempted to control costs, in some instances, by limiting coverage and the amount of reimbursement for particular medications or encouraging the use of lower-cost generic AEDs. We cannot be sure that reimbursement will be available for any of the products that we develop and, if reimbursement is available, the level of reimbursement. Reduced or partial payment or reimbursement coverage could make our product candidates, including SPN-538 and SPN-804, less attractive to patients and prescribing physicians. We also may be required to sell our

product candidates at a discount, which would adversely affect our ability to realize an appropriate return on our investment in our product candidates or compete on price.

We expect that private insurers and managed care organizations will consider the efficacy, cost effectiveness and safety of our product candidates, including SPN-538 and SPN-804, in determining whether to approve reimbursement for such product candidates and at what level. Because each third-party payor individually approves payment or reimbursement, obtaining these approvals can be a time consuming and expensive process that could require us to provide scientific or clinical support for the use of each of our product candidates separately to each third-party payor. In some cases it could take several months or years before a particular private insurer or managed care organization reviews a particular product, and we may ultimately be unsuccessful in obtaining coverage. Our competitors generally have larger organizations, as well as existing business relationships with third-party payors relating to their products. Our business would be materially adversely affected if we do not receive approval for reimbursement of our product candidates from private insurers on a timely or satisfactory basis. Our approved product candidates, if any, may not be considered cost-effective, and coverage and reimbursement may not be available or sufficient to allow us to sell our product candidates on a profitable basis. Our business would also be adversely affected if private insurers, managed care organizations, the Medicare program or other reimbursing bodies or payors limit the indications for which our product candidates will be reimbursed to a smaller set than we believe they are effective in treating.

In some foreign countries, particularly Canada and the countries of Europe, the pricing of prescription pharmaceuticals is subject to strict governmental control. In these countries, pricing negotiations with governmental authorities can take six to 12 months or longer after the receipt of regulatory approval and product launch. To obtain favorable reimbursement for the indications sought or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our product candidates to other available therapies. If reimbursement for our product candidates is unavailable in any country in which reimbursement is sought, limited in scope or amount, or if pricing is set at unsatisfactory levels, our business could be materially harmed.

In addition, many managed care organizations negotiate the price of products and develop formularies which establish pricing and reimbursement levels. Exclusion of a product from a formulary can lead to its sharply reduced usage in the managed care organization's patient population. If our product candidates are not included within an adequate number of formularies or adequate payment or reimbursement levels are not provided, or if those policies increasingly favor generic products, our market share and gross margins could be negatively affected, which would have a material adverse effect on our overall business and financial condition.

We expect to experience pricing pressures due to the potential healthcare reforms discussed elsewhere in this prospectus, as well as the trend toward programs aimed at reducing health care costs, the increasing influence of health maintenance organizations and additional legislative proposals.

***We face potential product liability exposure, and, if successful claims are brought against us, we may incur substantial liabilities.***

The use of our product candidates in clinical trials and the sale of any of our product candidates for which we may obtain marketing approval expose us to the risk of product liability claims. Product liability claims might be brought against us by consumers, healthcare providers or others selling or otherwise coming into contact with our product candidates. If we cannot successfully defend ourselves against product liability claims, we could incur substantial liabilities. In addition, product liability claims may result in:

- decreased demand for any product candidate that has received approval and is being commercialized;

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- impairment of our business reputation and exposure to adverse publicity;
- withdrawal of bioequivalence and/or clinical trial participants;
- initiation of investigations by regulators;
- costs of related litigation;
- distraction of management's attention from our primary business;
- substantial monetary awards to patients or other claimants;
- loss of revenues; and
- the inability to commercialize any of our product candidates for which we obtain marketing approval.

Our product liability insurance coverage for our clinical trials is limited to \$5 million per occurrence, and \$10 million in the aggregate, and covers bodily injury and property damage arising from our clinical trials, subject to industry-standard terms, conditions and exclusions. Our insurance coverage may not be sufficient to reimburse us for any expenses or losses we may suffer. Moreover, insurance coverage is becoming increasingly expensive, and, in the future, we may not be able to maintain insurance coverage at a reasonable cost or in sufficient amounts to protect us against losses. If and when we obtain marketing approval for any of our product candidates, we intend to expand our insurance coverage to include the sale of commercial products; however, we may be unable to obtain this product liability insurance on commercially reasonable terms. On occasion, large judgments have been awarded in class action lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or series of claims brought against us could cause our stock price to decline and, if judgments exceed our insurance coverage, could decrease our cash and adversely affect our business.

### ***Our failure to successfully develop and market product candidates would impair our ability to grow.***

As part of our growth strategy, we intend to develop and market additional product candidates. We are pursuing various therapeutic opportunities through our pipeline. We may spend several years completing our development of any particular current or future internal product candidate, and failure can occur at any stage. The product candidates to which we allocate our resources may not end up being successful. In addition, because our internal research capabilities are limited, we may be dependent upon pharmaceutical companies, academic scientists and other researchers to sell or license products or technology to us. The success of this strategy depends partly upon our ability to identify, select, discover and acquire promising pharmaceutical product candidates and products.

The process of proposing, negotiating and implementing a license or acquisition of a product candidate or approved product is lengthy and complex. Other companies, including some with substantially greater financial, marketing and sales resources, may compete with us for the license or acquisition of product candidates and approved products. We have limited resources to identify and execute the acquisition or in-licensing of third-party products, businesses and technologies and integrate them into our current infrastructure. Moreover, we may devote resources to potential acquisitions or in-licensing opportunities that are never completed, or we may fail to realize the anticipated benefits of such efforts. We may not be able to acquire the rights to additional product candidates on terms that we find acceptable, or at all.

In addition, future acquisitions may entail numerous operational and financial risks, including:

- exposure to unknown liabilities;
- disruption of our business and diversion of our management's time and attention to develop acquired products or technologies;

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- incurrence of substantial debt, dilutive issuances of securities or depletion of cash to pay for acquisitions;
- higher than expected acquisition and integration costs;
- difficulty in combining the operations and personnel of any acquired businesses with our operations and personnel;
- increased amortization expenses;
- impairment of relationships with key suppliers or customers of any acquired businesses due to changes in management and ownership; and
- inability to motivate key employees of any acquired businesses.

Further, any product candidate that we acquire may require additional development efforts prior to commercial sale, including extensive clinical testing and approval by the FDA and applicable foreign regulatory authorities. All product candidates are prone to risks of failure typical of pharmaceutical product development, including the possibility that a product candidate will not be shown to be sufficiently safe and effective for approval by regulatory authorities.

### ***Healthcare reform measures could hinder or prevent our product candidates' commercial success.***

The U.S. government and other governments have shown significant interest in pursuing healthcare reform. Any government-adopted reform measures could adversely impact the pricing of healthcare products and services in the United States or internationally and the amount of reimbursement available from governmental agencies or other third party payors. The continuing efforts of the U.S. and foreign governments, insurance companies, managed care organizations and other payors of health care services to contain or reduce healthcare costs may adversely affect our ability to set prices for any approved product candidate which we believe are fair, and our ability to generate revenues and achieve and maintain profitability.

In both the United States and some foreign jurisdictions, there have been a number of legislative and regulatory proposals and initiatives to change the health care system in ways that could affect our ability to sell any approved product candidate profitably. Some of these proposed and implemented reforms could result in reduced reimbursement rates for our potential products, which would adversely affect our business strategy, operations and financial results. For example, in March 2010, President Obama signed into law a legislative overhaul of the U.S. healthcare system, known as the Patient Protection and Affordable Care Act of 2010, as amended by the Healthcare and Education Affordability Reconciliation Act of 2010. This law, which we refer to as the PPACA, may have far reaching consequences for biopharmaceutical companies like us. As a result of this new legislation, substantial changes could be made to the current system for paying for healthcare in the United States, including changes made in order to extend medical benefits to those who currently lack insurance coverage. Extending coverage to a large population could substantially change the structure of the health insurance system and the methodology for reimbursing medical services and drugs. These structural changes could entail modifications to the existing system of private payors and government programs, such as Medicare and Medicaid, creation of a government-sponsored healthcare insurance source, or some combination of both, as well as other changes. Restructuring the coverage of medical care in the United States could impact the reimbursement for prescribed drugs, including our product candidates. If reimbursement for our approved product candidates, if any, is substantially less than we expect in the future, or rebate obligations associated with them are substantially increased, our business could be materially and adversely impacted.

In September 2007, the Food and Drug Administration Amendments Act of 2007 was enacted, giving the FDA enhanced post-marketing authority, including the authority to require post-marketing



studies and clinical trials, labeling changes based on new safety information, and compliance with risk evaluations and mitigation strategies approved by the FDA. The FDA's exercise of this authority could result in delays or increased costs during product development, clinical trials and regulatory review, increased costs to assure compliance with post-approval regulatory requirements, and potential restrictions on the sale and/or distribution of any approved product candidates.

Future federal and state proposals and health care reforms could limit the prices that can be charged for the product candidates that we develop and may further limit our commercial opportunity. Our results of operations could be materially adversely affected by the PPACA by the possible effect of such current or future legislation on amounts that private insurers will pay and by other health care reforms that may be enacted or adopted in the future.

***We will need to increase the size of our organization, and we may experience difficulties in managing growth.***

We will need to manage our anticipated growth and increased operational activity. Our personnel, systems and facilities currently in place may not be adequate to support this future growth. Our need to effectively execute our growth strategy requires that we:

- manage our regulatory approval trials effectively;
- manage our internal development efforts effectively while complying with our contractual obligations to licensors, licensees, contractors, collaborators and other third parties;
- develop internal sales and marketing capabilities;
- commercialize our product candidates;
- improve our operational, financial and management controls, reporting systems and procedures; and
- attract and motivate sufficient numbers of talented employees.

This future growth could place a strain on our administrative and operational infrastructure and may require our management to divert a disproportionate amount of its attention away from our day-to-day activities. We may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel, which may result in weaknesses in our infrastructure, give rise to operational mistakes, loss of business opportunities, loss of employees and reduced productivity among remaining employees. We may not be able to make improvements to our management information and control systems in an efficient or timely manner and may discover deficiencies in existing systems and controls. If our management is unable to effectively manage our expected growth, our expenses may increase more than expected, our ability to generate or increase our revenues could be reduced and we may not be able to implement our business strategy. Our future financial performance and our ability to compete effectively will depend, in part, on our ability to effectively manage any future growth.

***We may not be able to manage our business effectively if we are unable to attract and motivate key personnel or if we lose any of our current management team.***

We may not be able to attract or motivate qualified management and scientific and clinical personnel in the future due to the intense competition for qualified personnel among biotechnology, pharmaceutical and other businesses. Our industry has experienced a high rate of turnover of management personnel in recent years. If we are not able to attract and motivate necessary personnel to accomplish our business objectives, we may experience constraints that will significantly impede the achievement of our objectives.

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We are highly dependent on the development, regulatory, commercial and financial expertise of our management, particularly Jack A. Khattar, our President and Chief Executive Officer. We do not have any employment agreements with any member of our senior management team except Mr. Khattar. Although no member of our current management team has informed us to date that he or she intends to resign or retire, if we lose any members of our management team, we may not be able to find suitable replacements in a timely fashion, if at all. We cannot be certain that future management transitions will not disrupt our operations and generate concern among employees and those with whom we do business. For instance, since the October 2011 resignation of Russell P. Wilson, our Chief Financial Officer since 2009, we have had two Chief Financial Officers, including Gregory S. Patrick, our Chief Financial Officer since November 2011.

In addition to the competition for personnel, the greater Washington D.C. metropolitan area in particular is characterized by a high cost of living. As such, we could have difficulty attracting experienced personnel to our company and may be required to expend significant financial resources in our employee recruitment efforts.

We also have scientific and clinical advisors who assist us in formulating our product development and clinical strategies. These advisors are not our employees and may have commitments to, or consulting or advisory contracts with, other entities that may limit their availability to us, or may have arrangements with other companies to assist in the development of products that may compete with ours.

***We will need to obtain FDA approval of any proposed product names, and any failure or delay associated with such approval may adversely impact our business.***

Any name we intend to use for our product candidates will require approval from the FDA regardless of whether we have secured a formal trademark registration from the U.S. Patent and Trademark Office. The FDA typically conducts a review of proposed product names, including an evaluation of potential for confusion with other product names. The FDA may object to any product name we submit if it believes the name inappropriately implies medical claims. We have in the past been required to change a proposed product name. If the FDA objects to any of our proposed product names, we may be required to adopt an alternative name for our product candidates. If we adopt an alternative name, we would lose the benefit of our existing trademark applications for such product candidate, and may be required to expend significant additional resources in an effort to identify a suitable product name that would qualify under applicable trademark laws, not infringe the existing rights of third parties and be acceptable to the FDA. We may be unable to build a successful brand identity for a new trademark in a timely manner or at all, which would limit our ability to commercialize our product candidates.

***If we fail to comply with healthcare regulations, we could face substantial penalties and our business, operations and financial condition could be adversely affected.***

As a manufacturer of pharmaceuticals, certain federal and state healthcare laws and regulations pertaining to fraud and abuse and patients' rights are and will be applicable to our business. We could be subject to healthcare fraud and abuse and patient privacy regulation by both the federal government and the states in which we conduct our business. The regulations include:

- the federal healthcare program anti-kickback law, which prohibits, among other things, persons from soliciting, receiving or providing remuneration, directly or indirectly, to induce either the referral of an individual, for an item or service or the purchasing or ordering of a good or service, for which payment may be made under federal healthcare programs such as the Medicare and Medicaid programs;

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- federal false claims laws which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payors that are false or fraudulent, and which may apply to entities like us which provide coding and billing advice to customers;
- the federal Health Insurance Portability and Accountability Act of 1996, which prohibits executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters and which also imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information;
- the federal transparency requirements under the PPACA requires manufacturers of drugs, devices, biologics, and medical supplies to report to the Department of Health and Human Services information related to physician payments and other transfers of value and physician ownership and investment interests;
- the FDCA, which among other things, strictly regulates drug product marketing, prohibits manufacturers from marketing drug products for off-label use and regulates the distribution of drug samples; and
- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers, and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by federal laws, thus complicating compliance efforts.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations could be costly. If our operations are found to be in violation of any of the laws described above or any governmental regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines and the curtailment or restructuring of our operations. Any penalties, damages, fines, curtailment or restructuring of our operations could adversely affect our ability to operate our business and our financial results. Although compliance programs can mitigate the risk of investigation and prosecution for violations of these laws, the risks cannot be entirely eliminated. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses and divert our management's attention from the operation of our business. Moreover, achieving and sustaining compliance with applicable federal and state privacy, security and fraud laws may prove costly.

***Our business involves the use of hazardous materials, and we must comply with environmental laws and regulations, which can be expensive and restrict how we do business.***

Our activities and our third-party manufacturers' and suppliers' activities involve the controlled storage, use and disposal of hazardous materials owned by us. We and our manufacturers and suppliers are subject to federal, state, city and local laws and regulations governing the use, manufacture, storage, handling and disposal of these hazardous materials. Although we believe that the safety procedures we use for handling and disposing of these materials comply with the standards prescribed by these laws and regulations, we cannot eliminate the risk of accidental contamination or injury from these materials. In the event of an accident, local, city, state or federal authorities may curtail the use of these materials and interrupt our business operations, including our commercialization and research and development efforts. Although we believe that the safety procedures utilized by our third-party manufacturers for handling and disposing of these materials generally comply with the standards prescribed by these laws and regulations, we cannot guarantee that this is the case or eliminate the risk of accidental contamination or injury from these materials. In such an event, we may be held liable for any resulting damages and such liability could exceed our resources. We do not currently maintain biological or hazardous materials insurance coverage.

***Obtaining and maintaining our patent protection depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.***

The USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other provisions during the patent process. There are situations in which noncompliance can result in abandonment or lapse of a patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. In such an event, competitors might be able to enter the market earlier than would otherwise have been the case.

***We may be subject to claims that our employees have wrongfully used or disclosed alleged trade secrets of their former employers.***

We employ individuals who were previously employed at other pharmaceutical companies, including our competitors or potential competitors and, as such, we may be subject to claims that we or these employees have used or disclosed trade secrets or other proprietary information of their former employers. Litigation may be necessary to defend against these claims. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management.

***Our business and operations would suffer in the event of system failures.***

Despite the implementation of security measures, our internal computer systems and those of our contractors and consultants are vulnerable to damage from computer viruses, unauthorized access, natural disasters, terrorism, war and telecommunication and electrical failures. Such an event could cause interruption of our operations. For example, the loss of trial data from completed or ongoing bioequivalence and/or clinical trials for our product candidates could result in delays in our regulatory approval efforts and significantly increase our costs. To the extent that any disruption or security breach were to result in a loss of or damage to our data, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the development of our product candidates could be delayed.

***Provisions in our agreement with Shire impose restrictive covenants on us, which could limit our ability to operate effectively in the future.***

In 2005, we purchased substantially all of the assets of Shire Laboratories Inc. Pursuant to this agreement, we agreed to perpetually refrain from engaging in any research, formulation development, analytical testing, manufacture, technology assessment or oral bioavailability screening that relate to five specific drug compounds (amphetamine, carbamazepine, guanfacine, lanthanum and mesalamine) and any derivative thereof. In addition, we have agreed not to provide any services to, license any intellectual property rights to, or otherwise perform any work for certain pharmaceutical companies primarily engaged in the development and marketing of generic products through 2012. Although these various restrictions and covenants on us do not currently impact our product candidates or business, they could in the future limit or delay our ability to take advantage of business opportunities that may relate to such compounds or such companies.

#### **Risks Related to Our Finances and Capital Requirements**

***We have incurred significant operating losses since our inception and anticipate that we will incur continued losses for the foreseeable future.***

In recent years, we have focused primarily on developing our current product candidates, with the goal of supporting regulatory approval for these product candidates. We have financed our operations primarily through private placements of convertible preferred stock, our collaboration and license

arrangements, the monetization of certain future royalty streams under our existing licenses for Oracea, Sanctura XR and Intuniv, and the sale of our subsidiary, TCD Royalty Sub LLC, or Royalty Sub, which held the license rights to Oracea and Sanctura XR. We have incurred significant operating losses since our inception in 2005. We incurred net losses of approximately \$17.3 million, \$33.5 million and \$38.5 million in the years ended December 31, 2007, 2008, and 2010, respectively, and approximately \$28.1 million in the nine months ended September 30, 2011. We incurred net income of approximately \$0.5 million in the year ended December 31, 2009. As of September 30, 2011, we had an accumulated deficit of approximately \$121.9 million. Substantially all of our operating losses resulted from costs incurred in connection with our development programs and from general and administrative costs associated with our operations. For example, the expenses that we have incurred relating to the research and development of SPN-538 and SPN-804 from inception to September 30, 2011 are approximately \$27.8 million and \$46.3 million, respectively. We expect our research and development costs to continue to be substantial and to increase with respect to our product candidates as we advance those product candidates through preclinical studies, clinical trials, manufacturing scale-up and other pre-approval activities. As a result, we expect to continue to incur significant and increasing operating losses for the foreseeable future. Because of the numerous risks and uncertainties associated with developing pharmaceutical products, we are unable to predict the extent of any future losses or when, or if, we will become profitable.

Our prior losses, combined with expected future losses, have had and will continue to have an adverse effect on our stockholders' equity and working capital. Furthermore, upon the closing of this offering, we expect to incur additional costs associated with operating as a public company. As a result, we expect to continue to incur significant and increasing operating losses for the foreseeable future. In this regard, the report of our independent registered public accounting firm with respect to our consolidated financial statements as of and for the period ended December 31, 2010 contains an explanatory paragraph stating that there is substantial doubt about our ability to continue as a going concern. We believe that the successful completion of this offering will eliminate this doubt and enable us to continue as a going concern. However, even after giving effect to the expected net proceeds in this offering, we may need to obtain capital through equity offerings, debt financing and/or payments under new or existing licensing and research and development collaboration agreements. In addition, the inclusion of a going concern statement by our auditors, our lack of cash resources and our potential inability to continue as a going concern may materially adversely affect our share price and our ability to raise new capital or to enter into critical contractual relations with third parties.

***We may need additional funding and may be unable to raise capital when needed, which would force us to delay, reduce or eliminate our product development programs or commercialization efforts.***

Developing product candidates, conducting clinical trials, establishing manufacturing relationships and marketing drugs are expensive and uncertain processes. Although it is difficult to predict future liquidity requirements, we believe that the net proceeds from this offering, together with our existing unrestricted cash, cash equivalents and marketable securities and anticipated future product revenues, will be sufficient to fund our operations for at least the next months. We may need to obtain additional capital through equity offerings, debt financing and/or payments under new or existing licensing and research and development collaboration agreements prior to any future profitability. If sufficient funds on acceptable terms are not available when needed, we could be required to significantly reduce operating expenses and delay, reduce the scope of, or eliminate one or more of our development programs, which may have a material adverse effect on our business, results of operations and financial condition.

In addition, unforeseen circumstances may arise, or our strategic imperatives could change, causing us to consume capital significantly faster than we currently anticipate, requiring us to seek to raise additional funds sooner than expected. We have no committed external sources of funds.

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The amount and timing of our future funding requirements will depend on many factors, including, but not limited to:

- the rate of progress and cost of our trials and other product development programs for our product candidates;
- the costs and timing of in-licensing additional product candidates or acquiring other complementary companies;
- the timing of any regulatory approvals of our product candidates;
- the costs of establishing sales, marketing and distribution capabilities; and
- the status, terms and timing of any collaborative, licensing, co-promotion or other arrangements.

Additional financing may not be available when we need it or may not be available on terms that are favorable to us. In addition, we may seek additional capital due to favorable market conditions or strategic considerations, even if we believe we have sufficient funds for our current or future operating plans. If adequate funds are not available to us on a timely basis, or at all, we may be required to delay, reduce the scope of or eliminate one or more of our development programs or our commercialization efforts.

***We have never generated any revenues from the sales of our own products, and we may never achieve or maintain profitability.***

Our ability to become profitable depends upon our ability to generate revenues from sales of our product candidates. To date, we have not generated any revenues from product sales of our own product candidates and have incurred significant operating losses. Our historical revenues have been generated through fees for development services and payment for the achievement of specified development, regulatory and sales milestones, as well as royalties, on product sales of Oracea, Sanctura XR and Intuniv licensed products. In May 2009, in exchange for one-time, lump-sum payment, we licensed all of our rights for Intuniv to an affiliate of Shire plc on a royalty-free, fully paid-up basis. In addition, in connection with our sale of all of our equity interests in Royalty Sub in December 2011, the purchaser acquired all of our license rights to Sanctura XR and Oracea. Accordingly, we no longer generate any revenues from those products.

Our ability to generate product revenues is dependent on our ability to receive regulatory approval of our product candidates, including SPN-538 and SPN-804, and to successfully commercialize these products. Our ability to successfully commercialize our product candidates depends on, among other things:

- our successful completion of ongoing and planned bioequivalence and clinical trials for our product candidates;
- our obtaining regulatory approvals for our product candidates, including SPN-538 and SPN-804; and
- if regulatory approvals are received, our manufacturing of commercial quantities of our product candidates at acceptable cost levels.

Even if any of our product candidates are approved for commercial sale, we anticipate incurring significant costs associated with commercialization. It is possible that we will never have sufficient product sales revenues to achieve profitability.

***Our quarterly operating results may fluctuate significantly.***

We expect our operating results to be subject to quarterly fluctuations. Prior to commercializing any of our product candidates, we expect that any revenues we generate will fluctuate from quarter to quarter as a result of the timing and amount of development and milestones and royalty revenues received under our collaboration license agreements, as our revenues from these arrangements are principally based on the achievement of clinical and commercial milestones outside of our control.

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Once we commercialize one or more of our product candidates, our net loss and other operating results will be affected by numerous factors, including:

- variations in the level of expenses related to our development programs;
- the success of our bioequivalence and clinical trials through all phases of clinical development;
- any delays in regulatory review and approval of product candidates in clinical development;
- potential side effects of our future products that could delay or prevent commercialization or cause an approved drug to be taken off the market;
- any intellectual property infringement lawsuit in which we may become involved;
- our ability to establish an effective sales and marketing infrastructure;
- our dependency on third-party manufacturers to supply or manufacture our product candidates;
- competition from existing products or new products that may emerge;
- regulatory developments affecting our product candidates;
- our execution of any collaborative, licensing or similar arrangements, and the timing of payments we may make or receive under these arrangements;
- the achievement and timing of milestone payments under our existing collaboration and license agreements; and
- the level of market acceptance for any approved product candidates and underlying demand for that product and wholesalers' buying patterns.

Due to the various factors mentioned above, and others, the results of any prior quarterly periods should not be relied upon as an indication of our future operating performance. If our quarterly operating results fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Furthermore, any quarterly fluctuations in our operating results may, in turn, cause the price of our stock to fluctuate substantially.

***We have operated as a private company and have no experience attempting to comply with public company obligations. Attempting to comply with these requirements will increase our costs and require additional management resources, and we still may fail to comply.***

We will face increased legal, accounting, administrative and other costs and expenses as a public company. Compliance with the Sarbanes-Oxley Act of 2002, the Dodd-Frank Act of 2010, as well as rules of the Securities and Exchange Commission and Nasdaq, for example, will result in significant initial cost to us as well as ongoing increases in our legal, audit and financial compliance costs. The Exchange Act will require, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition. Our management and other personnel will need to devote a substantial amount of time to these compliance initiatives. Moreover, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to incur substantial costs to maintain the same or similar coverage.

As a public company, we expect to become subject to Section 404 of the Sarbanes-Oxley Act relating to internal controls over financial reporting. We expect to incur significant expense and devote substantial management effort toward ensuring compliance with Section 404. We currently do not have an internal audit group, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. Implementing any appropriate changes to our internal controls may require specific compliance training for our directors,

officers and employees, entail substantial costs to modify our existing accounting systems, and take a significant period of time to complete. Such changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate consolidated financial statements or other reports on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. As a result of the restatement of our 2009 fully diluted earnings per share calculation, we determined that a material weakness exists in the preparation and review of earnings per share. We expect to remediate the material weakness in connection with preparation of our consolidated financial statements for the year ended December 31, 2011. We cannot assure you that additional material weaknesses will not exist or our internal controls over financial reporting will prove to be effective.

***If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, stockholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common stock.***

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. In addition, any testing by us conducted in connection with Section 404 of the Sarbanes-Oxley Act, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our consolidated financial statements or identify other areas for further attention or improvement. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common stock.

***Our ability to use net operating loss and tax credit carryforwards and certain built-in losses to reduce future tax payments is limited by provisions of the Internal Revenue Code, and may be subject to further limitation as a result of the transactions contemplated by this offering.***

Section 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, contain rules that limit the ability of a company that undergoes an ownership change, which is generally any change in ownership of more than 50% of its stock over a three-year period, to utilize its net operating loss and tax credit carryforwards and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership changes involving stockholders owning directly or indirectly 5% or more of the stock of a company and any change in ownership arising from a new issuance of stock by the company. Generally, if an ownership change occurs, the yearly taxable income limitation on the use of net operating loss and tax credit carryforwards and certain built-in losses is equal to the product of the applicable long term tax exempt rate and the value of the company's stock immediately before the ownership change. We may be unable to offset our taxable income with losses, or our tax liability with credits, before such losses and credits expire and therefore would incur larger federal income tax liability.

In addition, it is possible that the transactions described in this offering, either on a standalone basis or when combined with future transactions, including issuances of new shares of our common stock, will cause us to undergo one or more additional ownership changes. In that event, we generally would not be able to use our pre-change loss or credit carryovers or certain built-in losses prior to such ownership change to offset future taxable income in excess of the annual limitations imposed by Sections 382 and 383 and those attributes already subject to limitations as a result of our prior ownership changes may be subject to more stringent limitations. As of December 31, 2010, we had approximately \$92.3 million of federal net operating loss carryforwards. We also had federal and state



research and development tax credit carryforwards of approximately \$4.3 million available to offset future taxable income. These federal and state net operating loss and federal and state tax credit carryforwards will begin to expire at various dates beginning in 2025, if not utilized. We have not completed a study to assess whether an ownership change has occurred, or whether there have been multiple ownership changes since our inception, due to the significant costs and complexities associated with such study. Accordingly, our ability to utilize the aforementioned carryforwards and tax credits may be limited. As a result, we may not be able to take full advantage of these carryforwards or tax credits for federal and state tax purposes.

#### **Risks Related to Our Indebtedness**

***Our level of indebtedness and debt service obligations could adversely affect our financial condition, and may make it more difficult for us to fund our operations.***

In January 2011 we entered into a secured credit facility pursuant to a loan and security agreement among Oxford Finance Corporation, as collateral agent and lender, and Compass Horizon Funding Company LLC, as lender, which was subsequently amended in December 2011, and promissory notes issued in favor of each lender, providing for term loans of up to an aggregate of \$30.0 million. On January 26, 2011, we drew down our first \$15.0 million of term loans under our secured credit facility and on December 30, 2011 we drew down the second \$15.0 million. All obligations under our secured credit facility are secured by substantially all of our existing property and assets (excluding our intellectual property) and by a pledge of the capital stock of, subject to certain exceptions, our U.K. subsidiary and any future subsidiary. This debt financing may create additional financial risk for us, particularly if our business or prevailing financial market conditions are not conducive to paying off or refinancing our outstanding debt obligations at maturity. This indebtedness could also have important negative consequences, including:

- we will need to repay our debt by making payments of interest and principal, which will reduce the amount of money available to finance our operations, our research and development efforts and other general corporate activities;
- we may have difficulty obtaining financing in the future for working capital, capital expenditures, acquisitions or other purposes; and
- our failure to comply with the restrictive covenants in our loan and security agreement could result in an event of default that, if not cured or waived, would accelerate our obligation to repay this indebtedness, and the lenders could seek to enforce their security interests in the assets securing such indebtedness.

To the extent additional debt is added to our current debt levels, the risks described above would increase.

***We may not have cash available to us in an amount sufficient to enable us to make interest or principal payments on our indebtedness when due.***

Since our inception in 2005, we have generated no revenue from product sales and have incurred significant operating losses. As of September 30, 2011, we had an accumulated deficit of \$121.9 million. We expect to continue to incur net losses and have negative cash flow from operating activities for the foreseeable future as we continue to develop and seek marketing approval for our product candidates. As a result, we may not have sufficient funds, or may be unable to arrange for additional financing, to pay the amounts due on our outstanding indebtedness under our secured credit facility. Further, funds from external sources may not be available on economically acceptable terms, if at all. For example, if we raise additional funds through collaboration, licensing or other similar arrangements, it may be necessary to relinquish potentially valuable rights to our product candidates or technologies, or to grant

licenses on terms that are not favorable to us. If adequate funds are not available when and if needed, our ability to make interest or principal payments on our debt obligations would be significantly limited, and we may be required to delay, significantly curtail or eliminate one or more of our programs.

Failure to satisfy our current and future debt obligations under our secured credit facility could result in an event of default and, as a result, our lenders could accelerate all of the amounts due. In the event of an acceleration of amounts due under our secured credit facility as a result of an event of default, we may not have sufficient funds or may be unable to arrange for additional financing to repay our indebtedness. In addition, our lenders could seek to enforce their security interests in the collateral securing such indebtedness.

***We are subject to a number of restrictive covenants which, if breached, could have a material adverse effect on our business and prospects.***

Our secured credit facility imposes operating and other restrictions on us. Such restrictions will affect, and in many respects limit or prohibit our ability and the ability of our subsidiaries to, among other things:

- dispose of certain assets;
- change our lines of business;
- engage in mergers or consolidations;
- incur additional indebtedness;
- create liens on assets, including our intellectual property;
- pay dividends and make distributions on or repurchase our capital stock; and
- engage in certain transactions with affiliates.

Our secured credit facility also includes certain customary representations and warranties and affirmative covenants. Our failure to comply with the restrictions contained in our secured credit facility, if not cured by us or waived by our lenders, could result in an event of default. All obligations under our secured credit facility are secured by substantially all of our existing property and assets (excluding our intellectual property) and by a pledge of the capital stock of, subject to certain exceptions, our U.K. subsidiary and any future subsidiary. In the event of a default under our secured credit facility, our lenders could take various actions, including the acceleration of all amounts due under our secured credit facility and all actions permitted to be taken by a secured creditor, which could have a material adverse effect on our business or prospects.

***In certain circumstances we could be required to pay damages if we fail to perform our obligations under the license agreements related to Sanctura XR and Oracea.***

In December 2011, we sold 100% of our equity ownership interests in Royalty Sub. In accordance with the terms of the sale, we retained certain duties and obligations under two licensing agreements related to Sanctura XR and Oracea. If we fail to perform the continuing duties and obligations under these licensing agreements, we may be required to indemnify the purchaser of Royalty Sub for damages arising due to such failure. For example, pursuant to these agreements, we have an obligation to use commercially reasonable efforts to preserve, maintain, and maximize the commercial value of our licensed patents covering Sanctura XR and Oracea, which includes the obligation to pay patent office maintenance fees in order to keep these patents in force. If we fail to pay such patent office maintenance fees, these patents may expire and Royalty Sub's royalty stream from such patents may terminate. In such a scenario, we may be called upon to pay damages to the purchaser of Royalty Sub

due to the loss of patent licensing revenue that Royalty Sub would have received from the sale of Sanctura XR and Oracea.

**Risks Related to Securities Markets and Investment in Our Stock**

*The concentration of our capital stock ownership with our founders, directors, executives, employees and current holders of our preferred stock (and their affiliates) will limit your ability to influence certain corporate matters.*

Upon completion of this offering and after giving effect to the conversion of the Series A convertible preferred stock into common stock, the current holders of our preferred stock will, in the aggregate, beneficially own % of our outstanding common stock (or approximately % if the underwriters exercise their over-allotment option in full). As a result, these stockholders will collectively be able to significantly influence and may be able to control all matters requiring approval of our stockholders, including the election of directors and approval of significant corporate transactions such as mergers, consolidations or the sale of all or substantially all of our assets. The concentration of ownership may delay, prevent or deter a change in control of our company even when such a change may be in the best interests of some stockholders, impede a merger, consolidation, takeover or other business combination involving us, or could deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company or our assets and might adversely affect the prevailing market price of our common stock. Participation in this offering by existing holders of our Series A convertible preferred stock will further concentrate voting rights and may negatively impact liquidity for shares of our common stock.

*Anti-takeover provisions under our charter documents and Delaware law could delay or prevent a change of control which could negatively impact the market price of our common stock.*

Provisions in our certificate of incorporation and bylaws, as amended and restated upon the completion of this offering, may have the effect of delaying or preventing a change of control. These provisions include the following:

- Our board of directors is divided into three classes serving staggered three-year terms, such that not all members of the board will be elected at one time. This staggered board structure prevents stockholders from replacing the entire board at a single stockholders' meeting.
- Our board of directors has the right to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors.
- Our board of directors may issue, without stockholder approval, shares of preferred stock. The ability to authorize preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.
- Stockholders must provide advance notice to nominate individuals for election to the board of directors or to propose matters that can be acted upon at a stockholders' meeting. Furthermore, stockholders may only remove a member of our board of directors for cause. These provisions may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect such acquiror's own slate of directors or otherwise attempting to obtain control of our company.
- Our stockholders may not act by written consent. As a result, a holder, or holders, controlling a majority of our capital stock would not be able to take certain actions outside of a stockholders' meeting.

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- Special meetings of stockholders may be called only by the chairman of our board of directors, our chief executive officer, our president or a majority of our board of directors. As a result, a holder, or holders, controlling a majority of our capital stock would not be able to call a special meeting.
- A majority of the outstanding shares of common stock are required to amend our certificate of incorporation and a supermajority (75%) of the outstanding shares of common stock are required to amend our by-laws, which make it more difficult to change the provisions described above.

In addition, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which may prohibit certain business combinations with stockholders owning 15% or more of our outstanding voting stock. These and other provisions in our certificate of incorporation, our bylaws and in the Delaware General Corporation Law could make it more difficult for stockholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors.

***There may not be a viable public market for our common stock.***

Prior to this offering, there has been no public market for our common stock, and a regular trading market may not develop and continue after this offering. Furthermore, the market price of our common stock may decline below the initial public offering price. The initial public offering price has been determined through negotiations between us and the representatives of the underwriters and may not be indicative of the market price of our common stock following this offering. Among the factors considered in such negotiations were prevailing market conditions, certain of our financial information, market valuations of other companies that we and the representatives of the underwriters believed were comparable to us, estimates of our business potential and the present state of our business. See "Underwriting" for additional information.

If you purchase shares of our common stock, you may not be able to resell those shares at or above the initial public offering price. We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market on the Nasdaq Global Market or otherwise or how liquid that market might become. An active public market for our common stock may not develop or be sustained after the offering. If an active public market does not develop or is not sustained, it may be difficult for you to sell your shares of common stock at a price that is attractive to you, or at all. Further, an inactive market may also impair our ability to raise capital by selling shares of our common stock and may impair our ability to enter into strategic partnerships or acquire companies or products, product candidates or technologies by using our shares of common stock as consideration.

***As a new investor, you will experience immediate and substantial dilution in the net tangible book value of your shares.***

The initial public offering price of our common stock in this offering is considerably more than the net tangible book value per share of our common stock. Investors purchasing shares of common stock in this offering will pay a price that substantially exceeds the value of our tangible assets after subtracting liabilities. As a result, investors will, as of September 30, 2011:

- incur immediate dilution of \$ \_\_\_\_\_ per share of common stock, based on the initial public offering price of \$ \_\_\_\_\_ per share of common stock; and
- contribute \_\_\_\_\_ % of the total amount invested to date to fund our company based on the initial offering price of \$ \_\_\_\_\_ per share of common stock, but will own only \_\_\_\_\_ % of the outstanding shares of common stock after the offering.

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*To the extent outstanding stock options and warrants are exercised, there will be further dilution to new investors.*

As of September 30, 2011, we had options to purchase 2,469,065 shares of common stock outstanding, with exercise prices ranging from \$0.10 to \$1.76 per share and a weighted average exercise price of \$0.44 per share. Upon the vesting of each of these options, the holder may exercise his or her options, which would result in further dilution to investors.

We have outstanding warrants to purchase (i) 375,000 shares of Series A convertible preferred stock at an exercise price of \$1.00 per share and (ii) 200,000 shares of Series A convertible preferred stock at an exercise price of \$1.50 per share. Upon completion of this offering, the respective lender warrants will be exercisable for one share of our common stock for each share of our Series A convertible preferred stock into which it was convertible at a price per share equal to the lesser of the initial public offering price, or \$1.00 or \$1.50, as applicable. You may experience dilution if we issue additional shares of common stock under the warrants that we issued to our lenders.

*The price of our common stock may fluctuate substantially.*

Following this offering, the market price for our common stock is likely to be volatile, in part because our common stock has not been previously traded publicly. In addition, the market price of our common stock may fluctuate significantly in response to a number of factors, including:

- plans for, progress in and results from clinical trials of our product candidates generally;
- the results from our bioequivalence trials for SPN-538 and our bioequivalence and/or clinical trials, including our current Phase III clinical trials for SPN-804;
- FDA or international regulatory actions, including actions on regulatory applications for any of our product candidates;
- the commercial performance of any of our product candidates that receive marketing approval;
- announcements of new products, services or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- market conditions in the pharmaceutical and biotechnology sectors;
- fluctuations in stock market prices and trading volumes of similar companies;
- variations in our quarterly operating results;
- changes in accounting principles;
- litigation or public concern about the safety of our potential products;
- actual and anticipated fluctuations in our quarterly operating results;
- deviations in our operating results from the estimates of securities analysts;
- additions or departures of key personnel;
- sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders;
- any third-party coverage and reimbursement policies for our product candidates, and
- discussion of us or our stock price in the financial or scientific press or in online investor communities.

The realization of any of the risks described in these "Risk Factors" could have a dramatic and material adverse impact on the market price of our common stock. In addition, class action litigation

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has often been instituted against companies whose securities have experienced periods of volatility. Any such litigation brought against us could result in substantial costs and a diversion of management attention, which could hurt our business, operating results and financial condition.

***Our management team may invest or spend the proceeds of this offering in ways with which you may not agree or in ways which may not yield a significant return, if any.***

The net proceeds from this offering will be used to fund the continued development, commercialization and research and development of our product candidates and other general corporate purposes. Because of the number and variability of factors that will determine our use of the proceeds from the offering, their ultimate use may vary substantially from their currently intended use. You will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. The net proceeds may be used for corporate purposes that do not increase our operating results or market value. Until the net proceeds are used, they may be placed in investments that do not produce significant income or investments that lose value. For a further description of our intended use of the proceeds of this offering, see "Use of Proceeds."

***Future sales of our common stock may depress our stock price.***

While we do not currently anticipate making additional offers of common stock, such sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock and impair our ability to raise adequate capital through the sale of additional equity securities. Immediately after this offering, we will have outstanding \_\_\_\_\_ shares of common stock, based on the number of outstanding shares of common stock as of September 30, 2011 and after giving effect to the conversion of \_\_\_\_\_ shares of our preferred stock outstanding as of September 30, 2011 into \_\_\_\_\_ shares of our common stock at the completion of this offering. Of these outstanding \_\_\_\_\_ shares, \_\_\_\_\_ shares are being sold in this offering and will be freely tradable immediately after this offering, except for shares purchased by affiliates, and the remaining shares may be sold upon expiration of lock-up agreements 180 days after the date of this offering. In addition, as of September 30, 2011, we had outstanding options to purchase 2,649,065 shares of common stock that, if exercised, will result in these additional shares becoming available for sale upon expiration of the lock-up agreements. A large portion of these shares and options are held by a small number of persons and investment funds. Moreover, after this offering, the holders of shares of common stock will have rights, subject to some conditions, to require us to file registration statements covering the shares they currently hold, or to include these shares in registration statements that we may file for ourselves or other stockholders.

We also intend to register all common stock that we may issue under our 2005 Stock Plan. Effective upon the closing of this offering, an aggregate of \_\_\_\_\_ shares of our common stock will be reserved for future issuance under this plan. Once we register these shares, which we plan to do shortly after the closing of this offering, they can be freely sold in the public market upon issuance, subject to the lock-up agreements referred to above. If a large number of these shares are sold in the public market, the sales could reduce the trading price of our common stock. See "Shares Eligible for Future Sale" for a more detailed description of sales that may occur in the future.

***We have never paid dividends on our capital stock, and because we do not anticipate paying any cash dividends in the foreseeable future, capital appreciation, if any, of our common stock will be your sole source of gain on an investment in our common stock.***

We have paid no cash dividends on any of our classes of capital stock to date, and we currently intend to retain our future earnings, if any, to fund the development and growth of our business. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the

foreseeable future. There is no guarantee that shares of our common stock will appreciate in value or even maintain the price at which our stockholders have purchased their shares.

***If securities or industry analysts do not publish research or reports or publish unfavorable research or reports about our business, our stock price and trading volume could decline.***

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us, our business, our market or our competitors. We do not currently have and may never obtain research coverage by securities and industry analysts. If no securities or industry analysts commence coverage of our company, the trading price for our stock would be negatively impacted. In the event we obtain securities or industry analyst coverage, if one or more of the analysts who covers us downgrades our stock, our stock price would likely decline. If one or more of these analysts ceases to cover us or fails to regularly publish reports on us, interest in our stock could decrease, which could cause our stock price or trading volume to decline.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the sections titled "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," contains forward-looking statements. Forward-looking statements convey our current expectations or forecasts of future events. All statements contained in this prospectus other than statements of historical fact are forward-looking statements. Forward-looking statements include statements regarding our future financial position, business strategy, budgets, projected costs, plans and objectives of management for future operations. The words "may," "continue," "estimate," "intend," "plan," "will," "believe," "project," "expect," "seek," "anticipate," "should," "could," "would," "potential," or the negative of those terms and similar expressions may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking. These forward-looking statements include, among other things, statements about:

- our ability to achieve profitability;
- the implementation of our corporate strategy;
- our future financial performance and projected expenditures;
- our ability to enter into future collaborations with pharmaceutical companies and academic institutions or to obtain funding from government agencies;
- our product research and development activities, including the timing and progress of our clinical trials, and projected expenditures;
- our ability to receive, and the timing of any receipt of, regulatory approvals to develop and commercialize our product candidates;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- our expectations regarding federal, state and foreign regulatory requirements;
- the therapeutic benefits, effectiveness and safety of our product candidates;
- the accuracy of our estimates of the size and characteristics of the markets that may be addressed by our product candidates;
- our ability to increase our manufacturing capabilities for our product candidates;
- our projected markets and growth in markets;
- our product formulations and patient needs and potential funding sources;
- our staffing needs;
- our use of the proceeds from this offering; and
- our plans for sales and marketing.

Any or all of our forward-looking statements in this prospectus may turn out to be inaccurate. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. They may be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties, including the risks, uncertainties and assumptions described in "Risk Factors" and elsewhere in this prospectus. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur as contemplated, and actual results could differ materially from those anticipated or implied by the forward-looking statements.



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You should not unduly rely on these forward-looking statements, which speak only as of the date of this prospectus. Unless required by law, we undertake no obligation to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. You should, however, read this prospectus and the documents that we reference in this prospectus and have filed with the Securities and Exchange Commission as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from any future results expressed or implied by these forward-looking statements. You should also review the factors and risks we describe in the reports we will file from time to time with the Securities and Exchange Commission after the date of this prospectus. See "Where You Can Find Additional Information."

## USE OF PROCEEDS

We estimate that the net proceeds from the sale of common stock that we are offering will be approximately \$            million, or \$            million if the underwriters exercise their over-allotment option in full. This projection is based upon an initial public offering price of \$            per share, which is the midpoint of the range listed on the cover page of this prospectus, and after deducting estimated underwriting discounts and commissions as well as estimated offering expenses payable by us.

A \$1.00 increase (decrease) in the assumed initial public offering price of \$            per share would increase (decrease) the net proceeds from this offering by \$            million, after deducting underwriting discounts, commissions, and estimated offering expenses payable by us, assuming that the number of shares offered, as set forth on the cover page of this prospectus, remains the same. Similarly, each increase (decrease) of one million shares in the number of shares of common stock offered by us would increase (decrease) the net proceeds from this offering by \$            million, after deducting underwriting discounts, commissions, and estimated offering expenses payable by us, assuming that the assumed initial public offering price, remains the same.

We anticipate that we will use the net proceeds as follows:

- Approximately \$            million for sales and marketing expenses in conjunction with the commercial launch of SPN-538 and SPN-804 in the marketplace, following approval by the FDA.
- Approximately \$            million to fund the manufacture of validation batches for SPN-538 and SPN-804, and to pay mandated manufacturing site filing fees.
- Approximately \$            million to fund the continued clinical development of SPN-810, including: preclinical carcinogenicity testing; process development for commercial bulk active pharmaceutical ingredient; and completion of current Phase II testing.
- Approximately \$            million to fund the continued clinical development of SPN-812, including: preclinical carcinogenicity testing; process development for commercial bulk active pharmaceutical ingredient; continued Phase II testing; and formulation development.
- Approximately \$            million to repay a portion of the term loans under our secured credit facility.
- The remainder, if any, for general corporate purposes including general and administrative expenses, capital expenditures and working capital.

As of September 30, 2011, we had \$15.0 million of term loans outstanding under our secured credit facility. The term loans bear interest at a fixed rate per annum of 11.0% and will mature in August 2014. We used the proceeds of the terms loans to fund ongoing clinical trials for SPN-538, SPN-804 and SPN-810, to prepare for manufacturing validation of SPN-538 and SPN-804, to support formulation for various clinical stage products, to prepare commercial marketing of SPN-538 and for regulatory filing fees. After application of approximately \$            million of the net proceeds from this offering to repay a portion of our indebtedness under our term loans, we expect that approximately \$            million will be outstanding under the term loans.

Although we currently anticipate that we will use the net proceeds as described above, there may be circumstances where a reallocation of funds may be necessary. The amounts and timing of our actual expenditures will depend upon numerous factors, including the progress of our development and commercialization efforts, the progress of our clinical trials, whether or not we enter into strategic collaborations or partnerships and our operating costs and expenditures. Accordingly, our management will have significant flexibility in applying these net proceeds.

The costs and timing of drug development and commercialization and of regulatory approval, particularly conducting clinical studies, are highly uncertain, are subject to substantial risks and can often change. Accordingly, we may change the allocation of use of these proceeds as a result of contingencies such as the progress of research, progress of clinical trials, ability to secure approval of our products from the FDA, uptake of our products in the marketplace and competitive responses.

Pending use of the proceeds from this offering as described above or otherwise, we intend to invest the net proceeds in short-term, interest-bearing, investment-grade securities.

## **DIVIDEND POLICY**

We have never declared or paid any cash dividends on our capital stock and we do not currently anticipate declaring or paying cash dividends on our capital stock in the foreseeable future. We currently intend to retain all of our future earnings, if any, to finance operations. Additionally, our ability to pay dividends on our common stock is limited by restrictions on the ability of our subsidiaries and us to pay dividends or make distributions, including restrictions under the terms of the agreements governing our indebtedness. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations." Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects, contractual restrictions and covenants and other factors that our board of directors may deem relevant.

## CAPITALIZATION

The following table sets forth our cash and capitalization as of September 30, 2011:

- on an actual basis;
- on a pro forma basis, reflecting the conversion of all of our outstanding preferred stock into an aggregate of 49,000,000 shares of common stock upon the closing of this offering; and
- on a pro forma as adjusted basis to further reflect our receipt of the estimated net proceeds from our sale of \_\_\_\_\_ shares of common stock offered hereby at an assumed initial public offering price of \$ \_\_\_\_\_ per share, the mid-point of the price range reflected on the cover of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

You should read this table in conjunction with the sections of this prospectus entitled "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with our consolidated financial statements and related notes appearing elsewhere in this prospectus.

	As of September 30, 2011		
	Actual	Pro Forma (unaudited)	Pro Forma as Adjusted(1)
	(in thousands of dollars, except share and per share data)		
<b>Balance Sheet Data:</b>			
Unrestricted cash and cash equivalents and marketable securities	\$ 16,484	\$ 16,484	\$
Restricted cash and cash equivalents and marketable securities	3,591	3,591	
Non-recourse Notes Payable and Secured Notes Payable	\$ 89,514	\$ 89,514	\$
Series A convertible preferred stock, \$0.001 par value—49,625,000 shares authorized, 49,000,000 shares issued and outstanding, actual; none, pro forma and pro forma as adjusted	49	—	—
Stockholders' deficit:			
Common stock, \$0.001 par value—62,625,000 shares authorized, 6,383,707 shares issued and outstanding, actual; 55,383,707 shares issued and outstanding, pro forma and _____ shares issued and outstanding, pro forma as adjusted	6	55	
Additional paid-in capital	49,368	49,368	
Accumulated other comprehensive income (loss)	1	1	
Accumulated deficit	(121,947)	(121,947)	
Total stockholders' deficit	(72,523)	(72,523)	
Total capitalization	\$ 16,991	\$ 16,991	\$

- (1) Each \$1.00 increase (decrease) in the assumed initial public offering price of \$ \_\_\_\_\_ per share, the mid-point of the price range reflected on the cover page of this prospectus, would increase (decrease) each of additional unrestricted cash, additional paid-in capital, total stockholders' equity and total capitalization by approximately \$ \_\_\_\_\_ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, and after deducting estimated underwriting discounts and commissions and offering expenses payable by us. We may also increase or decrease the number of shares we are offering. Each increase (decrease) of one million shares in the number of shares offered by us would increase (decrease) each of unrestricted cash, additional paid-in capital, total stockholders' equity and total capitalization by approximately \$ \_\_\_\_\_ million, assuming that the assumed initial public offering price remains the same.

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The table above does not include:

- 2,469,065 shares of common stock issuable upon the exercise of options outstanding as of September 30, 2011 at a weighted average exercise price of \$0.44 per share;
- 2,147,228 additional shares of common stock reserved for future issuance under our 2005 Stock Plan; and
- 375,000 shares of common stock issuable upon the exercise of outstanding warrants with an exercise price \$1.00 per share.

**DILUTION**

If you invest in our common stock, your interest will be diluted to the extent of the difference between the public offering price per share you will pay in this offering and the pro forma net tangible book value per share of our common stock immediately after this offering.

Our net tangible book value as of \_\_\_\_\_, 2011 was approximately \$ \_\_\_\_\_, or \$ \_\_\_\_\_ per share of common stock. Net tangible book value per share is equal to our total tangible assets minus total liabilities, all divided by the number of shares of common stock outstanding as of September 30, 2011.

Our pro forma net tangible book value per share as of \_\_\_\_\_, 2011 was approximately \$ \_\_\_\_\_ per share. Pro forma net tangible book value per share gives effect to the conversion of all outstanding shares of our preferred stock as of \_\_\_\_\_ into \_\_\_\_\_ shares of our common stock, upon the closing of this offering.

After giving effect to the sale of the \_\_\_\_\_ shares of common stock we are offering based on an assumed initial public offering price of \$ \_\_\_\_\_ per share, the mid-point of the price range set forth on the cover of this prospectus, less underwriting discounts and commissions and our estimated offering expenses, our pro forma as adjusted net tangible book value as of \_\_\_\_\_, 2011 would have been approximately \$ \_\_\_\_\_, or \$ \_\_\_\_\_ per share. This represents an immediate increase in pro forma net tangible book value of \$ \_\_\_\_\_ per share and an immediate dilution of \$ \_\_\_\_\_ per share to new investors. Dilution per share to new investors is determined by subtracting pro forma as adjusted net tangible book value per share after this offering from the assumed initial public offering price per share paid by a new investor. The following table illustrates this calculation on a per share basis (without giving effect to the over-allotment option granted to the underwriters):

Assumed initial public offering price per share <sup>(1)</sup>	\$
Net tangible book value per share as of _____, 2011	\$
Pro forma increase in net tangible book value per share attributable to conversion of preferred stock outstanding at _____, 2011	
Pro forma net tangible book value per share of common stock as of _____, 2011	\$
Increase per share attributable to the offering	
Pro forma as adjusted net tangible book value per share of common stock after this offering	
Pro forma dilution per share to new investors	\$

(1) The mid-point of the price range set forth on the cover of this prospectus.

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ \_\_\_\_\_ per share, the mid-point of the price range set forth on the cover of this prospectus, would increase (decrease) the pro forma as adjusted net tangible book value per share after giving effect to this offering by \$ \_\_\_\_\_ per share and would increase (decrease) the dilution in pro forma net tangible book value per share to investors in this offering by \$ \_\_\_\_\_ per share. This calculation assumes that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and is after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

If the underwriters exercise their over-allotment option in full, pro forma as adjusted net tangible book value will increase to \$ \_\_\_\_\_ per share, representing an increase to existing holders of \$ \_\_\_\_\_ per share, and there will be an immediate dilution of \$ \_\_\_\_\_ per share to new investors.

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The following table summarizes, on a pro forma as adjusted basis as of September 30, 2011, after giving effect to this offering and the pro forma adjustments referred to above, the total number of shares of our common stock purchased from us and the total consideration and average price per share paid by existing stockholders and by new investors:

	Total Shares		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
(in thousands of dollars, except share and per share data)					
Existing stockholders			%\$		%\$
New Investors					
<b>Total</b>			<b>%\$</b>		<b>%</b>

If the underwriters exercise their over-allotment option in full, the following will occur:

- the pro forma as adjusted percentage of shares of our common stock held by existing stockholders will decrease to approximately % of the total number of pro forma as adjusted shares of our common stock outstanding after this offering; and
- the pro forma as adjusted number of shares of our common stock held by new public investors will increase to or approximately % of the total pro forma as adjusted number of shares of our common stock outstanding after this offering.

The tables and calculations above are based on 6,383,707 shares of our common stock outstanding as of September 30, 2011 after giving effect to the conversion of 49,000,000 shares of our preferred stock outstanding as of September 30, 2011 into 49,000,000 shares of our common stock at the closing of this offering and exclude:

- shares of common stock issuable upon the exercise of options outstanding as of September 30, 2011 with exercise prices ranging from \$0.10 to \$1.76 per share and a weighted average exercise price of \$0.44 per share (of which options to acquire 1,132,629 shares of common stock were vested as of September 30, 2011);
- shares of our common stock available for future grants under our 2005 Stock Plan as of September 30, 2011; and
- 375,000 shares of common stock issuable upon the exercise of preferred stock warrants outstanding as of September 30, 2011 at an exercise price of \$1.00 per share, which will convert into common stock warrants upon the closing of this offering.

If all of our outstanding options as of September 30, 2011 were exercised, the pro forma as adjusted net tangible book value per share after this offering would be \$ per share, representing an increase to existing holders of \$ per share, and there will be an immediate dilution of \$ per share to new investors. In addition, we will need to obtain additional capital, and we may choose to raise such additional capital through equity offerings, debt financing and/or payments under new or existing licensing and research and development collaboration agreements. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of these securities would result in further dilution to our stockholders.

**SELECTED CONSOLIDATED FINANCIAL DATA**

*The following table sets forth selected consolidated financial data that is qualified in its entirety by and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes thereto appearing elsewhere in this prospectus. The consolidated financial data as of December 31, 2010 and for the fiscal years ended December 31, 2008, 2009 and 2010 are derived from our audited consolidated financial statements appearing elsewhere in this prospectus. The consolidated financial data for the fiscal years ended December 31, 2006 and 2007 are derived from our audited consolidated financial statements not included in this prospectus. The consolidated financial data for the nine month periods ended September 30, 2010 and 2011 are derived from our unaudited consolidated financial statements which are presented elsewhere in this prospectus, but have been prepared on the same basis as the audited consolidated financial statements and the notes thereto, and include, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the information for the unaudited interim periods. The operating results for the nine month period ended September 30, 2011 may not be indicative of the operating results for the full year or any other period.*



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	Year Ended December 31,					Nine Months Ended September 30,	
	2006	2007	2008	2009	2010	2010 (unaudited)	2011 (unaudited)
(in thousands of dollars, except share and per share data)							
<b>Consolidated Statement of Operations Data:</b>							
Revenue:							
Development and milestone revenue	\$ 5,616	\$ 1,405	\$ 2,697	\$ 1,550	\$ 106	\$ 97	\$ 761
Royalty revenue	652	2,828	6,192	44,963	13,404	8,635	9,887
Total revenues	6,268	4,233	8,889	46,513	13,510	8,732	10,648
Operating Expenses:							
Research and development	8,958	19,269	30,463	29,260	35,149	26,080	23,127
General and administrative	3,945	4,011	4,287	4,649	5,080	3,388	5,143
Total operating expenses	12,903	23,280	34,750	33,909	40,229	29,468	28,270
Income (loss) from operations	(6,635)	(19,047)	(25,861)	12,604	(26,719)	(20,736)	(17,622)
Other income (expense):							
Interest income	1,712	1,773	1,057	514	107	623	30
Interest expense	—	—	(8,678)	(12,658)	(12,393)	(9,831)	(10,599)
Other	40	—	—	—	542	54	30
Total other income (expense)	1,752	1,773	(7,621)	(12,144)	(11,744)	(9,154)	(10,539)
Net income (loss)	\$ (4,883)	\$ (17,274)	\$ (33,482)	\$ 460	\$ (38,463)	\$ (29,890)	\$ (28,161)
Cumulative dividends on Series A convertible preferred stock							
	(3,316)	(3,430)	(3,430)	(3,430)	(3,430)	(2,573)	(2,573)
Net income (loss) attributable to common stockholders							
	\$ (8,198)	\$ (20,704)	\$ (36,912)	\$ (2,970)	\$ (41,893)	\$ (32,463)	\$ (30,734)
Basic net income (loss) per share							
	\$ (2.37)	\$ (4.21)	\$ (6.61)	\$ (0.53)	\$ (6.60)	\$ (5.12)	\$ (4.82)
Diluted net income (loss) per share							
	\$ (2.37)	\$ (4.21)	\$ (6.61)	\$ (0.53)	\$ (6.60)	\$ (5.12)	\$ (4.82)
Weighted average number of common shares:							
Basic	3,455,762	4,921,376	5,587,467	5,653,506	6,351,883	6,345,420	6,377,163
Diluted	3,455,762	4,921,376	5,587,467	5,653,506	6,351,883	6,345,420	6,377,163
Net income (loss) used to compute pro forma net income (loss) per common share — basic and diluted (unaudited)							
(1)					\$ (38,463)		\$ (28,161)
Weighted-average number of shares used in calculating pro forma net income (loss) per share — basic and diluted (unaudited):(1)							
					55,351,883		55,377,163
Pro forma net income (loss) per share — basic and diluted (unaudited)							
(1)					\$ (0.69)		\$ (0.51)

- (1) Pro forma net loss per share basic and diluted have been calculated assuming the conversion of all outstanding shares of the Company's Series A convertible preferred stock into an aggregate of 49,000,000 shares of common stock upon completion of this offering, as if they had converted at the beginning of the period. Pro forma net loss per share basic and diluted do not give effect to the sale of \_\_\_\_\_ shares of common stock that we are offering pursuant to this prospectus or any related estimated net proceeds therefrom. See Note 3 to our audited financial statements for an explanation of the method used to calculate the pro forma basic and diluted net income (loss) per common share and the per share amounts.

	Year Ended December 31,					As of
	2006	2007	2008	2009	2010	September 30, 2011 (unaudited)
	(in thousands of dollars)					
<b>Consolidated Balance Sheet Data:</b>						
Unrestricted cash and cash equivalents and marketable securities	\$ 40,655	\$ 25,592	\$ 60,380	\$ 66,524	\$ 32,705	\$ 16,484
Restricted cash and cash equivalents and marketable securities	256	281	6,281	2,076	1,714	3,591
Working capital	39,746	22,674	61,183	62,847	24,607	8,401
Total assets	46,426	31,907	77,134	79,899	47,009	32,302
Notes payable, including current portion	—	—	75,000	75,000	75,000	89,514
Series A convertible preferred stock	49	49	49	49	49	49
Accumulated deficit	(5,027)	(22,301)	(55,782)	(55,323)	(93,786)	(121,947)
Total stockholders' equity (deficit)	43,830	26,635	(6,747)	(6,156)	(44,320)	(72,523)

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and related notes appearing at the end of this prospectus. In addition to historical information, some of the information in this discussion and analysis contains forward-looking statements reflecting our current expectations and involves risk and uncertainties. For example, statements regarding our expectations as to our plans and strategy for our business, future financial performance, expense levels and liquidity sources are forward-looking statements. 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 and elsewhere in this prospectus.*

### Overview

We are a specialty pharmaceutical company focused on developing and commercializing products for the treatment of central nervous system, or CNS, diseases. Our extensive expertise in product development has been built over the past 20 years: initially as a stand alone development organization, then as a U.S. subsidiary of Shire plc and, upon our acquisition of substantially all the assets of Shire Laboratories, Inc. in late 2005, as Supernus Pharmaceuticals. We are developing several product candidates in neurology and psychiatry to address large market opportunities in epilepsy, attention deficit hyperactivity disorder, or ADHD, including ADHD patients with impulsive aggression. Our two epilepsy product candidates are SPN-538 (extended release topiramate), for which we have submitted a new drug application, or NDA, that was accepted for filing by the FDA in November 2011, and SPN-804 (extended release oxcarbazepine), for which we submitted an NDA in December 2011. Our ADHD product candidates include SPN-810 (molindone hydrochloride), which is in a Phase IIIb trial as a novel treatment for impulsive aggression in patients with ADHD, and SPN-812 which completed a Phase IIa trial as a novel non-stimulant treatment for ADHD. In addition to these four lead product candidates, we have several additional product candidates in various stages of development. We intend to market our product candidates in the United States through our own focused sales force targeting specialty physicians, including neurologists and psychiatrists. We believe our broad and diversified portfolio of product candidates provides us with multiple opportunities to achieve our goal of becoming a leading specialty pharmaceutical company focused on CNS diseases.

We use our proprietary technologies to enhance the therapeutic benefits of approved anti-epileptic drugs, or AEDs through advanced extended release formulations. Our most advanced product candidates, SPN-538 and SPN-804, are novel oral once-daily extended release formulations of topiramate and oxcarbazepine, respectively, for the treatment of epilepsy. Immediate release formulations of topiramate and oxcarbazepine are available in generic form and are marketed under the brand names of Topamax and Trileptal, respectively. According to IMS Health, peak sales of Topamax and Trileptal represented an estimated 25.8% and 8.1% of the total seizure disorder market in 2008 and 2006, respectively. We are pursuing a Section 505(b)(2) regulatory strategy for SPN-538 and SPN-804, which allows us to rely on the existing data from the NDAs of Topamax and Trileptal, respectively. The once-per-day dosing of SPN-538 and SPN-804 is designed to improve patient compliance and to have a better tolerability profile compared to the current immediate release AEDs that are taken multiple times per day to maintain therapeutic drug concentrations over the dosing interval. We believe there is a significant unmet need for extended release products, such as SPN-538 and SPN-804, for the treatment of epilepsy. Extended release products have been shown to improve

compliance, increase seizure control,<sup>(1)</sup> reduce side effects and improve tolerability as compared to immediate release products.<sup>(2)</sup>

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(1) Balzac, F., *Medication Noncompliance in Epilepsy*, published March 2006 in *Neurology Reviews*.

(2) Miller, A.D., *Improved CNS tolerability following conversion from immediate- to extended-release carbamazepine*, published June 2004 in *Acta Neurologica Scandinavica*.

We are also developing treatments for new indications in diseases such as ADHD and its coexisting disorders. We are developing SPN-810, which is currently in a Phase IIb trial as a novel treatment for impulsive aggression in patients with ADHD. If approved by the FDA, SPN-810 could be the first product available to address this serious, unmet medical need. SPN-810 is based on molindone hydrochloride, which was previously marketed in the United States as an anti-psychotic to treat schizophrenia under the trade name Moban. In addition, SPN-812, which completed a Phase IIa trial, is being developed as a novel non-stimulant treatment for ADHD. SPN-812 is a selective norepinephrine reuptake inhibitor that we believe could be more effective and have a better side effect profile than other non-stimulant treatments for ADHD. In addition, because the active ingredient of SPN-812 has demonstrated efficacy as an antidepressant in Europe, this product candidate, if studied in that specific patient population and is shown to be effective, may provide increased benefit to an estimated 40% of ADHD patients who suffer from depression.<sup>(3)</sup> In addition to these four lead product candidates, we have a number of other product candidates in various stages of development such as SPN-809, which would represent a novel mechanism of action for the U.S. antidepressant market.

(3) Biederman, J., *New Insights Into the Comorbidity Between ADHD and Major Depression in Adolescent and Young Adult Females*, published in April 2008 in *Journal of the American Academy of Child and Adolescent Psychiatry* and Report of CME Institute of Physicians Postgraduate Press, Inc., published in August 2008 in *Journal of Clinical Psychiatry*.

Historically, our revenues have been generated through research and development agreements, which included fees for development services provided to customers and payments for achievement of specified development, regulatory and sales milestones, as well as royalties on product sales of licensed products, Oracea, Sanctura XR, and Intuniv. Since our inception in 2005, we have generated no revenue from product sales and have incurred significant operating losses. As of September 30, 2011, we had an accumulated deficit of \$121.9 million and a total stockholders' deficit of \$72.5 million. We expect to continue to incur net losses and negative cash flow from operating activities for the foreseeable future as we continue to develop our product candidates and seek marketing approval and, subject to obtaining such approval, the eventual commercialization of SPN-538 and SPN-804, as well as our other product candidates.

### **History of our Company**

We have a long track record of developing novel products by applying proprietary technologies to known drugs to improve existing therapies and to enable the treatment of new indications. We have a broad portfolio of drug development technologies consisting of six platforms that include the following: Microtrol (multiparticulate delivery platform), Solutrol (matrix delivery platform) and EnSoTrol (osmotic delivery system). Our proprietary technologies have been used in the following approved products: Carbatrol (carbamazepine), Adderall XR (mixed amphetamine salts), and Intuniv (guanfacine), each of which is marketed by Shire; Equetro (carbamazepine), marketed by Validus Pharmaceuticals Inc.; Sanctura XR (trospium chloride), marketed by Allergan; and Oracea (doxycycline), marketed by Galderma. Throughout our 20 year history, we have continued our commitment to innovation with a focus for the past five years on developing our own product candidates in neurology and psychiatry.

We have historically raised capital through private equity and the monetization of certain future royalty streams under our existing licenses for Oracea, Sanctura XR and Intuniv. In connection with the commencement of our operations, in December 2005 and February 2006, we raised approximately

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\$45.0 million through the sale of 45 million shares of Series A convertible preferred stock. We raised approximately \$63.3 million in net proceeds in April 2008 through the monetization of future royalty payment rights and other license rights for both Oracea and Sanctura XR. In that deal, we transferred the license rights to both Oracea and Sanctura XR to Royalty Sub, which issued \$75.0 million in non-recourse notes in a private placement to institutional investors. All milestone and royalty revenues due from net sales of Oracea and Sanctura XR were required to be used to satisfy the payment of principal and interest on the non-recourse notes. The non-recourse notes were non-recourse to our company and were secured by Royalty Sub's assets, which include the royalty payment rights and other rights related to net sales of Oracea and Sanctura XR. In addition, we entered into an agreement with an affiliate of Shire plc in May 2009, whereby the Shire affiliate paid us a one-time, lump-sum payment of approximately \$36.9 million as consideration for a royalty-free, fully paid-up license for Intuniv.

Pursuant to a Unit Purchase Agreement executed on December 14, 2011, we sold 100% of our equity ownership interests in Royalty Sub to an entity affiliated with OrbiMed Advisors LLC, one of our stockholders, hereafter referred to as the "Purchase Transaction." The purchase price consisted of \$27.0 million and a milestone payment of \$3.0 million payable within 10 days of the occurrence of the earlier of the following conditions:

- the purchaser receives royalty payments equal to at least \$35.1 million, the purchaser has not entered into a transaction to sell, refinance or monetize its equity interests in Royalty Sub, and no generic formulations of the products underlying the royalty payments and related license agreements have entered the market, or
- the purchaser receives proceeds in excess of the aggregate of (a) \$27.0 million, plus (b) the purchase price paid by the purchaser, if any, to acquire a beneficial interest in one or more of the non-recourse notes, plus (c) the aggregate redemption price paid, if any, to redeem any of the non-recourse notes, from any transaction that refinances or liquidates the equity interests in Royalty Sub or the non-recourse notes.

Pursuant to the Purchase Transaction, we retained certain duties and obligations under the ongoing Servicing Agreement. We will continue to perform these services in exchange for a quarterly fee of \$10,000, or \$40,000 annually. These retained duties primarily consist of: (i) maintaining the licensed intellectual property, including supporting our licensees with their defenses on any challenges of patents that may arise, and (ii) overseeing the payments by the counterparties under the two license agreements and the ultimate payout to the holders of the non-recourse notes.

At the time the non-recourse notes cease to be outstanding, the purchaser must make an election to either (1) terminate the Servicing Agreement and execute the New Servicing Agreement, which was contemplated and drafted at the time of the Purchase Transaction, or (2) obtain from us the assignment and transfer of all the licensed intellectual property and all of our rights and obligations under the license agreements subject to certain conditions described in the Unit Purchase Agreement.

We are accounting for the Purchase Transaction as a sale of a subsidiary and will record the resulting gain, expected to be approximately \$90.0 million, as "gain on the sale of the subsidiary", a component of Other Operating Expenses in our consolidated statements of operations. The gain on the sale of the subsidiary is calculated as the aggregate of the fair value of consideration and the carrying value of Royalty Sub's assets and liabilities, less our fees and expenses. If we receive the milestone payment, the fair value of amounts received, less any related fees and expenses, will be recorded as "gain on the sale of the subsidiary", a component of Other Operating Expenses in our consolidated statements of operations.

We also have a license agreement with United Therapeutics Corporation, or United Therapeutics, to use one of our proprietary technologies for an oral formulation of treprostinil for the treatment of pulmonary arterial hypertension, or PAH, as well as for other indications. United Therapeutics has

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stated that this oral formulation of treprostinil diethanolamine, or treprostinil, is the subject of an NDA for PAH that it submitted in December 2011. Remaining milestone payments to us could total up to approximately \$6.0 million, which includes milestone payments that could total \$2.0 million for the satisfaction of development milestones of oral treprostinil in PAH. If United Therapeutics receives approval to market and sell this product candidate, we are entitled to receive single digit royalties based on worldwide net sales. We are also entitled to receive milestones and royalties for use of this formulation in other indications.

In January 2011 we entered into a secured credit facility pursuant to a loan and security agreement with certain lenders, which was subsequently amended in December 2011, providing for term loans of up to an aggregate of \$30.0 million. On January 26, 2011, we drew down \$15.0 million of term loans under this secured credit facility and on December 30, 2011 we drew down the remaining \$15.0 million. The term loans bear interest at a fixed rate per annum of 11.0%. The initial \$15.0 million of term loans drawn down in January 2011 will mature in August 2014. The second \$15.0 million of term loans drawn down in December 2011 will mature in January 2015. In connection with the initial drawdown in January 2011, we issued to the lenders warrants to purchase an aggregate of 375,000 shares of our Series A convertible preferred stock at \$1.00 per share. The warrants were immediately exercisable and expire on January 26, 2021. In December 2011, in connection with the drawdown of the second \$15.0 million under our secured credit facility, as amended, we issued to the lenders warrants to purchase an aggregate of 200,000 shares of our Series A convertible preferred stock at \$1.50 per share. The warrants were immediately exercisable and expire on December 30, 2021. Upon completion of this offering, the respective lender warrants will be exercisable for one share of our common stock for each share of our Series A convertible preferred stock into which it was convertible at a price per share equal to the lesser of the initial public offering price, or \$1.00 or \$1.50, as applicable.

All of our warrant holders are subject to lock-up agreements with the underwriters in this offering. These warrants are accounted for as a derivative liability, and as such, we reflect the liability at its estimated fair value in the consolidated balance sheets. The fair value of this derivative liability is re-measured at the end of every reporting period and the change in fair value is reported in the consolidated statements of operations as other income (expense).

See "Liquidity and Capital Resources—Financing History and Future Capital Requirements" for additional details regarding the foregoing transactions.

## **Financial Overview**

### ***Revenue***

Our historical revenues have been generated through collaboration and research and development agreements. These agreements included fees for development services provided to customers and payments for achievement of specified development, regulatory and sales milestones, which comprise our development and milestone revenues, as well as royalties on product sales of licensed products (i.e., Oracea, Sanctura XR, and Intuniv), which comprise our royalty revenues. Until such time that we begin generating revenues from the sales of our own approved product candidates, we expect that development and milestone revenues will continue to represent our primary sources of revenues.

We recognize development and milestone revenues related to research and development agreements pursuant to which various third parties have accessed our proprietary technologies. These arrangements generally provided for fees for research and development services rendered, including milestone payments at the conclusion of the research period upon achieving specified events. Over time, we do not expect these historical revenues relating to development and milestone revenues to be significant as we continue to focus on the development and potential commercialization of our own product candidates.

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We recognize royalty revenues from our collaboration agreements. Royalty revenues consist of payments received from our various collaborative partners related to the sales of products that utilize our proprietary technologies under these collaboration agreements.

The table below summarizes the revenues that we have recognized from our collaboration arrangements.

	Year Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
	(in thousands of dollars)				
Development and milestone revenues:					
Oracea & Sanctura XR	\$ 1,500	\$ 500	\$ —	\$ —	\$ —
Other collaboration arrangements	1,197	1,050	106	97	761
Total development and milestone revenues	2,697	1,550	106	97	761
Royalty revenues:					
Oracea & Sanctura XR	6,192	8,088	13,404	8,635	9,887
Intuniv	—	36,875	—	—	—
Total royalty revenues	6,192	44,963	13,404	8,635	9,887
Total revenues	\$ 8,889	\$ 46,513	\$ 13,510	\$ 8,732	\$ 10,648

From and after April 15, 2008, all development and milestone revenues and royalty revenues due from net sales of Oracea and Sanctura XR were required to be used to satisfy the payment of principal and interest on the non-recourse notes of Royalty Sub. After the closing of the Unit Purchase Agreement, we no longer receive any revenues from such sales nor are we required to satisfy the payment of principal and interest on the non-recourse notes. We also received in May 2009, a one-time payment of approximately \$36.9 million from Shire plc as consideration for a royalty-free, fully paid-up license to Shire plc for Intuniv and, as a result, we will not receive any future royalty payments with respect to the net sales of Intuniv.

If we obtain regulatory approval for SPN-538, SPN-804 or any of our other product candidates, we would expect to begin to generate revenues from product sales and, over time, we expect that our future revenues would begin to be principally derived from product sales as compared to development and milestone revenues and royalty revenues.

Prior to commercializing any of our product candidates, we expect that any revenues we generate will fluctuate from quarter to quarter as a result of the timing and amount of development and milestone revenues and royalty revenues received under our collaboration license agreements, as our revenues from these arrangements are principally based on the achievement of clinical and commercial milestones outside of our control. If we fail to complete the development of our product candidates in a timely manner or fail to obtain regulatory approval for them, our ability to generate future revenues, and our results of operations and financial position, would be materially adversely affected.

#### ***Research and Development Expense***

Research and development expenses consist of costs incurred in connection with the development of our and our collaborators' product candidates. These expenses consist primarily of:

- employee-related expenses, which include salaries and benefits;
- expenses incurred under agreements with contract research organizations, investigative sites and consultants that conduct our clinical trials and a substantial portion of our preclinical studies;
- the cost of acquiring and manufacturing clinical trial materials;



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- costs related to facilities, depreciation and other allocated expenses;
- license fees for, and milestone payments related to, in-licensed products and technology;
- stock-based compensation expense to employees and consultants engaged in research and development activities; and
- costs associated with non-clinical activities and regulatory approvals.

We expense research and development costs as incurred. Non-refundable advance payments for goods and services that will be used in future research and development activities are initially recorded as prepaid expenses and expensed as the activity is performed or when the goods have been received.

Since our founding, we have developed and evaluated a series of CNS product candidates through Phase I pharmacokinetic trials. In 2008, we conducted a review of our portfolio of product candidates and rationalized the programs based on clinical profiles, expected required resources to complete development, intellectual property, existing treatment options and commercial opportunity. As a result of that review, we elected to concentrate on our two epilepsy product candidates and the product candidates that comprise our psychiatry portfolio. We intend to continue to strategically invest in our pipeline, and the commitment of funding for each subsequent stage of our development programs is dependent upon, among other things, the receipt of clear, positive data.

The majority of our external costs relate to later-stage product candidates, as costs associated with later-stage clinical trials are, in most cases, more significant than those incurred in earlier stages of our pipeline. For example, the external costs related to our SPN-804 program have been higher than our other programs in recent years because SPN-804 recently completed Phase III clinical trials that began in late 2008.

We track external development expenses and direct personnel expense on a program-by-program basis. Costs related to facilities, depreciation, employee benefits and bonuses, stock-based compensation, research and development management and research and development support services and supplies are not charged to specific programs, because the number of clinical and preclinical product candidates or development projects tends to vary from period to period and internal resources are utilized across and benefit multiple programs over any given period of time. The following table is a summary of our research and development expenses for the years ended December 31, 2008, 2009 and 2010, the nine months ended September 30, 2010 and 2011, and from our inception in late 2005 to September 30, 2011.

	Year Ended December 31,			Nine Months Ended September 30,		From Inception to September 30,
	2008	2009	2010	2010	2011	2011
(in thousands of dollars)						
SPN-538	\$ 4,098	\$ 6,464	\$ 9,864	\$ 5,922	\$ 5,675	\$ 27,849
SPN-804	10,834	10,027	12,664	10,190	8,475	46,310
SPN-810	2,199	3,333	2,150	1,705	2,919	12,793
SPN-812 and SPN-809	2,923	680	2,042	1,684	623	8,702
Other research and development programs	1,822	426	690	538	201	7,917
Development expenses—general	8,587	8,330	7,739	6,041	5,234	42,754
<b>Total research and development expenses</b>	<b>\$ 30,463</b>	<b>\$ 29,260</b>	<b>\$ 35,149</b>	<b>\$ 26,080</b>	<b>\$ 23,127</b>	<b>\$ 146,325</b>

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The successful development of our product candidates is highly uncertain and subject to a number of risks including, but not limited to:

- The duration of clinical trials varies substantially according to the type, complexity and novelty of the product candidate;
- The FDA and comparable agencies in foreign countries impose substantial requirements on the introduction of therapeutic pharmaceutical products, typically requiring lengthy and detailed laboratory and clinical testing procedures, sampling activities and other costly and time-consuming procedures;
- Data obtained from nonclinical and clinical activities at any step in the testing process may be adverse and lead to discontinuation or redirection of development activity. Data obtained from these activities also are susceptible to varying interpretations, which could delay, limit or prevent regulatory approval;
- The duration and cost of nonclinical studies and clinical trials may vary significantly over the life of a product candidate and are difficult to predict;
- The costs, timing and outcome of regulatory review of a product candidate are uncertain; and
- The emergence of competing technologies and products and other adverse market developments could impede our commercial efforts.

Development timelines, probability of success and development costs vary widely. As a result of the uncertainties discussed above, we anticipate that we will make determinations as to which additional programs to pursue and how much funding to direct to each program on an ongoing basis in response to the scientific and clinical data of each product candidate, as well as ongoing assessments of such product candidate's commercial potential. Accordingly, we cannot currently estimate with any degree of certainty the amount of time or money that we will be required to expend in the future on our product candidates to complete current or future clinical or pre-commercial stages prior to their regulatory approval, if such approval is ever granted. As a result of these uncertainties surrounding the timing and outcome of any approvals, we are currently unable to estimate precisely when, if ever, SPN-538, SPN-804 or any of our other product candidates will generate revenues and cash flows.

We expect our research and development costs to continue to be substantial for the foreseeable future with respect to our product candidates as we advance those product candidates through preclinical studies, clinical trials, manufacturing scale-up and other pre-approval activities. We may elect to expand existing collaborative relationships or to seek new partnerships in order to provide us with a diversified revenue stream and to help facilitate the development and commercialization of our product candidate pipeline.

### ***General and Administrative Expenses***

General and administrative expenses consist principally of salaries and related costs for personnel in executive, finance, business development, marketing, information technology, legal and human resources functions. Other general and administrative expenses include facility costs not otherwise included in research and development expenses, patent filing, prosecution and defense costs, professional fees for legal, consulting, auditing and tax services, and stock compensation expense for the personnel identified above.

We expect that our general and administrative expenses in 2012 will be higher than in 2010 and 2011 as we plan to continue to increase spending related to the build-out of our commercial infrastructure for the anticipated launch of both SPN-538 and SPN-804 in the United States. Upon approval of SPN-538, we would internally develop a sales force, initially consisting of a certain number of field sales representatives to support the launch of the product. We would then seek to expand our

sales force in connection with an approval and commercial launch of SPN-804. Having two epilepsy products that can be promoted to the same physician audience would allow us to leverage our commercial infrastructure with these prescribers. Additionally, once we complete this offering, we would also expect to have greater expenses relating to our operations as a public company, including increased payroll and increased consulting, legal and compliance, accounting, insurance and investor relations costs.

***Other Income and Expense***

Other income and expense is comprised of interest income and expense, and other miscellaneous items.

Interest income consists of interest earned on our cash and cash equivalents and marketable securities. The primary objective of our investment policy is capital preservation.

Interest expense consists of interest on the non-recourse notes of Royalty Sub and the notes issued under our secured credit facility, as well as the amortization of the related deferred financing costs and debt discounts. The balance of the non-recourse notes was \$75.0 million, \$74.8 million and \$74.8 million as of March 31, 2011, June 30, 2011 and September 30, 2011, respectively. The balance of the secured notes payable was \$15.0 million as of March 31, 2011, June 30, 2011 and September 30, 2011. Interest expense for the quarters ending March 31, 2011, June 30, 2011 and September 30, 2011 was approximately \$3.4 million, \$3.6 million and \$3.6 million, respectively.

***Net Operating Losses and Tax Carryforwards***

As of December 31, 2010, we had approximately \$92.3 million of federal net operating loss carryforwards. We also had federal and state research and development tax credit carryforwards of approximately \$4.3 million available to offset future taxable income. These federal and state net operating loss and federal and state tax credit carryforwards will begin to expire at various dates beginning in 2025, if not utilized. The Tax Reform Act of 1986 provides for a limitation on the annual use of net operating loss and research and development tax credit carryforwards following certain ownership changes that could limit our ability to utilize these carryforwards. We have not completed a study to assess whether an ownership change has occurred, or whether there have been multiple ownership changes since our inception, due to the costs and complexities associated with such study. Accordingly, our ability to utilize the aforementioned carryforwards may be limited. Additionally, U.S. tax laws limit the time during which these carryforwards may be utilized against future taxes. As a result, we may not be able to take full advantage of these carryforwards for federal and state tax purposes.

***Net Income and Loss***

We have incurred significant net losses since our inception in 2005, with the exception of 2009 when we generated net income of \$0.5 million principally because of the one-time payment of \$36.9 million that we received from Shire plc as consideration for a royalty-free, fully-paid-up license to Shire plc for Intuniv. We expect to continue to incur net losses for the foreseeable future as we continue to develop our product portfolio, seek regulatory approval, and, if such approval is obtained, commercialize SPN-538 and SPN-804 as well as our other product candidates.

**Results of Operations***Comparison of Nine Months Ended September 30, 2011 and Nine Months Ended September 30, 2010*

	Nine Months Ended September 30,		Increase/ (decrease)
	2010	2011	
(in thousands of dollars)			
Revenues:			
Development and milestone revenues	\$ 97	\$ 761	\$ 664
Royalty revenues	8,635	9,887	1,252
Total revenues	8,732	10,648	
Operating Expenses:			
Research and development	26,080	23,127	(2,953)
General and administrative	3,388	5,143	1,755
Total operating expenses	29,468	28,270	
Loss from operations	(20,736)	(17,622)	
Interest income and other income (expense), net	677	60	(617)
Interest expense	(9,831)	(10,599)	(768)
Net loss	\$ (29,890)	\$ (28,161)	

**Revenues.** Our revenues were approximately \$10.6 million for the nine months ended September 30, 2011 compared to approximately \$8.7 million for the same period in 2010, representing an increase of \$1.9 million. This increase was principally attributable to increased royalty revenues of approximately \$1.3 million from Oracea and Sanctura XR for the nine months ended September 30, 2011 as compared to the same period in 2010. In addition, the development and milestone revenue increased by \$0.7 million due to a one-time milestone payment in 2011 under our license agreement with United Therapeutics.

**Research and Development.** Our research and development expenses were \$23.1 million for the nine months ended September 30, 2011 compared to \$26.1 million for the same period in 2010, representing a decrease of approximately \$3.0 million or approximately 11%. This decrease is primarily attributable to a decrease in clinical trial costs of approximately \$1.5 million as the Phase III trial for SPN-804 was substantially completed by the first quarter of 2011. In addition, manufacturing costs were approximately \$2.5 million higher in 2010, principally associated with pre-validation work performed by our commercial manufacturers for both SPN-538 and SPN-804. These decreases were offset by payment of NDA filing fees of \$1.5 million in 2011.

**General and Administrative.** Our general and administrative expenses were \$5.1 million for the nine months ended September 30, 2011 compared to \$3.4 million for the same period in 2010, representing an increase of approximately \$1.7 million or approximately 52%. This increase is mainly due to an increase in marketing costs associated with preparing for launches of SPN-538 and SPN-804 during the nine months ended September 30, 2011.

**Interest Income and Other Income (Expense), Net.** Interest income and other income (expense), net was \$0.1 million for the nine months ended September 30, 2011 compared to \$0.7 million for the same period in 2010, representing a decrease of \$0.6 million. The decrease is primarily the result of lower interest income as result of reduced average balances of our investments and cash balances as we continue to use cash to support our operations.

**Interest Expense.** Interest expense was \$10.6 million for the nine months ended September 30, 2011 compared to \$9.8 million for the same period in 2010, representing an increase of approximately

\$0.8 million. Interest expense is comprised primarily of interest related to the non-recourse notes of Royalty Sub, which amounts to approximately \$3.0 million per quarter, or approximately \$9.0 million for the nine month periods ended September 30, 2011 and 2010, together with amortization of the related deferred financing costs. Interest expense for the nine months ended September 30, 2011 also includes \$1.1 million of interest related to the \$15.0 million in term loans outstanding under our secured credit facility, together with the amortization of the associated deferred financing costs and the debt discount arising from the allocation of fair value to the preferred stock warrants issued in connection with our term loans.

**Net Loss.** Net loss was \$28.2 million for the nine months ended September 30, 2011 compared to net loss of \$29.9 million for the same period in 2010, representing a decrease of approximately \$1.7 million. This decrease is principally a result of the higher royalty revenues and lower research and development costs recognized in the nine months ended September 30, 2011, partially offset by higher general and administrative costs, principally the result of building the sales and marketing infrastructure for our two most advanced product candidates, and higher interest expense associated with term loans under our secured credit facility.

**Comparison of Year Ended December 31, 2010 and Year Ended December 31, 2009**

	Year Ended December 31,		Increase/ (decrease)
	2009	2010	
(in thousands of dollars)			
<b>Revenues:</b>			
Development and milestone revenues	\$ 1,550	\$ 106	\$ (1,444)
Royalty revenues	44,963	13,404	(31,559)
Total revenues	<u>46,513</u>	<u>13,510</u>	
<b>Operating Expenses:</b>			
Research and development	29,260	35,149	5,889
General and administrative	4,649	5,080	431
Total operating expenses	<u>33,909</u>	<u>40,229</u>	
Income (loss) from operations	12,604	(26,719)	
Interest income and other income (expense), net	514	649	135
Interest expense	(12,658)	(12,393)	265
Net income (loss)	<u>\$ 460</u>	<u>\$ (38,463)</u>	

**Revenues.** Our revenues were approximately \$13.5 million for the year ended December 31, 2010 compared to approximately \$46.5 million for the same period in 2009, representing a decrease of \$33.0 million or approximately 71%. This decrease was principally attributable to the one-time, lump-sum payment of approximately \$36.9 million that we received in May 2009 from Shire plc as consideration for a royalty-free, fully paid-up license to Shire plc for Intuniv. We also generated lower development and milestone revenues for the year ended December 31, 2010 of approximately \$106,000 as compared to approximately \$1.6 million in the same period in 2009 due to our focus on the development of our own product candidates as opposed to developing product candidates for third parties. These decreases in revenues were partially offset by increased royalty revenues of approximately \$5.3 million from Oracea and Sanctura XR for the year ended December 31, 2010 as compared to the same period in 2009. These royalty revenues were required to be used to satisfy the payment of principal and interest on the non-recourse notes of Royalty Sub.

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**Research and Development.** Our research and development expenses were \$35.1 million for the year ended December 31, 2010 compared to \$29.3 million for the same period in 2009, representing an increase of approximately \$5.8 million, or approximately 20%. This increase is primarily attributable to an increase in clinical trial costs of approximately \$4.6 million, the largest portion of which was due to the costs for our Phase III clinical trial for SPN-804, and higher manufacturing costs of approximately \$0.9 million principally associated with pre-validation work performed by our commercial manufacturers for both SPN-538 and SPN-804.

**General and Administrative.** Our general and administrative expenses were \$5.1 million for the year ended December 31, 2010 compared to \$4.6 million for the same period in 2009, representing an increase of approximately \$0.5 million or approximately 11%. This increase is primarily the result of costs incurred in connection with the development of our sales and marketing infrastructure and higher compensation expenses resulting from higher stock compensation expense and the hiring of additional employees, partially offset by lower patent and outside consulting fees incurred during the year ended December 31, 2010.

**Interest Income and Other Income (Expense), Net.** Interest income and other income (expense), net was \$0.6 million for the year ended December 31, 2010 compared to \$0.5 million for the same period in 2009, representing an increase of \$0.1 million. The \$0.1 million increase is primarily the result of our receipt of approximately \$0.5 million in November 2010 for qualifying 2009 development expenses under the federal Qualifying Therapeutic Discovery Project Program, which was created in March 2010 as part of the Patient Protection and Affordability Care Act of 2010. This was offset by a decrease in interest income as a result of reduced average balances of our investments and cash balances as we continue to use cash to support our operations, along with lower prevailing interest rates.

**Interest Expense.** Interest expense was \$12.4 million for the year ended December 31, 2010 compared to \$12.7 million for the same period in 2009, representing a decrease of approximately \$0.3 million. Interest expense is comprised primarily of interest related to the Non-recourse Notes of Royalty Sub, \$3.0 million per quarter, or approximately \$12.0 million annually in both periods reported here, together with amortization of the related deferred financing costs related to the Non-recourse Notes.

**Net Income (Loss).** Net loss was \$38.5 million for the year ended December 31, 2010 compared to net income of \$0.5 million for the same period in 2009, representing a decrease of approximately \$39.0 million. This decrease is principally a result of the higher royalty revenues recognized in the year ended December 31, 2009, which included \$36.9 million of revenues in connection with our sale to Shire plc of a fully paid-up license for Intuniv, as well as higher research and development costs incurred in 2010 associated with the continued development of our most advanced product candidates, SPN-538 and SPN-804.

*Comparison of Year Ended December 31, 2009 and Year Ended December 31, 2008*

	Year Ended December 31,		Increase/ (decrease)
	2008	2009	
(in thousands of dollars)			
<b>Revenues:</b>			
Development and milestone revenues	\$ 2,697	\$ 1,550	\$ (1,147)
Royalty revenues	6,192	44,963	38,771
Total revenues	<u>8,889</u>	<u>46,513</u>	
<b>Operating Expenses:</b>			
Research and development	30,463	29,260	(1,203)
General and administrative	4,287	4,649	362
Total operating expenses	<u>34,750</u>	<u>33,909</u>	
Income (loss) from operations	(25,861)	12,604	
Interest income	1,057	514	(543)
Interest expense	(8,678)	(12,658)	(3,980)
Net income (loss)	<u>\$ (33,482)</u>	<u>\$ 460</u>	

**Revenues.** Our revenues were \$46.5 million for the year ended December 31, 2009 compared to \$8.9 million for the same period in 2008, representing an increase of \$37.6 million. This increase was principally due to the one-time, lump-sum payment from Shire plc of approximately \$36.9 million as consideration for a royalty-free, fully paid-up license for Intuniv. We also received increased royalty revenues of approximately \$1.9 million from Oracea and Sanctura XR. These increases were partially offset by a decrease in development and milestone revenues of approximately \$1.1 million as we continue to increase our focus on the development of our own product candidates, as opposed to earning revenues from developing collaborators' product candidates.

**Research and Development.** Our research and development expenses were \$29.3 million for the year ended December 31, 2009 compared to \$30.5 million for the same period in 2008, representing a decrease of \$1.2 million or approximately 4%. The decrease was primarily attributable to an approximately \$0.9 million decrease in salaries, benefits and laboratory supplies associated with a reduction in the average number of research and development employees from 69 for 2008 as compared to 56 for 2009 as part of our business strategy to improve our operating efficiencies and reduce our operating costs.

**General and Administrative.** Our general and administrative expenses were \$4.6 million for the year ended December 31, 2009 compared to \$4.3 million for the same period in 2008, representing an increase of \$0.4 million or approximately 8%. This increase in general and administrative expense was primarily a result of increases in consulting expenses associated with market research and partnering opportunities as well as higher patent and legal costs.

**Interest Income.** Interest income was \$0.5 million for the year ended December 31, 2009 compared to \$1.1 million for the same period in 2008, representing a decrease of \$0.5 million or approximately 51%. Although average balances for cash and cash equivalents and marketable securities were higher for the year ended December 31, 2009 as compared to the same period in 2008, the decrease in interest income was principally a result of lower prevailing interest rates during the period.

**Interest Expense.** Interest expense was \$12.7 million for the year ended December 31, 2009 compared to \$8.7 million for the same period in 2008, representing an increase of \$4.0 million or

approximately 46%. The increase in interest expense was primarily due to interest related to the non-recourse notes of Royalty Sub, together with amortization of related deferred financing costs, for the entire twelve-month period ended December 31, 2009 compared with the eight and one-half month period that the non-recourse notes were outstanding in 2008.

**Net Income (Loss).** Net income was \$0.5 million for the year ended December 31, 2009 compared to a net loss of \$33.5 million for the same period in 2008, representing a decrease of \$34.0 million. The \$34.0 million change between the net loss of \$33.5 million for the year ended December 31, 2008 and the net income of \$0.5 million for the same period in 2009 is primarily due to higher royalty revenues recognized in 2009 related primarily to \$36.9 million of revenues generated in connection with our sale to Shire plc of a fully paid-up license for Intuniv, as well as a \$1.9 million increase in royalty revenues related to Oracea and Sanctura XR. These increases were partially offset by higher interest expense related to the non-recourse notes in 2009 because the non-recourse notes were outstanding for the entire twelve-month period ended December 31, 2009, as compared to the eight and one-half month period that the non-recourse notes were outstanding in 2008.

#### **Liquidity and Capital Resources**

In December 2005, we acquired substantially all of the assets of Shire Laboratories, Inc. from Shire plc in exchange for a cash payment of approximately \$0.8 million and the issuance of 4 million shares of our Series A convertible preferred stock at a value of \$1.00 per share. In connection with the commencement of our operations, in December 2005 and February 2006, we raised approximately \$45.0 million through the sale of 45 million shares of Series A convertible preferred stock. To date, we have not generated any revenues from product sales. Since our inception in 2005, we have funded our operations largely through venture capital equity and other financings, such as the monetization of future royalties due to us from existing license agreements with Endo Pharmaceuticals Solutions Inc., Galderma Laboratories, L.P. and Shire plc pursuant to which we have received net proceeds of approximately \$100.2 million through September 30, 2011. Additionally, in each of January 2011 and December 2011, we drew down \$15.0 million under our secured credit facility, which charges interest at a fixed rate of 11.0% per annum. The initial \$15.0 million of term loans drawn down in January 2011 will mature in August 2014. The second \$15.0 million of term loans drawn down in December 2011 will mature in January 2015. As of September 30, 2011, we had unrestricted cash, cash equivalents and marketable securities of approximately \$16.5 million.

#### **Financing History and Future Capital Requirements**

**Non-recourse Notes.** In April 2008, we raised approximately \$63.3 million in net proceeds (i.e., net of financing costs and a required interest reserve of \$8.0 million) through a private placement to institutional investors of \$75.0 million aggregate principal amount of 16% non-convertible, non-recourse, secured promissory notes due April 15, 2024 (the "Non-recourse Notes") issued by Royalty Sub. As part of the transaction, pursuant to a Purchase and Sale Agreement and Residual License Agreements executed by us and Royalty Sub, we transferred to Royalty Sub our payment rights and other license rights related to two products that utilize our proprietary technologies: Oracea, which is marketed by Galderma as a treatment for rosacea; and Sanctura XR, which is marketed by Allergan as a treatment for overactive bladder. The Non-recourse Notes are secured by these royalty payments and other license rights, as well as by the pledge of all our outstanding equity interest in Royalty Sub. While the Non-recourse Notes are outstanding, all royalty and milestone payments due from net sales of Oracea and Sanctura XR go to the payment of interest, and when available, to the principal on such Non-recourse Notes. Pursuant to the Unit Purchase Agreement executed on December 14, 2011, where we sold 100% of our equity ownership interests in Royalty Sub for a purchase price consisting of \$27.0 million and a milestone payment of \$3.0 million payable upon certain events, we retained certain duties and obligations under the ongoing Servicing Agreement. We will continue to perform these



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services in exchange for a quarterly fee of \$10,000, or \$40,000 annually. These retained duties primarily consist of: (i) maintaining the licensed intellectual property, including supporting our licensees with their defense on any challenges of patents that may arise, and (ii) overseeing the payments by the counterparties under the two license agreements and the ultimate payout to the holders of the non-recourse notes.

Until the Purchase Transaction, Royalty Sub made quarterly debt service payments on the Non-recourse Notes. Applicable royalties received by Royalty Sub on net sales of Oracea and Sanctura XR for any quarter that exceed the interest payments and expenses due for that quarter were applied to the repayment of principal on the Non-recourse Notes. In April 2011, Royalty Sub made the first repayment of approximately \$0.2 million in principal on the Non-recourse Notes, and as of September 30, 2011, approximately \$74.8 million in principal remained outstanding on the Non-recourse Notes.

In connection with the Non-recourse Note transaction, an \$8.0 million interest reserve was established to fund potential interest shortfalls or, if none, for repayment of principal due under the Non-recourse Notes. These funds came out of the debt proceeds and are restricted. Deferred financing costs of approximately \$4.4 million were paid by Royalty Sub to complete the transaction. These costs were funded from the debt proceeds and will be amortized to interest expense over 16.2 years, the term of the Non-recourse Notes.

In the first quarter of 2010, the \$8.0 million interest reserve was exhausted. As a result, all subsequent interest payments were made by Royalty Sub solely from royalty payments received. At September 30, 2011, the Royalty Sub had approximately \$3.4 million available for the quarterly interest payment of \$3.0 million due on October 15, 2011. Under the terms of the Non-recourse Notes, Royalty Sub was not in default for payment of interest unless it failed to make payment in full on the interest payment by the next succeeding payment date. Through December 14, 2011, Royalty Sub was able to make up all interest shortfalls in full before the next succeeding payment date. In the event of a default for failure to pay interest on a timely basis, the holders of the Non-recourse Notes do not have recourse to our company as the Non-recourse Notes are non-recourse beyond Royalty Sub, are not convertible into any other of our securities, and have not been guaranteed by our company.

***Sale of Intuniv Royalties.*** In May 2009, we entered into an agreement with an affiliate of Shire plc, whereby a Shire affiliate paid us a one-time, lump-sum payment of approximately \$36.9 million as consideration for a royalty-free, fully paid-up license for Intuniv, which is a novel ADHD product marketed by Shire plc and utilizes one of our proprietary technologies. As a result, we will not receive any future royalty payments from Shire plc with respect to Intuniv.

***Secured Credit Facility.*** In January 2011 we entered into a secured credit facility pursuant to a loan and security agreement with certain lenders which was subsequently amended in December 2011, providing for term loans of up to an aggregate of \$30.0 million. In connection with the initial drawdown of \$15.0 million under our secured credit facility on January 26, 2011, the lenders received from us ten-year warrants to purchase an aggregate of 375,000 shares of our Series A convertible preferred stock at an exercise price of \$1.00 per share. The warrants were immediately exercisable and expire on January 26, 2021. In December 2011, in connection with the drawdown of the second \$15.0 million under our secured credit facility, as amended, we issued to the lenders warrants to purchase an aggregate of 200,000 shares of our Series A convertible preferred stock at \$1.50 per share. The warrants were immediately exercisable and expire on December 30, 2021. Upon completion of an initial public offering, the respective lender warrants will be exercisable into one share of our common stock for each share of our Series A convertible preferred stock into which it was convertible prior to the initial public offering at a price per share equal to the lesser of the initial public offering price, or \$1.00 or \$1.50, as applicable. We have primarily used the proceeds of the term loans under our secured credit facility to fund ongoing clinical trials for SPN-538, SPN-804 and SPN-810, to prepare for

manufacturing validation of SPN-538 and SPN-804, to support formulation for various clinical stage products, to prepare commercial marketing of SPN-538 and for regulatory filing fees. The term loans bear interest at a fixed rate per annum of 11.0%. The initial \$15.0 million of term loans drawn down in January 2011 will mature in August 2014. The second \$15.0 million of term loans drawn down in December 2011 will mature in January 2015. In March 2011, we made the first of twelve monthly interest-only payments on the initial \$15.0 million of term loans drawn down in January 2011. Thereafter, beginning in March 2012, which is the amortization date for these term loans, we will make principal and interest payments to fully amortize the balance over the term of these term loans. In February 2012, we made the first of six monthly interest-only payments on the second \$15.0 million of term loans drawn down in December 2011. Thereafter, beginning in August 2012, which is the amortization date for these term loans, we will make principal and interest payments to fully amortize the balance over the term of these term loans.

We may voluntarily prepay all, but not less than all, outstanding term loans under our secured credit facility at any time, subject to the payment of a premium. With respect to any prepayment, the premium is 5.0% if such prepayment is made before the amortization date, 2.0% if such prepayment is made during the 15-month period after the amortization date and 1.0% if such prepayment is made thereafter. Upon the maturity of any outstanding term loans or the acceleration or prepayment thereof, we will also be required to make a final payment equal to 2.5%, or \$750,000, of the aggregate principal amount of the term loans borrowed under our secured credit facility. This payment is being recorded as additional interest expense over the life of the loan.

All obligations under our secured credit facility are secured by substantially all of our existing property and assets (excluding our intellectual property) and by a pledge of the capital stock of, subject to certain exceptions, our U.K. subsidiary and any future subsidiary. Our secured credit facility includes negative covenants that, subject to certain exceptions, limit our ability and the ability of our subsidiaries to, among other things, dispose of certain assets, change our lines of business, engage in mergers or consolidations, incur additional indebtedness, create liens on assets (including our intellectual property), pay dividends and make distributions on or repurchase our capital stock or engage in certain transactions with affiliates. Our secured credit facility also includes certain customary representations and warranties, affirmative covenants and events of default, which, among other things, include payment defaults, covenant defaults, a material adverse change in our business, certain events of bankruptcy, cross-defaults to certain indebtedness, material judgments, breach of representations and warranties and the revocation, rescission, suspension or other adverse modification of a governmental approval. Upon the occurrence of an event of default, the lenders under our secured credit facility will be entitled to take various actions, including the acceleration of all amounts due under our secured credit facility and all actions permitted to be taken by a secured creditor.

We incurred debt financing costs of approximately \$461,000, which included the payment of an upfront fee and the reimbursement of certain of the lenders' related expenses, and these expenses have been recorded as deferred financing costs in our consolidated balance sheet. Additionally, the fair value of the warrants issued as of September 30, 2011 of \$375,000 has been recognized as a discount on the term loan. The deferred financing costs and the debt discount are being amortized to interest expense over the term of the related loans.

**United Therapeutics License.** We have a license agreement with United Therapeutics to use one of our proprietary technologies for an oral formulation of Remodulin for the treatment of PAH, and potentially for additional indications. United Therapeutics has stated that this oral formulation of treprostinil diethanolamine, or treprostinil, is the subject of an NDA for PAH that was submitted in December 2011. Through September 30, 2011, we have received \$1.5 million in pre-commercial milestone payments under the agreement. Remaining milestone payments to us could total up to approximately \$6.0 million, which includes milestone payments that could total \$2.0 million based on the satisfaction of development milestones of oral treprostinil in PAH and up to approximately

\$4.0 million for the development of additional trestostinil products for a second indication. If United Therapeutics receives approval to market and sell oral trestostinil for additional indications and/or any additional combination products that utilizes our technologies, we will receive royalties in the single digits based on net sales worldwide. Any revenues received under this agreement will fluctuate as a result of the timing and amount of milestone and other payments received under this agreement, and the amount and timing of payments that we receive upon the sale of covered products, to the extent any are successfully commercialized by United Therapeutics or its sub licensees. Our license agreement with United Therapeutics will expire, on a country-by-country and product-by-product basis, 12.5 years from the first commercial sale of each product in such country. United Therapeutics may terminate the agreement for a technical, strategic or market-related cause after giving us a reasonable opportunity to cure. We may terminate the agreement if, after having launched a product in a country, United Therapeutics or its sub-licensee discontinues the sale of such product for a prolonged period of time for reasons unrelated to force majeure, regulatory or safety issues. In addition, either party may terminate the agreement for the material, uncured breach by the other party and in certain events of bankruptcy or insolvency of the other party.

#### ***Stendhal License***

In August 2011, we executed a Development and Licensing Agreement with Especificos Stendhal, S.A., DE C.V. (Stendhal) that provided Stendhal an exclusive license to our licensed intellectual property underlying our SPN-804 product, including Mexico, Venezuela, Colombia and other select markets in Central and South America. The agreement included the right to our patents, proprietary information, and know-how of our drug-delivery technology and pharmaceutical product underlying our SPN-804 product. Stendhal is responsible for all costs associated with clinical development, approval, commercialization and distribution of the product in the defined territory, which may be expanded upon certain events. Through September 30, 2011, we have received \$450,000 from Stendhal, which is being recognized as revenue on a straight-line basis over the substantive obligation period until approval, which is estimated to be December 2014. We monitor this estimate on a quarterly basis to determine if facts and circumstances may have changed that would require a prospective adjustment of the recognition period. As of September 30, 2011, we may receive up to \$3.3 million in additional milestone payments, based on certain regulatory and commercial milestones defined in the agreement. As of September 30, 2011, \$439,000 remained recorded as deferred revenue.

#### ***Funding Requirements***

As of September 30, 2011, we had unrestricted cash, cash equivalents and marketable securities of \$16.5 million, and \$3.4 million in restricted cash and cash equivalents reserved for interest payments by Royalty Sub. Although it is difficult to predict future liquidity requirements, we believe that the net proceeds from this offering, together with our existing unrestricted cash, cash equivalents and marketable securities, and anticipated future product revenues, will be sufficient to fund our operations for at least the next months. Successful transition to profitability is dependent upon achieving a level of revenues adequate to support our cost structure, which we do not expect in the near term, if at all. We cannot assure you that we will ever be profitable or generate positive cash flow from operating activities.

We expect to continue to incur substantial additional operating losses for the foreseeable future as we continue to develop our product candidates and seek marketing approval and, subject to obtaining such approval, the eventual commercialization of SPN-538, SPN-804 and our other product candidates. If we obtain marketing approval for SPN-538 or SPN-804, we will incur significant sales, marketing and outsourced manufacturing expenses. In addition, we expect to incur additional expenses to add operational, financial and information systems and personnel, including personnel to support our planned product commercialization efforts. We also expect to incur significant costs to comply with

corporate governance, internal controls and similar requirements applicable to us as a public company following the closing of this offering. In this regard, the report of our independent registered public accounting firm with respect to our consolidated financial statements as of and for the year ended December 31, 2010 contains an explanatory paragraph stating that there is substantial doubt about our ability to continue as a going concern. We believe that the successful completion of this offering will eliminate this doubt and enable us to continue as a going concern. However, even after giving effect to the net expected net proceeds of this offering, we may need to obtain additional financing through equity offerings, debt financings and/or payments under new or existing licensing and research and development collaboration agreements.

Our future use of operating cash and capital requirements will depend on many forward-looking factors, including the following:

- The timing and outcome of the FDA's review, of the NDA for SPN-538;
- The timing and outcome of the FDA's review, of the NDA for SPN-804;
- The extent to which the FDA may require us to perform additional clinical trials or pre-commercial manufacturing activities for SPN-538 or SPN-804;
- The timing and success of this offering;
- The costs of our commercialization activities for SPN-538 and/or SPN-804, if either is approved by the FDA;
- The cost of purchasing manufacturing and other capital equipment for our potential products;
- The scope, progress, results and costs of development for our other product candidates;
- The cost, timing and outcome of regulatory review of our other product candidates;
- The extent to which we acquire or invest in products, businesses and technologies;
- The extent to which we choose to establish collaboration, co-promotion, distribution or other similar agreements for product candidates; and
- The costs of preparing, submitting and prosecuting patent applications and maintaining, enforcing and defending intellectual property claims.

We may need to obtain additional capital through equity offerings, debt financing and/or payments under new or existing licensing and research and development collaboration agreements. We expect that our progress in the development of our product candidates may provide sufficient value inflection milestones, based on which we will be able to seek additional funding. The type, timing, and terms of financing, if required, will depend upon our cash needs, the availability of financing sources and the prevailing conditions in the financial markets. There can be no assurance that such financing will be available to us at any given time or available on favorable terms, if at all. If sufficient funds on acceptable terms are not available when needed, we could be required to significantly reduce operating expenses and delay, reduce the scope of, or eliminate one or more of our development programs, which may have a material adverse effect on our business, results of operations and financial condition. In addition, additional debt financing, if available, would result in increased fixed payment obligations and may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. Any debt financing or additional equity that we raise may contain terms, such as liquidation and other preferences, that are not favorable to us or our stockholders. If we raise additional funds through collaboration and licensing arrangements with third parties, it may be necessary to relinquish valuable rights to our technologies, future revenue streams or product candidates or to grant licenses on terms that may not be favorable to us.

**Cash Flows**

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

	Years Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
	(in thousands)				
Net cash provided by (used in):					
Operating activities	\$ (29,652)	\$ 2,634	\$ (32,545)	\$ (20,840)	\$ (27,964)
Investing activities	15,480	(28,385)	25,823	14,278	8,507
Financing activities	64,462	4,280	(943)	412	12,200
Net increase (decrease) in cash and cash equivalents	\$ 50,290	\$ (21,471)	\$ (7,665)	\$ (6,150)	\$ (7,257)

**Operating Activities**

Net cash used in operating activities for the nine months ended September 30, 2011 compared to net cash used in operating activities for the same period in 2010 increased by \$7.1 million. This change in cash flows from operating activities was the result of: \$1.8 million in increased losses between the two periods; and \$8.7 million decrease between the two periods related to net changes in working capital. The largest portion of the net changes in working capital related to a \$7.4 million increase in cash provided by higher account payables and accrued expenses during the nine months ended September 30, 2010 as compared to a \$2.5 million decrease in cash provided due to lower account payables and accrued expenses during the nine months ended September 30, 2011. This was partially offset by recognition of deferred revenue under the Stendhal agreement as well as cash reimbursements for tenant improvements which were recorded as deferred rent.

Net cash used in operating activities for the year ended December 31, 2010 compared to net cash provided by operating activities for the same period in 2009 decreased by \$35.2 million. This difference was driven by the recognition of royalty revenues in 2009 of approximately \$36.9 million related to a license agreement with Shire plc for Intuniv, partially offset by higher year-over-year royalty revenues of approximately \$5.3 million attributable to Sanctura XR and Oracea. In addition, we incurred higher research and development costs of approximately \$5.9 million for the year ended December 31, 2010 compared to the same period in 2009 primarily to support our clinical programs relating to SPN-538 and SPN-804. This decrease in cash flows from operating activities was partially offset by an increase of \$3.5 million between the two periods related to net changes in working capital. The largest portion of the increase in working capital related to a \$3.4 million year-over-year increase in cash provided by higher account payables and accrued expenses, principally relating to the increased clinical trial and pre-validation manufacturing expenses for SPN-538 and SPN-804 incurred during the 2010 period.

Net cash provided by operating activities for the year ended December 31, 2009 compared to net cash used in operating activities for the same period in 2008 increased by \$32.3 million. This difference was principally related to the increased royalty revenues in 2009 of \$38.8 million, comprised of approximately \$36.9 million in royalty revenues related to the license agreement with Shire plc for Intuniv and higher year-over-year royalty revenues of approximately \$1.9 million attributable to Sanctura XR and Oracea. The higher royalty revenues in 2009 were offset by, among other things, higher interest expense in 2009 of approximately \$3.5 million related to interest payments on the Non-recourse Notes of Royalty Sub and a \$1.7 million decrease in working capital. The decrease in working capital was principally due to the increase in interest payable of approximately \$2.5 million due under the Non-recourse Notes in 2008.

### ***Investing Activities***

Our investing activities are principally driven by cash provided by our financing activities and cash generated by operations, if any. We invest excess cash in accordance with our investment policy. Marketable securities consist of investments in U.S. Treasuries and various government agency debt securities, which generally mature in one year or less. Fluctuations in investing activities between periods relate exclusively to the timing of marketable security purchases and the related sale and maturities of these securities.

Net cash provided by investing activities for the nine months ended September 30, 2011 compared to net cash provided by investing activities for the same period in 2010 decreased by \$5.8 million. This decrease was primarily the result of \$18.4 million decrease in the cash received from the sales and maturities of marketable securities, partially offset by a \$12.9 million decrease in the cash used to purchase marketable securities. We also used an additional \$0.2 million to purchase property and equipment for the nine months ended September 30, 2011 compared to the same period in 2010.

The increase of \$54.2 million in net cash provided by investing activities for the year ended December 31, 2010 compared to the same period in 2009 was primarily the result of a \$30.3 million increase in cash received from the sales and maturities of marketable securities, partially offset by a \$23.5 million decrease in cash used to purchase marketable securities. This increase in cash provided by financing activities was augmented by a \$0.4 million decrease in cash used for the purchase of property and equipment for the year ended December 31, 2010 compared to the same period in 2009.

Net cash used in investing activities for the year ended December 31, 2009 compared to net cash provided by investing activities for the same period in 2008 decreased by \$43.9 million. This decrease was primarily a result of a \$76.5 million decrease in cash received from the sales and maturities of marketable securities, partially offset by a \$33.2 million increase in cash used for the purchase of marketable securities, together with a \$0.6 million increase in purchases of property and equipment primarily related to the leasehold improvements for our facility and the purchase of laboratory equipment.

### ***Financing Activities***

Net cash provided in financing activities for the nine months ended September 30, 2011 compared to net cash provided by financing activities for the same period in 2010 increased by \$11.8 million. This increase was primarily due to the drawdown of \$15.0 million under our secured credit facility in January 2011, offset by lower balances of restricted cash and cash equivalents of \$2.3 million used to fund interest and principal payments on Non-recourse Notes.

Net cash provided by financing activities decreased by \$5.2 million for the year ended December 31, 2010 compared to the same period in 2009. This decrease was primarily due to the drawdown in 2009 of approximately \$4.3 million in the interest reserve account that was established to fund potential shortfalls in interest payments for the Non-recourse Notes, as well as the \$1.3 million of deferred financing costs incurred in 2010 in connection with this initial public offering and our \$30.0 million secured credit facility, which closed in January 2011 and was subsequently amended in December 2011. At December 31, 2009, the interest reserve account held a balance of \$1.9 million.

Net cash provided by financing activities decreased by \$60.2 million for the year ended December 31, 2009 compared to the same period in 2008. This decrease was primarily due to the issuance of the \$75 million in Non-recourse Notes in April 2008. This decrease was partially offset by issuance costs related to the Non-Recourse Notes of \$4.4 million, and the use of the funds in the interest reserve account required by the indenture governing the Non-recourse Notes resulting in a reserve account balance of \$6.1 million at December 31, 2008.

**Contractual Obligations and Commitments**

The following table summarizes our contractual obligations and commitments as of September 30, 2010 (except as noted below):

<u>Contractual Obligations</u>	<u>Less than 1 Year</u>	<u>1 - 3 Years</u>	<u>3 - 5 Years</u>	<u>Greater than 5 Years</u>	<u>Total</u>
	(\$ in thousands)				
Non-recourse Notes <sup>(1)(6)</sup>	\$ —	\$ —	\$ —	\$ 74,818	\$ 74,818
Interest on Non-recourse Notes <sup>(1)(6)</sup>	11,971	23,942	23,942	90,280	150,135
Secured Credit Facility <sup>(2)</sup>	3,142	11,858			15,000
Interest on Secured Credit Facility <sup>(2)</sup>	1,643	1,436			3,079
Operating leases <sup>(3)</sup>	971	1,945	2,019	1,658	6,593
Purchase obligations <sup>(4)</sup>	6,672	—	—	—	6,672
<b>Total<sup>(5)(6)</sup></b>	<b>\$ 24,399</b>	<b>\$ 39,181</b>	<b>\$ 25,961</b>	<b>\$ 166,756</b>	<b>\$ 256,297</b>

- (1) Annual interest expense on the Non-recourse Notes is currently \$12.0 million on \$74.8 million in principal outstanding currently. For purposes of this table, we have assumed that the repayment of principal will not be repaid before the legal final maturity date of April 15, 2024. The Non-recourse Notes and related interest payments are non-recourse and non-convertible into any other securities of the Company.
- (2) Annual interest expense on the secured credit facility is currently \$1.6 million on \$15.0 million in principal outstanding currently.
- (3) Our commitments for operating leases relate to our lease of office and laboratory space as of September 30, 2011.
- (4) Relates primarily to agreements and purchase orders with contractors for the conduct of clinical trials and other research and development and marketing activities.
- (5) This table does not include (a) any milestone payments which may become payable to third parties under license agreements 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.
- (6) Excludes effects of the assumption of the Non-recourse Notes by a third party which occurred pursuant to the Unit Purchase Agreement, that was executed on December 14, 2011, in connection with the sale of our subsidiary, Royalty Sub, for which we received \$27.0 million in cash on December 15, 2011, and may receive an additional \$3.0 million upon the occurrence of certain events. See Note 16 to our consolidated financial statements.

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, 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 also 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, 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, 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 as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not engage in trading activities involving non-exchange traded contracts.

## **Critical Accounting Policies and Estimates**

Our management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate these estimates and judgments, including those described below. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities and amounts recorded as revenues and expenses that are not readily apparent from other sources. Actual results and experiences may differ materially from these estimates.

While a summary of significant accounting policies are more fully described in Note 4 to our consolidated financial statements appearing at the end of this prospectus, we believe that the following accounting policies are the most critical to aid you in fully understanding and evaluating our reported financial results and affect the more significant judgments and estimates that we use in the preparation of our consolidated financial statements.

### ***Revenue Recognition***

Our revenues have been generated through collaboration and research and development agreements. These agreements included fees for development services provided to customers and payments for achievement of specified development, regulatory and sales milestones, which comprise our development and milestone revenues, as well as royalties on product sales of licensed products, Oracea, Sanctura XR, and Intuniv, which comprise our royalty revenue. We record any amounts received in advance of services performed as deferred revenue and recognize them as revenue if and when earned.

### ***Multiple Element Arrangements***

For multiple element arrangements, we evaluate the components of each arrangement as separate elements based on certain criteria. Accordingly, revenues from collaboration agreements are recognized based on the performance requirements of the agreements. We recognize revenues when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the fee is fixed and determinable, and collection is reasonably assured.

Our development revenues have been earned under contracts that were less than one year in duration. Development contracts generally take the form of fee-for-service arrangements based on an annual contractual full time equivalent billing rate. In cases where performance spanned multiple accounting periods, we recognized revenue as services were performed, measured on a proportional-performance basis. We used output measures, specifically labor hours, to measure performance as they reflect our pattern of performance over the contractual term.

In January 2011, we adopted ASU No. 2009-13, *Revenue Recognition (Topic 605)—Multiple-Deliverable Revenue Arrangements: a consensus of the FASB Emerging Issues Task Force*. ASU No. 2009-13 establishes a selling-price hierarchy for determining the selling price of each element



within a multiple-deliverable arrangement. Specifically, the selling price assigned to each deliverable is to be based on vendor-specific objective evidence (VSOE) if available; third-party evidence, if VSOE is unavailable; and estimated selling prices if neither VSOE or third-party evidence is available. In addition, ASU No. 2009-13 eliminates the residual method of allocating arrangement consideration and instead requires allocation using the relative selling price method. The adoption of ASU No. 2009-13 did not impact our consolidated financial statements, as we did not enter into any multiple element arrangements during 2011. We will evaluate new or materially modified multiple element arrangements pursuant to the guidance in ASU No. 2009-13.

#### ***Milestone Payments***

Milestone payments have been recognized as revenue when the collaborative partner acknowledges completion of the milestone and substantive effort was necessary to achieve the milestone. In January 2011, we adopted ASU 2010-17, *Revenue Recognition-Milestone Method*. Under this guidance, 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 identified in the guidance to be considered substantive. Substantive milestone payments are recognized upon achievement of the milestone only if all of the following conditions are met:

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

Determination as to whether a payment meets the aforementioned conditions involves management's judgment. If any of these conditions are not met, the resulting payment would not be considered a substantive milestone, and therefore the resulting payment would be considered part of the consideration for the single unit of accounting and recognized as revenue when services have been rendered and there is no further performance obligations. The adoption of ASU 2010-17 did not have a material impact on our consolidated results of operations, financial position, or liquidity.

#### ***Royalty Revenues***

We record royalty revenues based on estimates of the sales that occurred during the relevant period. The relevant period estimates of sales are based on interim data provided by licensees and analysis of historical royalties received (adjusted for any changes in facts and circumstances, as appropriate). We maintain regular communication with licensees in order to obtain information to develop reasonable estimates. Differences between actual royalty revenues and estimated royalty revenues are reconciled and adjusted for in the period in which they are collected, typically the following quarter. Historically, adjustments have not been material based on actual amounts received from licensees. To the extent we do not have sufficient ability to accurately estimate revenue, we record revenue when received.

In 2009, we recognized approximately \$36.9 million in royalty revenues related to an amendment to a license agreement with Shire plc for Intuniv, which is a novel ADHD product marketed by Shire plc and utilizes one of our proprietary technologies. Under the terms of the license amendment, the parties agreed to delete all provisions regarding milestone and royalty payments and replaced those provisions with, among other things, (1) a commitment by Shire plc to make a one-time payment of

\$36.9 million within 15 days of signing the amendment, (2) an acknowledgement by us that no other sums would be payable to us, then or in the future, under the amended license; and (3) a statement that the amended license was permanent, irrevocable and fully paid. We concluded that immediate revenue recognition was appropriate because (1) the executed contract constituted persuasive evidence of an arrangement, (2) the delivery of the license amendment had occurred and Shire plc had assumed all risks and rewards regarding Intuniv, and we had no current or future performance obligations, (3) the total consideration for the license amendment was fixed and known at the time of its execution and there were not any extended payment terms or rights of return, and (4) collection was reasonably assured as we determined that Shire plc was creditworthy and had the financial ability to make the payment in accordance with the terms of the license amendment.

#### ***Accrued Expenses***

As part of the process of preparing the consolidated financial statements, we may be required to estimate accrued expenses. This process involves reviewing open contracts and purchase orders, communicating with applicable personnel to identify services that have been performed on our behalf and estimating the level of service performed and the associated cost incurred for the service when we have not yet been invoiced or otherwise notified of actual cost. The majority of our service providers invoice us monthly in arrears for services performed. We make estimates of our accrued expenses as of each consolidated balance sheet date in our consolidated financial statements based on facts and circumstances known to us. We confirm the accuracy of our estimates with the service providers and make adjustments if necessary. Examples of estimated accrued expenses include:

- fees paid to contract research organizations, or CROs, in connection with clinical trials;
- fees paid to investigative sites in connection with clinical trials;
- fees paid to contract manufacturers in connection with the production of clinical trial materials; and
- professional service fees.

We base our expenses related to clinical trials on our estimates of the services received and efforts expended pursuant to contracts with multiple research institutions and CROs that conduct and manage clinical trials on our behalf. The financial terms of these agreements are subject to negotiation, vary from contract to contract and may result in uneven payment flows. Payments under some of these contracts depend on factors such as the successful enrollment of patients and the completion of clinical trial milestones. In accruing the related service fees, we estimate the time period over which services will be performed and the level of effort to be expended in each period. If the actual timing of the performance of services or the level of effort varies from our estimate, we will adjust the accrual accordingly. If we do not identify costs that we have begun to incur or if we underestimate or overestimate the level of services performed or the costs of these services, our actual expenses could differ from our estimates. We do not anticipate the future settlement of existing accruals to differ materially from our estimates.

#### ***Stock-Based Compensation***

We recognize as compensation expense the estimated fair value of stock options and non-vested stock awards over the requisite service periods, which are typically the vesting periods. Equity instruments issued to non-employees are recorded at their estimated fair value and are re-measured each reporting period as the equity instruments vest and the related expense is recognized ratably over the related service period.

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Stock-based compensation expense includes stock options and non-vested stock granted to employees and non-employees and has been reported in our consolidated statements of operations as follows:

	Years Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
	(In Thousands)				
Research and development	\$ 28	\$ 28	\$ 53	\$ 32	\$ 44
General and administrative	71	83	244	92	(88)
<b>Total</b>	<b>\$ 99</b>	<b>\$ 111</b>	<b>\$ 297</b>	<b>\$ 124</b>	<b>\$ (44)</b>

Historically, stock-based compensation has not been material to our consolidated results of operations or financial position. Because the determination of the estimated fair value of share-based payments inherently includes the use of subjective assumptions and the potential that the related expense may be material in the future, we have included stock-based compensation as a significant accounting policy.

We calculate the fair value of stock-based compensation awards using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model requires the input of subjective assumptions, including stock price volatility, assumed dividend yield, the expected term of stock options and a risk-free interest rate. We calculate expected volatility based on reported data for selected reasonably similar publicly traded companies, or our guideline peer group, for which historical information is available. We will continue to use the guideline peer group volatility information until the historical volatility of our common stock is relevant to measure expected volatility for future option grants. The assumed dividend yield is based on our expectation of not paying dividends in the foreseeable future. We determine the average expected term of stock options according to the "simplified method" as described in Staff Accounting Bulletin 110, which is the mid-point between the vesting date and the contractual term. We determine the risk-free interest rate by reference to implied yields available from U.S. Treasury securities with a remaining term equal to the expected term assumed at the date of grant. The assumptions used in the Black-Scholes option-pricing model for the years ended December 31, 2008, 2009 and 2010 and for the nine month periods ended September 30, 2010 and 2011 are set forth in our consolidated financial statements appearing at the end of this prospectus.

Forfeitures are not an assumption that impacts the Black-Scholes option-pricing model; however, it is an estimate that impacts the amount of stock compensation expense recognized. We estimate forfeiture rates based on our historical analysis of actual stock option forfeitures.

There is a high degree of subjectivity involved when using option-pricing models to estimate stock-based compensation. There is currently no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values. Although the estimated fair value of employee stock-based awards is determined using an option-pricing model, that value may not be indicative of the fair value observed in a market transaction between a willing buyer and willing seller. If factors change and we employ different assumptions when valuing our options, the compensation expense that we record in the future may differ significantly from what we have historically reported.

Our board of directors estimated the fair value for our common stock, with input from management. Given the absence of an active market for our common stock, our board of directors contemporaneously estimated the fair value of our common stock with the assistance of a third-party valuation firm on the dates of grant. These contemporaneous valuations were performed in accordance with applicable methodologies, approaches and assumptions of the technical practice aid issued by the American Institute of Certified Public Accountants Practice Aid entitled *Valuation of Privately-Held*

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*Company Equity Securities Issued as Compensation* (AICPA Practice Aid), considering numerous objective and subjective factors to determine common stock fair market value at each option grant date, including but not limited to the following factors:

- our stage of development and business strategy;
- our financial condition, operating results and book value;
- economic and competitive elements affecting us, our industry and our target markets;
- our projected operating results;
- a comparative analysis of our financial condition and operating results with those of publicly-owned companies engaged in similar lines of business;
- the current and historical relationship between the reported stock prices and revenues and earning levels of selected publicly traded companies engaged in similar lines of business;
- important developments relating to the results of our clinical trials;
- the likelihood of achieving a liquidity event for our outstanding shares of stock; and
- the price per share at which our Series A convertible preferred stock was issued to investors including the rights, preferences and privileges of the preferred stock relative to the common stock. In considering the rights and preferences of our Series A convertible preferred stock relative to our common stock, we considered the following rights and preferences:
  - The holders of our Series A convertible preferred stock are entitled to receive a cumulative annual dividend of \$0.07 per share, when and if declared by the board of directors; and,
  - The holders of our Series A convertible preferred stock are entitled to a liquidation preference. The aggregate amount of liquidation preferences, has increased from \$55.8 million as of December 31, 2007 to \$68.7 million as of September 30, 2011. In the event of liquidation, dissolution or winding up of our company, the liquidation preference for each Series A convertible preferred share equals the original purchase price of \$1.00 per share, plus accumulated unpaid dividends.

The following table represents stock option grant information from January 1, 2009 through the date of this prospectus, including the estimated fair value of the option grant as determined by the Black-Scholes option-pricing model for options granted in 2009 and 2010, or by the probability-weighted expected return method, or PWERM, for options granted in 2011.

<u>Grant Date</u>	<u>Number of Options</u>	<u>Exercise Price</u>	<u>Estimated Fair Value</u>	<u>Intrinsic Value</u>
January 19, 2009	225,000	\$ 0.40	\$ 0.23	\$ —
December 15, 2009 <sup>(1)</sup>	257,200	\$ 1.76	\$ 1.03	\$ —
February 10, 2010	52,500	\$ 0.84	\$ 0.49	\$ —
April 16, 2010	32,750	\$ 0.84	\$ 0.49	\$ —
July 20, 2010	38,500	\$ 0.84	\$ 0.48	\$ —
October 15, 2010	15,000	\$ 0.64	\$ 0.37	\$ —
November 2, 2010	880,000	\$ 0.64	\$ 0.41	\$ —
November 16, 2010	35,000	\$ 0.64	\$ 0.41	\$ —
October 14, 2011	35,000	\$ 1.06	\$ 0.67	\$ —
December 16, 2011	544,000	\$ 1.06	\$ 0.67	\$ —
<b>Total</b>	<b>2,114,950</b>			

(1) On November 2, 2010, 255,000 of these options were repriced from \$1.76 to \$0.64 per share.

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The intrinsic value of all outstanding vested and unvested options as of September 30, 2011 based on an assumed initial public offering price of \$ per share, the midpoint of the price range set forth on the cover page of this prospectus, and the exercise price of the outstanding options are as follows:

	<u>Number of Options</u>	<u>Intrinsic Value</u>
Unvested	1,336,436	\$
Vested	1,132,629	\$

Our board of directors has made only one grant of non-vested stock. This grant was made in December 2005 for 3,500,000 shares of common stock. The estimated fair value of those shares as of the date of grant was \$0.10 per share.

On November 2, 2010, our board of directors repriced 255,000 of the options granted on December 15, 2009 from a per share exercise price of \$1.76 to \$0.64. In addition, our board approved the modification of the performance vesting requirements related to 157,697 employee stock options and 411,765 shares of non-vested stock awarded to our chief executive officer. The vesting of all of these share-based awards was contingent upon the filing and the FDA's acceptance of the Company's first NDA on or before December 22, 2010, and the board of directors extended the deadline for the achievement of this performance condition to March 31, 2011. This performance condition was not met. As a result of the board of directors' actions, there was no immediate charge related to the repriced and modified options, and we recognized additional stock based compensation of approximately \$190,000 from November 2010 through February 2011. When the performance condition was not met, we reversed this charge during the nine months ended September 30, 2011.

All contemporaneous valuations were prepared consistent with the AICPA Practice Aid. For valuations dated January 19, 2009 through November 16, 2010, we considered the use of market, income and asset valuation approaches. We lacked relevant financial metrics to utilize the market approach and the asset approach was not utilized because the majority of our assets are intangible, accordingly we used an income approach for each valuation. The income approach values a business based upon the future benefits that will accrue to it with the value of the future economic benefits discounted back to a present value at some appropriate discount rate. Implicit in the market price of all publicly traded securities is a consensus forecast of earnings and financial condition. The consensus forecast results from the information made available to the investing public by us and from the numerous forecasts prepared by financial analysts. We have replicated this approach through the preparation of an operating forecast and the use of discounted cash flow analysis. The discount rate reflects all the risk of ownership and the associated risks of realizing the prospective economic income stream. Given that we have Series A convertible preferred stock outstanding, it was also necessary to allocate our company's value to the various classes of stock. As provided in the AICPA Practice Guide, there are several approaches for allocating equity value of a privately-held company among the securities in a complex capital structure, including the current value method, the probability weighted expected return method and the option pricing method. The current value method was not employed because a liquidity event, in the form of an acquisition or dissolution, was not imminent. The probability weighted expected return method was not utilized because of the nature of drug development and our stage of development estimating the probability and value of various liquidity events is highly speculative. We used the option-pricing method to allocate the estimated value of our equity to the classes of securities. The value of our common stock was then discounted for lack of marketability, or the inability to readily sell shares, which increases the owner's exposure to changing market conditions and increases the risk of ownership. The discount for lack of marketability was derived using a protective put calculation using the Black-Scholes option pricing model.

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For the valuations dated October 14, 2011 and December 16, 2011, we used the PWERM described in the AICPA Practice Aid to allocate the enterprise values to the common stock. Under this method, the value of our common stock is estimated based upon an analysis of future values for our company assuming various future outcomes, the timing of which is based on the plans of our board of directors and management. Under this approach, share value is based on the probability-weighted present value of expected future investment returns, considering each of the possible outcomes available to us, as well as the rights of each share class.

### ***Stock Option Grants on January 19, 2009***

Our board of directors granted stock options on January 19, 2009, with each having an exercise price of \$0.40 per share. In addition to considering the objective and subjective factors listed above, our board of directors considered the valuation as of December 31, 2007 provided by management in determining the fair value of our common stock on January 19, 2009. We considered this valuation relevant in our determination of the estimated fair value of the common stock primarily because the deterioration of the overall financial markets in the second half of 2008 overshadowed progress on our clinical pipeline and the financing from the Non-recourse Notes. Our board of directors considered that in the face of the credit and liquidity crisis and the resulting uncertainties, the prospects for a liquidity event in the foreseeable future were significantly lower.

In the December 31, 2007 valuation, we used the income approach, specifically a discounted cash flow analysis, to estimate our company's equity value. The first step in that process was to calculate the present value of our discrete net cash flows for the periods projected. Next, the present value of our terminal net cash flow was calculated. The sum of these two present values, utilizing a cost of capital discount rate of 21.2%, determined the total market value capitalization on a minority basis to approximate \$59.5 million. We added free cash (cash remaining after all investments and commitments that could potentially be available for debt service or shareholders dividends without impairing operations) in the amount of \$25.9 million to estimate the market value of the total equity on a minority interest basis to approximate \$85.4 million. This estimated value was allocated between the Series A convertible preferred stock and common stock using the option-pricing method. A discount of 25.0% was applied to account for the lack of marketability of our common stock. This analysis yielded an estimated fair value of our common stock at December 31, 2007 of \$0.40 per share. Our board determined this valuation analysis to be reasonable and, on the basis of the factors described above, that the estimated fair value of our common stock on January 19, 2009 was \$0.40 per share.

### ***Stock Option Grants on December 15, 2009***

Our board of directors granted stock options on December 15, 2009, with each having an exercise price of \$1.76 per share. In addition to considering the objective and subjective factors listed above, our board of directors considered the valuation as of July 16, 2009 provided by management in determining the fair value of our common stock on December 15, 2009. We utilized the income approach, specifically a discounted cash flow analysis, to estimate the equity value of our company. In addition, to the non-risk adjusted forecast, we also considered a risk-adjusted forecast using various probabilities to reflect the risks of achieving commercialization based on our product candidates' clinical stage of development. We utilized non-risk adjusted and risk adjusted costs of capital of 25.0% and 18.9%, respectively. These discount rates were applied to our discrete net cash flows to determine the present value. This present value was combined with the present value of our terminal cash flow to determine the total market value of capitalization for us on a minority interest basis of approximately \$122.9 million. We added free cash in the amount of \$80.6 million to estimate the market value of the total equity, on a minority interest basis, to be approximately \$203.5 million. This estimated value was allocated between the Series A convertible preferred stock and common stock using option-pricing method. A discount of 30.0% was applied to account for the lack of marketability of our common

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stock. This analysis yielded an estimated fair value of our common stock at July 16, 2009 of \$1.76 per share. Based on the foregoing, we concluded the fair value of our common stock as of December 15, 2009 was \$1.76 per share. No significant changes had come to our attention between July 16, 2009 and the December 15, 2009 grant date to warrant a revaluation of the stock. We therefore concluded there was no basis for a change in the fair value during such period.

The increase in the estimated fair value of the common stock relative to the December 31, 2007 valuation relates to several items. First, we had an additional \$55.0 million of free cash on hand as a result of the monetization of certain future royalty streams under our licenses for Oracea, Sanctura XR and Intuniv. In addition, we had completed in-depth market research in mid-2009 that indicated a substantially greater commercial potential for our two epilepsy product candidates.

***Stock Option Grants on February 10, April 16 and July 20, 2010***

Our board of directors granted stock options on February 10, April 16 and July 20, 2010, with each having an exercise price of \$0.84 per share. In addition to considering the objective and subjective factors listed above, our board of directors considered the valuation as of December 31, 2009 provided by management in determining the fair value of our common stock on each of February 10, April 16 and July 20, 2010. We utilized the income approach, specifically a discounted cash flow analysis, to estimate the equity value of our company. We considered a non-risk adjusted forecast and risk-adjusted forecast using various probabilities to reflect the risks of achieving commercialization based on our product candidates' clinical stage of development. We utilized non-risk adjusted and risk adjusted costs of capital of 25.0% and 15.7%, respectively. These discount rates were applied to our discrete net cash flows to determine the present value. This present value was combined with the present value of our terminal cash flow to determine the total market value of capitalization for us, on a minority interest basis, of approximately \$53.0 million. We added free cash in the amount of \$66.7 million to estimate the market value of the total equity on a minority interest basis to be approximately \$119.7 million. This estimated value was allocated between the Series A convertible preferred stock and common stock using option-pricing method. A discount of 30.0% was applied to account for the lack of marketability of our common stock. This analysis yielded an estimated fair value of our common stock at December 31, 2009 of \$0.84 per share. Based on the foregoing, we concluded the fair value of our common stock as of February 10, 2010 was \$0.84 per share. We further determined the fair value of the common stock as of April 16 and July 20, 2010 to be \$0.84 per share. No significant changes had come to our attention between December 31, 2009 and each of the foregoing grants date to warrant a revaluation of the stock. We therefore concluded there was no basis for a change in the fair value during such period.

The decrease in the estimated fair value of the common stock as compared to the July 16, 2009 valuation principally relates to information regarding the announcement in December 2009 by a competitor of the initiation of a Phase III clinical trial for a once-a-day, extended-release topiramate product to treat epilepsy that could compete head-to-head with SPN-538, and, if approved before SPN-538, would have three years of market exclusivity.

***Stock Option Grants on October 15, November 2 and November 16, 2010***

Our board of directors granted stock options on October 15, November 2 and November 16, 2010, with each having an exercise price of \$0.64 per share. In addition to considering the objective and subjective factors listed above, our board of directors considered the valuation as of October 1, 2010 provided by management in determining the fair value of our common stock on each of October 15, November 2 and November 16, 2010. We utilized the income approach, specifically a discounted cash flow analysis, to estimate the equity value of our company. We utilized a non-risk adjusted forecast and a risk-adjusted forecast using various probabilities to reflect the risks of achieving commercialization based on our product candidates' clinical stage of development. We utilized non-risk adjusted and risk

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adjusted costs of capital of 22.0% and 14.2%, respectively. These discount rates were applied to our discrete net cash flows to determine the present value. This present value was combined with the present value of our terminal cash flow to determine our total market value of capitalization on a minority interest basis of approximately \$64.4 million. We added free cash in the amount of \$45.8 million to estimate the market value of the total equity on a minority interest basis to be approximately \$110.2 million. This estimated value was allocated between the Series A convertible preferred stock and common stock using option-pricing method. A discount of 20.0% was applied to account for the lack of marketability of our common stock. This analysis yielded an estimated fair value of our common stock at October 1, 2010 of \$0.64 per share. Based on the foregoing, we concluded the fair value of our common stock as of October 15, November 2 and November 16, 2010 was \$0.64 per share. No significant changes had come to our attention between October 1, 2010 and each of the foregoing grant dates to warrant a revaluation of the stock. We therefore concluded there was no basis for a change in the fair value during such period.

The decrease in the estimated fair value of the common stock as compared to the December 31, 2009 valuation principally relates to a reduction of \$20.8 million of free cash and a further refinement in the market estimates for our two epilepsy products based on additional market research on the dynamics of the market for epilepsy products and our expected product profiles upon approval.

***Stock Option Grants on October 14, 2011 and December 16, 2011***

Our board of directors granted stock options on October 14 and December 16, 2011, with each having an exercise price of \$1.06 per share. Our board of directors considered the valuation dated September 30, 2011 provided by management in determining the fair value of our common stock on each of October 14 and December 16, 2011. In the September 30, 2011 valuation, we used the PWERM to value our common stock. We estimated the fair value of our common stock using a probability-weighted analysis of the present value of the returns afforded to our stockholders under each of five possible future scenarios. All five of the scenarios assumed a shareholder exit, either through an initial public offering or a merger/acquisition of our company. The five scenarios and their respective probabilities as assigned by management:

<u>Scenario</u>	<u>Probability</u>
1. An initial public offering in late 2011	0%
2. Royalty monetization in 2011 with an initial public offering in the first half of 2012	5%
3. Preferred equity financing in 2011, royalty monetization 2011, and an initial public offering in the second half of 2012	5%
4. Preferred equity financing in 2011 with an initial public offering in the first half of 2012	60%
5. Merger or other sale transaction in late 2011	30%

Management had indicated scenario 4 was most likely given our greater control over the timing of a preferred equity financing (compared to a royalty monetization) and since scenario 4 provided more flexibility regarding the timing of an initial public offering. Management also considered that the initial public offering would occur after the NDA for SPN-538 was accepted for filing by the FDA and after the NDA was submitted for SPN-804 in 2011.

The merger or other sale transaction scenario was weighted strongly as well given the increased volatility in the public markets which made a merger or other sales transaction more probable.

The lowest probability was applied to scenario 1. Due to timing of SEC filings and initiating a road show, as well as given the limited initial public offering activity for life sciences companies in the third



quarter, increased volatility, and ongoing economic concerns, the prospect of an initial public offering in late 2011 was not considered likely.

Considering scenarios 2 and 3, management had projected a monetization of SPN-538 royalties and an initial public offering. However, as mentioned, we had no control over the timing of a royalty monetization, and the valuation of the royalty monetization is dependent on the terms for including SPN-538 and/or SPN-804 in any proposal.

In the September 30, 2011 valuation, we applied a discount for lack of marketability of 12.1% to reflect the fact that our shares have no immediate path to liquidity and there is no market mechanism to sell these shares. A common stockholder would have to wait for a liquidity event such as an initial public offering or a sale of our company to enable the sale of the common stock. We used an option pricing model to determine the value of this lack of marketability

#### ***Lender Warrants***

In connection with the initial \$15.0 million drawdown under our secured credit facility, the lenders received from us ten-year warrants to purchase an aggregate of 375,000 shares of our Series A convertible preferred stock at an exercise price of \$1.00 per share. The warrants became exercisable upon issuance and will expire on January 26, 2021. In December 2011, in connection with the drawdown of the second \$15.0 million under our secured credit facility, the lenders received from us ten-year warrants to purchase 200,000 shares of our Series A convertible preferred stock at an exercise price of \$1.50 per share. The warrants became exercisable upon issuance and will expire on December 30, 2021. Upon completion of an initial public offering, the respective lender warrants will be exercisable for one share of our common stock for each share of our Series A preferred stock into which it was convertible at a price per share equal to the lesser of the initial public offering price, or \$1.00 or \$1.50, as applicable.

The warrants are classified as liabilities in accordance with ASC 815-40—*Derivatives and Hedging—Contracts in an Entity's Own Equity*. The value of the warrants has been recorded as a derivative liability at a discount to the notes payable, and will be marked to market at each reporting period. The discount attributable to the notes will be amortized to interest expense over the expected term of the loans. Upon consummation of this offering, the liability reflected on our consolidated balance sheets for preferred stock warrants will be reclassified to stockholders' equity (deficit), and we will no longer be required to record the change in fair value of these warrants in our consolidated statements of operations.

Change in fair value of warrant liability represents non-cash (expense) income associated with changes in the fair value of the warrants to purchase preferred stock issued to the lenders under our secured credit facility. The warrant obligation is adjusted to fair value at the end of each reporting period. The fair values of the preferred stock warrants are estimated in accordance with the AICPA Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation (the Technical Practice Aid). Several objective and subjective factors are considered when valuing each equity security and related warrant at a valuation date. We utilized the PWERM to estimate the fair value of the preferred stock warrants. Under the PWERM, the value of each equity security and warrant is estimated based upon an analysis of future values for the entire equity instrument assuming various future outcomes. Share value is based upon the probability-weighted present value of the expected outcomes, as well as the rights of each class of preferred and common stock. A probability is estimated for each possible event based on the facts and circumstances as of the valuation date. We will continue to adjust the warrant liability for changes in fair value until the earlier of the exercise or expiration of the warrants. Subsequent to the completion of an initial public offering, the fair value of the warrants will be determined using either a risk-neutral lattice methodology within a Monte-Carlo analysis or a Black-Scholes model within a Monte-Carlo framework. The Monte-Carlo simulation is a

generally accepted statistical method used to estimate fair value based on the application of subjective assumptions, consistently applied for each period, including the probability, timing and magnitude of our issuance of additional common stock in future financings. This valuation is computed at the end of each fiscal quarter until the warrants are exercised or they expire to reflect conditions at each such valuation date. Under either methodology, in addition to assumptions regarding future equity financings, consideration is also given to the current stock price, anticipated stock volatility going forward, and the anti-dilution provisions embedded in the warrant agreements.

#### **Recent Accounting Pronouncements**

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income*, which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Instead, a company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. We intend to adopt ASU 2011-05 in the first quarter of fiscal year 2012. We do not believe that the adoption of ASU 2011-05 will have a material impact on our condensed consolidated financial statements.

In May 2011, the FASB and International Accounting Standards Board ("IASB"), issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 created a uniform framework for applying fair value measurement principles and clarified existing guidance in GAAP. ASU 2011-04 will be effective for the first annual reporting period beginning after December 15, 2011 and must be applied prospectively. We will adopt ASU 2011-04 in the first quarter of fiscal year 2012. We do not believe that the adoption of ASU 2011-04 will have a material impact on our condensed consolidated financial statements.

#### **Quantitative and Qualitative Disclosure About Market Risk**

The primary objective of our investment activities is to preserve our capital to fund operations. We also seek to maximize income from our investments without assuming significant risk. Our exposure to market risk is confined to our cash and cash equivalents. As of September 30, 2011, we had unrestricted cash, cash equivalents and marketable securities of \$16.5 million. We do not engage in any hedging activities against changes in interest rates. Because of the short-term maturities of our cash and cash equivalents, 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 foreign currency or other derivative financial instruments.

We contract with contract research organizations and investigational sites globally. We may be subject to fluctuations in foreign currency rates in connection with these agreements, primarily with respect to Euro denominated currencies. We do not hedge our foreign currency exchange rate risk. A hypothetical 10% appreciation in Euro exchange rates against the U.S. dollar from prevailing market rates would have increased our net loss by approximately \$450,000 for the nine months ended September 30, 2011. Conversely, a hypothetical 10% depreciation in Euro exchange rates against the U.S. dollar from prevailing market rates would have decreased our net loss by approximately \$450,000 for the nine months ended September 30, 2011. We do not believe that inflation and changing prices over the years ended December 31, 2008, 2009 and 2010 or the nine months ended September 30, 2011 had a significant impact on our consolidated results of operations.

## BUSINESS

### Overview

We are a specialty pharmaceutical company focused on developing and commercializing products for the treatment of central nervous system, or CNS, diseases. Our extensive expertise in product development has been built over the past 20 years: initially as a stand alone development organization, then as a U.S. subsidiary of Shire plc and, upon our acquisition of substantially all the assets of Shire Laboratories Inc. in late 2005, as Supernus Pharmaceuticals. We are developing several product candidates in neurology and psychiatry to address large market opportunities in epilepsy and attention deficit hyperactivity disorder, or ADHD, including ADHD patients with impulsive aggression. Our two epilepsy product candidates are SPN-538 (extended release topiramate), for which our submitted NDA was accepted for filing by the U.S. Food and Drug Administration, or FDA, in November 2011, and SPN-804 (extended release oxcarbazepine), for which we submitted an NDA in December 2011. Our ADHD product candidates include SPN-810 (molindone hydrochloride), which is in a Phase IIb trial as a novel treatment for impulsive aggression in patients with ADHD and SPN-812, which completed a Phase IIa trial as a novel non-stimulant treatment of ADHD. Both of these programs are in Phase II. In addition to these four lead product candidates, we have several additional product candidates in various stages of development. We intend to market our product candidates in the United States through our own focused sales force targeting specialty physicians, including neurologists and psychiatrists. We believe our diversified and broad portfolio of product candidates provides us with multiple opportunities to achieve our goal of becoming a leading specialty pharmaceutical company focused on CNS diseases.

We use our proprietary technologies to enhance the therapeutic benefits of approved anti-epileptic drugs, or AEDs through advanced extended release formulations. Our most advanced product candidates, SPN-538 and SPN-804, are novel oral once-daily extended release formulations of topiramate and oxcarbazepine, respectively, for the treatment of epilepsy. Immediate release formulations of topiramate and oxcarbazepine, are available in generic form and are marketed by Johnson & Johnson and Novartis under the brand names of Topamax and Trileptal, respectively. According to IMS Health, peak sales of Topamax and Trileptal represented an estimated 25.8% and 8.1% of the total seizure disorder market in 2008 and 2006, respectively. We are pursuing a Section 505(b)(2) regulatory strategy for SPN-538 and SPN-804, which allows us to rely on the existing data from the NDAs of Topamax and Trileptal, respectively. The once-per-day dosing of each of SPN-538 and SPN-804 is designed to improve patient compliance and to provide a better tolerability profile compared to the current immediate release AEDs that are taken multiple times per day to maintain therapeutic drug concentrations over the dosing interval. We believe there is a significant unmet need for extended release products, such as SPN-538 and SPN-804, for the treatment of epilepsy. Extended release products have been shown to improve compliance, increase seizure control, reduce side effects and improve tolerability as compared to immediate release products, which can lead to fewer side effects, better tolerability,<sup>(1)</sup> increased seizure control and greater patient compliance.<sup>(2)</sup>

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(1) Miller, A.D., *Improved CNS tolerability following conversion from immediate- to extended-release carbamazepine*, published June 2004 in *Acta Neurologica Scandinavica*.

(2) Balzac, F., *Medication Noncompliance in Epilepsy*, published March 2006 in *Neurology Reviews*.

We are also developing treatments for new indications in diseases such as ADHD and its coexisting disorders. We are developing SPN-810, which is in a Phase IIb trial, as a novel treatment for impulsive aggression in patients with ADHD. If approved by the FDA, SPN-810 could be the first product available to address this serious, unmet medical need. SPN-810 is based on molindone hydrochloride, which was previously marketed in the United States as an anti-psychotic to treat schizophrenia under the trade name Moban. In addition, SPN-812, which completed a Phase IIa trial, is being developed as a novel non-stimulant treatment for ADHD. SPN-812 is a selective norepinephrine reuptake inhibitor that we believe could be more effective and have a better side effect profile than

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other non-stimulant treatments for ADHD. In addition, because the active ingredient of SPN-812 has demonstrated efficacy as an antidepressant in Europe, this product candidate, if studied in that specific patient population and is shown to be effective, may provide increased benefit to an estimated 40% of ADHD patients who suffer from depression.<sup>(3)</sup>

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(3) Biederman, J., *New Insights Into the Comorbidity Between ADHD and Major Depression in Adolescent and Young Adult Females*, published in April 2008 in *Journal of the American Academy of Child and Adolescent Psychiatry* and Report of CME Institute of Physicians Postgraduate Press, Inc., published in August 2008 in *Journal of Clinical Psychiatry*.

In addition to these four lead product candidates, we have a number of other product candidates in various stages of development such as SPN-809, for which we submitted an investigational new drug application, or IND, in 2008 and which would represent a novel mechanism of action for the U.S. antidepressant market.

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

<b>Product</b>	<b>Indication</b>	<b>Status</b>
<b>SPN-538</b>	Epilepsy	NDA accepted by FDA
<b>SPN-804</b>	Adjunctive therapy for epilepsy	NDA submitted
<b>SPN-810</b>	Impulsive Aggression in ADHD	Phase IIb
<b>SPN-812</b>	ADHD	Phase IIa
<b>SPN-809</b>	Depression	IND filed

We have a long track record of developing novel products by applying proprietary technologies to known drugs to improve existing therapies and enable the treatment of new indications. We have a broad portfolio of drug development technologies consisting of six platforms that include the following: Microtrol (multiparticulate delivery platform), Solutrol (matrix delivery platform) and EnSoTrol (osmotic delivery system). Our proprietary technologies have been used in the following approved products: Carbatrol (carbamazepine), Adderall XR (mixed amphetamine salts), and Intuniv (guanfacine), marketed by Shire; Equetro (carbamazepine), marketed by Validus Pharmaceuticals Inc.; Sanctura XR (trospium chloride), marketed by Allergan; and Oracea (doxycycline), marketed by Galderma. We are continuing to expand our intellectual property portfolio to provide additional protection for our technologies and our product candidates. Throughout our 20 year history, we have continued our commitment to innovation with a focus for the past five years on successfully developing our own product candidates in neurology and psychiatry.

### **Our Strategy**

Our goal is to be a leading specialty pharmaceutical company developing and commercializing new medicines in neurology and psychiatry. Key elements of our strategy to achieve this goal are to:

- *Build in-house sales and marketing capabilities, focused on specialty markets in the United States, to promote SPN-538 and SPN-804.* We are currently focused on attaining regulatory approval for, and bringing to market our two late-stage epilepsy products, SPN-538 and SPN-804, to market. As these product candidates progress towards U.S. regulatory approval, we intend to build our own targeted, specialty sales force to promote, if approved, SPN-538 and SPN-804 in the United States. We intend to direct our marketing efforts to high potential prescribers of both products.
- *Continue to advance our product candidates in our psychiatry portfolio, including SPN-810 and SPN-812.* As part of our longer term strategy, we intend to further develop our product candidates in our psychiatry portfolio to enable further diversification of our pipeline and future growth. For example, in June 2011 we initiated a Phase IIb trial for SPN-810 for impulsive aggression in patients with ADHD.

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- *Develop differentiated products by applying our technologies to known drug compounds.* We intend to continue to focus our development activities on known drug compounds and compounds with established mechanisms of action and thereby reduce the risks, costs and time typically associated with pharmaceutical product development. We intend to leverage our proprietary and in-licensed technologies and expand our patent portfolio to further develop and protect our diverse pipeline of product candidates.
- *Establish strategic partnerships to accelerate and maximize the potential of our product candidates worldwide.* We intend to continue to seek strategic collaborations with other pharmaceutical companies to commercialize our product candidates outside the United States. We believe that we are an attractive collaborator for pharmaceutical companies due to our broad portfolio of proprietary technologies and our product development track record.
- *Leverage our management team's expertise to develop and commercialize our broad portfolio of product candidates.* We intend to leverage the expertise of our executive management team in developing and commercializing innovative therapeutic products. We plan to continue to evaluate and develop additional CNS product candidates that we believe have significant commercial potential through our internal research and development efforts or, if appropriate, external collaborations.

## Epilepsy

### Overview

Epilepsy is a complex neurological disorder characterized by spontaneous recurrence of unprovoked seizures, which are sudden surges of electrical activity in the brain that impair a person's mental or physical abilities. Epilepsy, which is typically diagnosed by a neurologist, is estimated to affect 50 million people worldwide<sup>(4)</sup> and 2 million people in the United States.<sup>(5)</sup> According to IMS Health, U.S. sales of AEDs were approximately \$4.0 billion in 2010. The annual cost of epilepsy is estimated to be \$12.5 billion.<sup>(6)</sup>

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(4) Bialer, M., *Key factors in the discovery and development of new antiepileptic drugs*, published January 2010 in *Nature*.

(5) U.S. Centers for Disease Control and Prevention, *Epilepsy Self-Management Tools* (citing Dilorio, C., *The Prevention Research Centers' Managing Epilepsy Well Network*, published September 2010 in *Epilepsy & Behavior*).

(6) Epilepsy Foundation, *Cost Study Shows Divide in Treatment Effects*, published April 2000.

(7) Citizen Petition of UCB, Inc. to U.S. Food and Drug Administration, submitted October 3, 2006 (citing Schmidt, D., *Uncontrolled epilepsy following discontinuation of antiepileptic drugs in seizure-free patients: a review of current clinical experience*, published December 2005 in *Epilepsia*).

(8) Citizen Petition of UCB, Inc. to U.S. Food and Drug Administration, submitted October 3, 2006 (citing Tomson, T., *Sudden unexpected death in epilepsy: a review of incidence and risk factors*, published May 2005 in *Acta Neurologica Scandinavica*).

Epileptic seizures can cause a person to experience severe muscle jerking, to lose consciousness and fall, or to suffer from distorted vision, all potentially leading to physical injuries or hospitalization. Until reliable seizure control has been achieved, patients are forced to adjust their lifestyles to avoid activities that a seizure can significantly disrupt or render life threatening. A breakthrough seizure is a sudden, unexpected seizure experienced by a patient who previously had achieved reliable seizure control. Even when no physical injury occurs, breakthrough seizures often result in significant social, legal and developmental consequences for patients such as loss of driver's license, loss of employment, disruption of school attendance, academic underachievement, and disruption of social networks. In addition, a single breakthrough seizure can lead to permanent loss or reduction in overall seizure control. Data suggest that a significant proportion of patients who experience a breakthrough seizure have a lower chance of achieving reliable seizure control.<sup>(7)</sup> In certain cases, a single breakthrough seizure can develop into *status epilepticus*, a prolonged seizure or series of repeated seizures, and eventually result in brain damage or death. Data indicate that the risk of sudden unexpected death in epilepsy was 23 times higher in patients who had at least one breakthrough seizure compared to patients who had achieved seizure control.<sup>(8)</sup>

### ***Current Treatment Options***

Once a patient is diagnosed with epilepsy, the goal of the neurologist is to find the particular drug or combination of drugs, and appropriate dosing, that will lead the patient to reliable seizure control while minimizing side effects. There are currently over 15 approved AEDs marketed in the United States. Side effects play a major role in altering treatment in epilepsy as they can limit the usefulness of AEDs. AEDs are generally associated with the incidence of numerous side effects that can adversely impact the quality of life for epileptic patients. Such side effects may include dizziness, paresthesia, headaches, cognitive deficiencies such as memory loss and speech impediment, digestive problems, somnolence, double vision, gingival enlargement, nausea, weight gain, and fatigue. To address these side effects and help patients tolerate their AEDs, neurologists typically initiate treatment with a single AED as monotherapy at a low dose then increase the dose to a higher level until the patient reaches the most efficacious dose with an acceptable tolerance of side effects.

Many patients develop refractory epilepsy, which refers to inadequate control of seizures despite treatment, thereby requiring treatment with multiple AEDs. Patients taking more than one AED at a time are susceptible to side effects associated with each of the multiple drugs and with drug interactions. Despite the introduction of new AEDs in the past few years, drug therapy remains ineffective for seizure control in up to 30% of patients with epilepsy.<sup>(9)</sup> Many patients fail drug therapy either because the drugs do not control their seizures or because they cannot tolerate the side effects.

### ***Dynamics of the Epilepsy Market***

There are several important dynamics that play a major role in the treatment of epilepsy and that differentiate epilepsy from many other diseases:

- ***Compliance is Critical to the Reduction in Breakthrough Seizures***

Compliance with drug treatment regimens is critically important to achieving effective therapy for patients with epilepsy where the consequences of non-compliance can be life threatening. Patient non-compliance with AED therapy is a serious issue and remains one of the most common causes of breakthrough seizures. Not only is taking all prescribed doses critical for epileptic patients, but the timing of when patients take their prescribed doses is also important. Typically, non-compliance is caused by frequent or multiple dosing, serious side effects, or a lack of tolerability. A 2002 survey undertaken by neurologists in the United States found that, at least once per month, 71% of patients with epilepsy forgot to take their AED, and it was evident that the chances of a patient missing a dose increased with the number of tablets prescribed.<sup>(10)</sup> Of patients that missed a dose, 45% reported a breakthrough seizure. Patients taking a larger number of tablets/capsules further increased their odds of having a breakthrough seizure after a missed dose by 43%. In addition, other studies have shown reduced rates in breakthrough seizures as a result of improved compliance with AED treatment regimens.

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(9) World Health Organization, *Epilepsy: aetiology, epidemiology and prognosis*, Fact Sheet No. 165, revised February 2001.

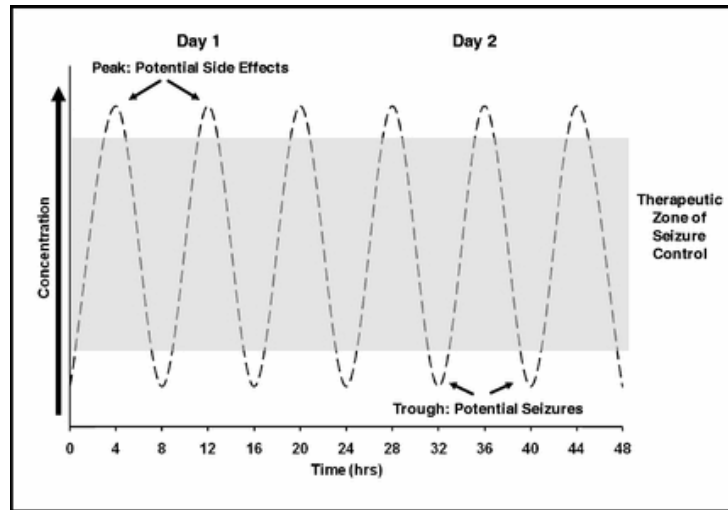
(10) Cramer, J.A., *The relationship between poor medication compliance and seizures*, published August 2002 in *Epilepsy & Behavior*.

- ***Immediate Release Products Have Serious Side Effects and Lack of Tolerability***

The FDA has recognized AEDs as being "critical dose drugs," drugs in which a comparatively small difference in dose or concentration may lead to serious therapeutic failures and/or serious side effects. Immediate release formulations of AEDs necessitate frequent administration to maintain appropriate drug concentrations. However, these immediate release formulations cause wide fluctuations of blood levels of the active drug during the day, with peak concentrations when the drug is released and potentially sub-therapeutic concentrations thereafter. At least one study has shown that complaints of side effects typically occur when blood levels exceed certain concentrations, particularly

at high doses, and the risk of breakthrough seizures can occur when blood levels are below certain minimum effective levels, as indicated in the chart below.

**Simulated Plasma Concentration-Time Curve at Steady State of Immediate Release Anti-Epileptic Drug Administered Over Two Days**



Source: Pellock, JM et al, *Epilepsy & Behavior* 5 (2004), 302

- ***Generic Substitution Can Cause an Increase in Breakthrough Seizures***

Patients today are most typically switched from branded drugs to generics, or from one generic drug to another, mainly to reduce cost. In most states, unless a physician explicitly writes "dispense as written" or "no substitution," pharmacists can switch a patient to a lower-cost generic drug without the consent of either the patient or the physician. Epilepsy patients are particularly vulnerable to changes in their drugs. Slight variations in the blood concentrations of these drugs could lead to the occurrence of breakthrough seizures. Accordingly, despite existing regulatory criteria to ensure the bioequivalence of generic drugs, the "switch-back" rates of AEDs (that is, the frequency of an individual being returned to his or her previous branded product under a physician's guidance) is much higher than for many other drug products. For example, the rates of patients switching back from generics to branded drugs because of adverse events were found to be 20.8% to 44.1% for AEDs compared to 7.7% to 9.1% for non-AEDs.<sup>(11)</sup>

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(11) J. LeLorier, *Clinical consequences of generic substitution of lamotrigine for patients with epilepsy*, published October 2008 in *Neurology*.

A number of epilepsy advocacy groups such as the Epilepsy Foundation, the American Academy of Neurology, the Centers for Medicare and Medicaid Services and several regulatory agencies around the world, including the UK National Institute for Health and Clinical Excellence (NICE), Sweden's Medical Products Agency (MPA) and other European agencies, have all acknowledged that AED generic substitutions for non-therapeutic reasons can be harmful and should either be limited or not permitted, and have issued guidelines, recommendations or taken affirmative steps to limit such substitutions. While we are not aware of any well-controlled studies conducted to establish unequivocal scientific evidence that generic substitutions cause increased incidence of breakthrough seizures, the FDA is currently considering stricter standards of bioequivalence for generics and its Pharmaceutical Science and Clinical Pharmacology Advisory Committee voted 11-2 that the current bioequivalence standards are insufficient for critical dose drugs such as AEDs.

- ***Physicians are Reluctant to Switch to New Chemical Entities***

In the epilepsy market, new chemical entities, or NCEs, generally lack the same appeal that would typically be associated with a new drug for other indications. Based on IMS Health prescription data from 1994 to 2005 for NCE launches for seizure disorders, such NCEs, on average, experienced slow market penetration characterized by a 0.58% to 1.1% market share point gain on an annual basis. We believe this is because physicians are often reluctant to change a stable patient's existing therapy and risk a breakthrough seizure in the patient. Despite the introduction of several NCEs over the past decade, a significant number of epileptic patients continue to lack reliable seizure control. Many NCEs continue to be associated with several side effects. Therefore, many older and existing drugs continue to be prescribed and their prescription levels have either been maintained since their peak or declined very slowly.

***Benefits of Extended Release Products in the Epilepsy Market***

- ***Extended Release Products Improve Compliance and Reduce Breakthrough Seizures***

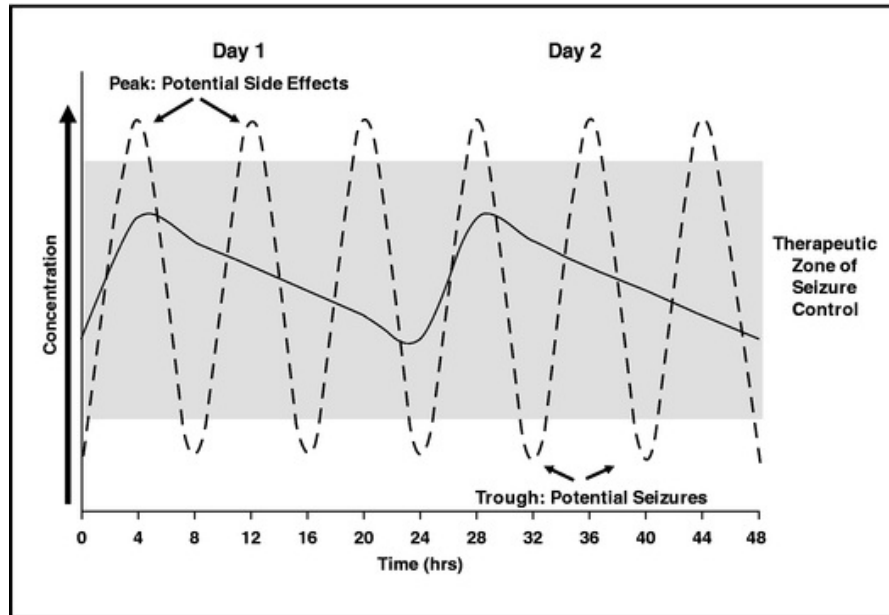
Achieving reliable seizure control for patients and avoiding the serious health and life dangers that can be associated with breakthrough seizures depends on patients being compliant and diligent in taking their medications. Frequent and multiple dosing, side effects and lack of tolerability of the immediate release products can significantly contribute to patients forgetting doses or skipping them. Even taking a second or third dose later than the scheduled time may place a patient at an increased risk of a breakthrough seizure because the drug level in the patient's blood could drop below the minimum effective therapeutic level that prevents such seizures. We believe increased patient compliance can be achieved with extended release products that offer once-daily dosing, reduced side effects and improved tolerability. We believe physicians understand that the release profiles of extended release products can produce more consistent and steadier blood levels as compared to immediate release products, resulting in fewer side effects and better tolerability that further help patients to be compliant, have fewer breakthrough seizures and, correspondingly, enjoy a better quality of life.

- ***Extended Release Products Reduce Side Effects and Improve Tolerability***

When extended release formulations are used appropriately, drug levels remain within the patient's therapeutic zone, thereby reducing patient exposure to fluctuating drug levels, which may exacerbate side effects or induce breakthrough seizures. Because extended release formulations can reduce peak concentrations, it may also be possible to adjust doses upward to a more efficacious level without exacerbating side effects associated with peak concentrations. Extended release formulations can also reduce the frequency and the extent of the troughs, or lower concentrations of the drug in the blood, thereby avoiding concentrations below the minimum effective concentrations that can increase the risk of breakthrough seizures.



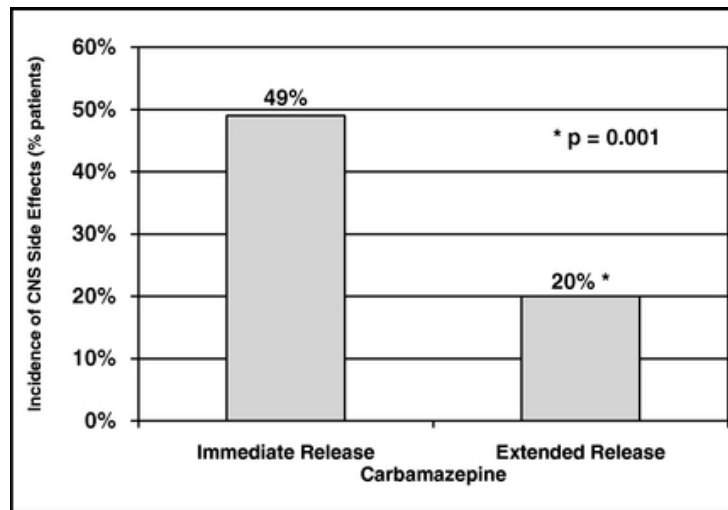
**Simulated Plasma Concentration-Time Curve at Steady State of Immediate Release and Extended Release Anti-Epileptic Drug Administered Over Two Days**



Source: Pellock, JM et al, *Epilepsy & Behavior* 5 (2004), 302

The enhanced safety profile of extended release products as compared to similar immediate release products has been supported by several studies. For example, in a 2004 published trial conducted by physicians at Johns Hopkins, Carbatrol, an anti-epileptic extended release carbamazepine product that uses our Microtrol technology, and Tegretol XR, another extended release carbamazepine product, demonstrated better tolerability and side effect profiles than comparable immediate release products. The trial reported that 49% of patients had side effects during treatment with immediate release carbamazepine such as sedation, double-vision, confusion, ataxia, dizziness or poor coordination, whereas with extended release carbamazepine treatments, only 20% of patients reported these side effects.

**Reduction in CNS Side Effects Following Conversion to Carbamazepine Extended Release from Immediate Release Preparation**



Source: Miller AD et al., Acta Neurol. Scand 2004; 109: 374-377

Equally as important, the patients in the trial tolerated high doses of extended release carbamazepine significantly better than high doses of immediate release carbamazepine. Specifically, 63% of patients treated with 1200 mg or more per day of immediate release carbamazepine developed side effects, yet only 12% of patients experienced side effects while taking similar doses of extended release carbamazepine. The investigators surmised that the improved tolerability of extended release carbamazepine at high doses may provide a treatment option for patients previously discontinuing immediate release carbamazepine because of dose-limiting side effects.

Other products where reductions in side effects were reported by patients when switching from immediate release to extended release formulations include Depakote ER (divalproex sodium extended release) and Keppra XR (levetiracetam extended release).

- ***Managed Care Does Not Limit Success of Extended Release Products***

Given the serious nature of epilepsy and the key dynamics in the epilepsy market, we believe managed care plans acknowledge the important benefits of extended release AED products and, therefore, have not limited the success of such products even when lower cost generic immediate release products are available. For example, according to industry data, the recent launches of extended release products Keppra XR and Lamictal XL have enjoyed acceptance rates by managed care plans that are similar to those of the corresponding immediate release products. Most managed care plans also acknowledge the position of several patient advocacy groups and the American Academy of Neurology regarding the risks of generic substitution of AEDs, including potential for breakthrough seizures. Although switching to a low-cost generic AED may initially offer some cost savings, we believe they also recognize that the risk and cost of one breakthrough seizure outweighs the potential savings from generics. For example, the healthcare costs associated with the treatment of patients who experience breakthrough seizures, which may run in excess of \$26,000 per patient on an annual basis, is significantly greater than any cost savings per patient that may be achieved through switching to a low-cost generic AED. According to a 2009 survey, the total healthcare costs for patients using branded topiramate products were approximately 20% lower than for patients using multiple generic topiramate products.<sup>(12)</sup>

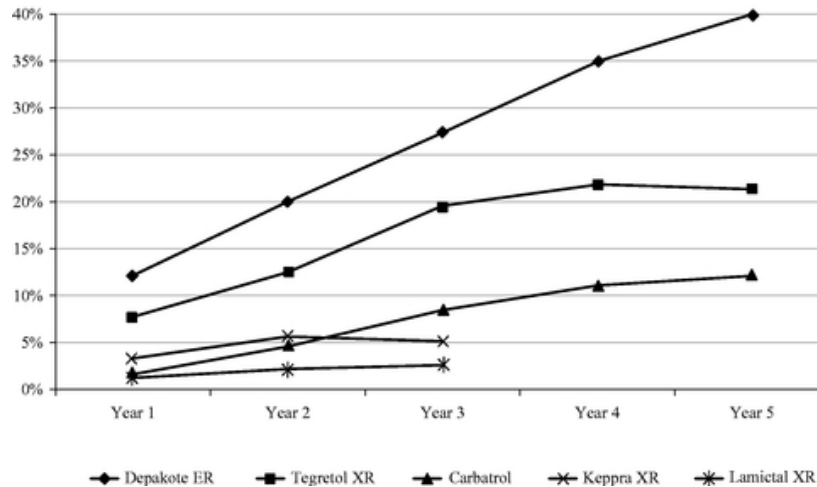
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(12) Duh, M.S., *The risks and costs of multiple-generic substitution of topiramate*, published June 2009 in *Neurology*.

- **Extended Release Products Perform Well in the Market**

Extended release products have generally performed well in the epilepsy market, even in the face of immediate release generic products. Moreover, IMS Health prescription data for seizure disorder drugs from 1994 to 2005 shows that extended release products perform better than NCEs during the first five years of their launch. Currently, there are five extended release AEDs on the market (Tegretol XR, Carbatrol, Depakote ER, Lamictal XL, Keppra XR), as reflected in the chart below, with Depakote ER gaining almost 40% of all divalproex prescriptions, including immediate release versions of Depakote and generic divalproex, in its fifth year after launch. We believe that the modest conversion of the corresponding molecule prescriptions of the recent launches of Keppra XR and Lamictal XL was due to limited promotional support behind both products.

**Comparison of Molecule Conversion of Extended Release Anti-Epilepsy Drugs (measured as percentage of total prescriptions for each individual molecule)**



Source: IMS Health

**Our Late-Stage Neurology Portfolio**

We are developing a promising epilepsy product portfolio consisting of SPN-538 and SPN-804 that utilize our proprietary technologies, Microtrol and Solutrol, respectively, each of which has been proven and validated through use in products that are currently on the market. Among them is Carbatrol, an AED that has been shown to reduce side effects compared to immediate release carbamazepine products. We believe that our 20 years of history and portfolio of technologies have enabled us to develop highly-customized product candidates that overcome challenges with the molecules' pharmacokinetic profiles. Our differentiated approach to product development and the strength of our technologies have allowed us to develop SPN-538 with what we believe to be a unique pharmacokinetic profile and to develop a once-daily formulation of oxcarbazepine with SPN-804 where others have failed.

SPN-538 and SPN-804 are novel extended release formulations of two well known and approved AEDs, topiramate and oxcarbazepine, respectively. Both product candidates are designed to offer epilepsy patients effective therapy, reduced side effects and improved compliance with once-per-day dosing. We believe that by delivering more consistent and steady maintenance of blood level concentrations of topiramate and oxcarbazepine, our product candidates can reduce adverse side effects and improve tolerability of the drugs, which can improve compliance and enable patients to benefit

from better seizure control and fewer breakthrough seizures as compared to similar immediate release products. Given that SPN-538 and SPN-804 are based on different drug compounds and different mechanisms of action, they would target different market segments and patient populations within the epilepsy market.

The FDA accepted our NDA for SPN-538 for filing in November 2011 and we submitted the NDA for SPN-804 in December 2011. The development and regulatory strategy for both products follows a Section 505(b)(2) pathway, which allows us to rely upon FDA's previous findings of safety and efficacy for two known and approved products, Topamax and Trileptal. Therefore, our NDAs are not required to have the same amount of safety or efficacy data as would be required in the case of an NCE, and each NDA could contain different types of clinical trials and clinical data.

#### **SPN-538 (extended release topiramate)**

Our most advanced product candidate is SPN-538, a novel oral once-daily extended release topiramate product for the treatment of epilepsy. We initially submitted the NDA for this product candidate in January 2011 and resubmitted it in September 2011 to address refusal-to-file questions raised by the FDA, relating to chemistry and manufacturing controls issues. We addressed these questions to the FDA's satisfaction and, consequently, the FDA issued an acceptance of the NDA for filing in November 2011. We have conducted fourteen clinical trials in support of the development of SPN-538 and one additional clinical trial is ongoing. SPN-538 delivers topiramate, one of the most effective AEDs, which is marketed by Johnson & Johnson under the brand name Topamax and is also available in a generic form. Topiramate is currently available only in immediate release form and is indicated for monotherapy and adjunctive therapy of epilepsy and for the treatment of migraine. Topamax reached peak worldwide sales of \$2.7 billion in 2008, before generic products entered the U.S. market in March 2009.<sup>(13)</sup> With approximately 9.1 million total topiramate prescriptions in 2009, topiramate continues to represent a significant portion of prescriptions with approximately 8.7% of total prescriptions, according to data from IMS Health. Topiramate is believed to work in epilepsy through various mechanisms. It enhances the inhibitory effect of the GABA (Gamma-Aminobutyric Acid) neurotransmitter that regulates neuronal excitability throughout the nervous system, blocks the excitatory effect of the glutamate neurotransmitter, blocks the sodium channel and inhibits the carbonic anhydrase enzyme. The side effects associated with taking topiramate, which have tended to limit its use, include, among others, dizziness, fatigue, somnolence and slowing of certain cognitive functions. We believe that this creates an opportunity for us to offer patients SPN-538 as an alternative therapy to immediate release topiramate with an improved once-per-day profile.

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(13) Based on sales data as reported in Johnson & Johnson's Annual Report on Form 10-K for the fiscal year ended January 3, 2010.

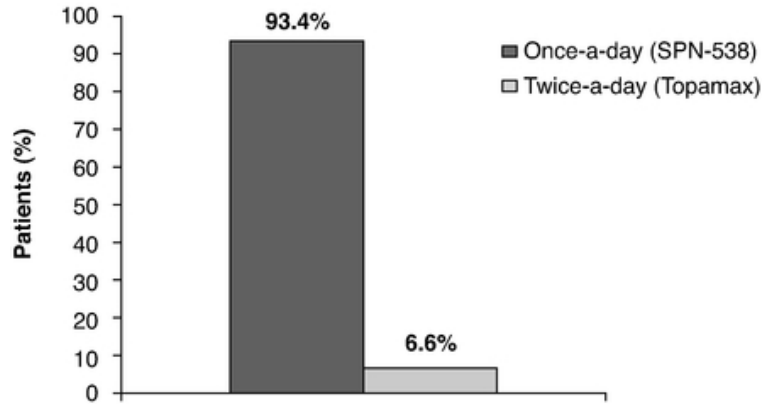
SPN-538 is designed to improve patient compliance and to have a better tolerability profile compared to the current immediate release products that are taken multiple times per day. SPN-538's pharmacokinetic profile delivers lower peak plasma concentrations and lower input rate over an extended time period resulting in smoother and more consistent blood levels of topiramate during the day compared to immediate release Topamax. We believe such a profile avoids blood level fluctuations that are typically associated with many of the side effects or breakthrough seizures that patients can suffer when taking immediate release products. These side effects can lead patients to skipping doses, and such non-compliance, which could place them at higher risk for breakthrough seizures.

SPN-538 was studied in a U.S. Phase II, multicenter, open-label, sequentially-designed conversion clinical trial among patients between the ages of 18 and 65 having partial-onset or primary generalized seizures. Prior to enrolling in the study, patients were taking topiramate twice-a-day immediate release products with total daily regimen that ranged from 200mg-400mg. Patients were first converted to equivalent Topamax twice-a-day immediate release doses for two weeks and then converted to an

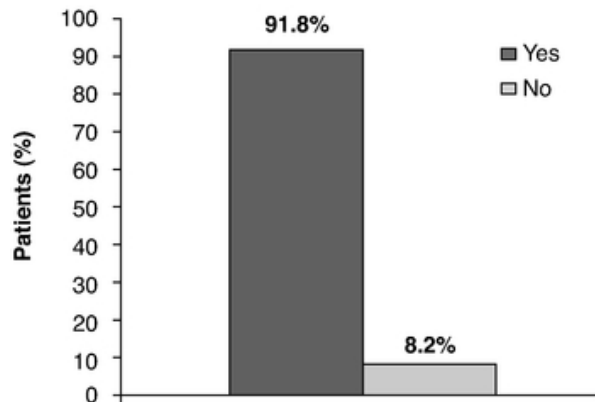
equivalent once daily dose of SPN-538 for two more weeks. The study successfully met its primary objective of showing that SPN-538 is bioequivalent to Topamax immediate release in epilepsy patients. SPN-538 was also well tolerated and the majority of the patients (85.5%) converted from Topamax immediate release to SPN-538 with no treatment related AEs. There were no serious AEs or deaths and all reported AEs were mild to moderate. There were no notable differences in seizure frequency between the treatments.

When asked two questions at the end of the study about their preference, the sixty-one (61) subjects who completed the study responded as follows:

**Which treatment do you prefer? The once-a-day treatment or twice-a-day treatment?**



**Does the once-a-day treatment (SPN-538) help you to be more compliant in taking your medication?**



***SPN-538 Development Program***

We have conducted fourteen clinical trials in support of the development of SPN-538 and one additional clinical trial is ongoing. The NDA for SPN-538 was accepted by the FDA in November 2011. We are pursuing a Section 505(b)(2) regulatory strategy, which allows us to rely in our filing on the FDA's findings of safety and effectiveness of Topamax. The various clinical trials conducted on SPN-538 were designed to select the best extended release once-per-day formulation that delivers equivalent levels of topiramate compared to the immediate release twice-per-day Topamax product, as well as to test the robustness and consistency of our technology in delivering the once-per-day formulation across

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a full range of product strengths. We also have scaled up production of the product candidate at our commercial contract manufacturing facility and have conducted studies that confirm that the commercial scale product is bio-equivalent to the clinical product that was initially developed at our research laboratories.

***Commercialization Strategy***

If we are successful in obtaining regulatory approval, we believe that SPN-538 will be the first once-daily topiramate product approved for the monotherapy and adjunct therapy of epilepsy. We believe that SPN-538 could, over time, capture a significant share of the topiramate prescriptions, consistent with the performance of similar extended release products that have been introduced in the U.S. epilepsy market over the past 15 years. Upon the launch of SPN-538, we plan to build a small specialty sales force primarily targeting neurologists to promote the use of SPN-538 in epilepsy in the United States. This physician group is responsible for a substantial portion of the prescriptions for the treatment of epilepsy and, accordingly, provides an attractive, focused market opportunity for us.

**SPN-804 (extended release oxcarbazepine)**

Our second late-stage product candidate, SPN-804, formerly referred to as Epliga, is a novel oral once-daily extended release formulation of oxcarbazepine, for which we submitted an NDA in December 2011. To date, we have conducted nine clinical trials, including bioequivalence trials and a Phase III trial, and we are conducting two clinical trials to support the development of SPN-804.

SPN-804 delivers oxcarbazepine, another effective AED, which is marketed by Novartis under the brand name Trileptal and is available in a generic form. Trileptal was initially developed and approved in the United States in 2000. Trileptal is indicated for monotherapy and adjunctive therapy of epilepsy. It reached peak worldwide sales of \$721 million in 2006, before generic products entered the U.S. market in October 2007.<sup>(14)</sup> With approximately 3.3 million total oxcarbazepine prescriptions in 2009, oxcarbazepine represents a portion of prescriptions with approximately 3.2% of total prescriptions, according to data from IMS Health. Oxcarbazepine is an active voltage-dependent sodium channel blocker that, despite its effectiveness in treating epilepsy, is associated with many side effects that tend to limit its use. The side effects associated with taking oxcarbazepine include, among others, dizziness, double vision, somnolence, nausea and vomiting. SPN-804 has been designed to reduce side effects, resulting in improved patient compliance and tolerability.

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(14) Based on sales data as reported in Novartis AG's Annual Report on Form 20-F for the fiscal year ended December 31, 2006 and in a media release issued by Novartis International AG on January 21, 2008.

With its novel pharmacokinetic profile that delivers lower peak plasma concentrations, slower rate of input and smoother and more consistent blood levels compared to immediate release products such as Trileptal, we believe SPN-804 has the potential of improving the tolerability of oxcarbazepine by reducing the side effects experienced by patients. This could enable more patients to effectively tolerate higher doses of oxcarbazepine, which would permit them to benefit from the resulting efficacy and greater seizure control that have been previously reported in patients at higher doses. In addition, SPN-804's once-per-day dosing is designed to improve patient compliance compared to the current immediate release products that are taken multiple times per day.

***SPN-804 Development Program***

We have conducted nine clinical trials, including bioequivalence trials and a Phase III trial, and we are conducting two ongoing clinical trials to support the development of SPN-804. We submitted the NDA for SPN-804 in December 2011. We submitted an IND for SPN-804 in 2007. We are pursuing a Section 505(b)(2) regulatory strategy, which allows us to rely in our filing on the existing data and knowledge the FDA has from the NDA of Trileptal. The various clinical trials conducted on SPN-804

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were designed to select the best extended release once-per-day formulation that delivers equivalent levels of oxcarbazepine compared to immediate release twice-per-day Trileptal, as well as to test the robustness and consistency of our technology in delivering the once-per-day formulation across a full range of product strengths. We also have scaled up our production of the product candidate at our commercial contract manufacturing facility, which has produced clinical supplies to conduct our Phase III trial.

In our pilot clinical trial in 32 healthy subjects, which took place in Canada, SPN-804 demonstrated a superior adverse event profile when compared to the immediate release oxcarbazepine therapy Trileptal. In this trial, a single center, open-label, randomized, two-way crossover, two-sequence trial, we compared multiple dose administration of SPN-804 tablets and Trileptal tablets in 32 healthy adult volunteers under fasting conditions. While the steady-state crossover comparison trial was designed to evaluate the steady-state bioavailability of the different formulations of oral oxcarbazepine at 1200 mg doses, the trial also assessed the safety and tolerability of repeat oral dosing of SPN-804 tablets in healthy subjects at 1200 mg in comparison to Trileptal.

In this trial, the adverse events were observed in 30 healthy subjects using a total daily dose of 1200 mg of each of Trileptal and SPN-804. There were 190 total adverse events reported for Trileptal, while SPN-804 generated a total of only 120 adverse events, a reduction of 37%. Of these, a total of 197 adverse events were considered by the principal investigator to be possibly drug related: 131 for Trileptal and 66 for SPN-804. More specifically, Trileptal demonstrated a 36.7% occurrence rate of dizziness as compared to SPN-804 which demonstrated a 0.0% occurrence rate in our trial. In other trials, SPN-804 demonstrated higher occurrence rates of dizziness. The results from these trials and the pilot clinical trial are preliminary and based on small populations.

In the pivotal Phase III trial for Trileptal, refractory patients had increasing reductions in seizures as dose levels increased, including 50% median reduction in seizures at the highest dose of 2400 mg. Of those subjects at 2400 mg, 22% of the subjects were seizure free at the highest dose of 2400 mg. However, Trileptal is not without a host of side effects at the highest doses, which result in many subjects discontinuing treatment. Accordingly, while 22% of subjects were seizure-free during the pivotal trial for Trileptal at the highest dose of 2400 mg, approximately three-quarters of subjects at the highest dose discontinued their participation in the trial, largely because of the adverse events associated with the drug.

We have discussed our Phase III trial for SPN-804 with the FDA in the form of a Special Protocol Assessment, or SPA. The Phase III protocol assessed the safety and effectiveness of SPN-804 as an adjunctive therapy in patients with a diagnosis of simple partial seizures and complex partial seizures with or without secondarily generalized seizures as confirmed by the 1981 and 1989 International League Against Epilepsy Classifications. We met with the FDA in July 2008 regarding the Phase III protocol. We revised the clinical protocol to address the FDA's comments and submitted a protocol amendment to the FDA in October 2008. We have not had any further discussions with the FDA relating to trial design after we submitted the amended protocol and proceeded with our study design in the absence of further discussion or confirmation from the FDA. The FDA has substantial discretion in the drug approval process and could determine that the amended protocol is inadequate, requiring us to revise our trial design or conduct a new trial and delaying approval of SPN-804.

Epilepsy can be broadly characterized into partial and generalized seizures. Partial seizures occur in a specific location of the brain, affecting the physical or mental activity controlled by that particular area of the brain, whereas generalized seizures occur throughout both hemispheres of the brain at once. Partial seizures may be further subdivided into both simple and complex seizures. This refers to the effect of such a seizure on consciousness; simple seizures cause no interruption to consciousness (although they may cause sensory distortions or other sensations), whereas complex seizures interrupt consciousness to varying degrees.

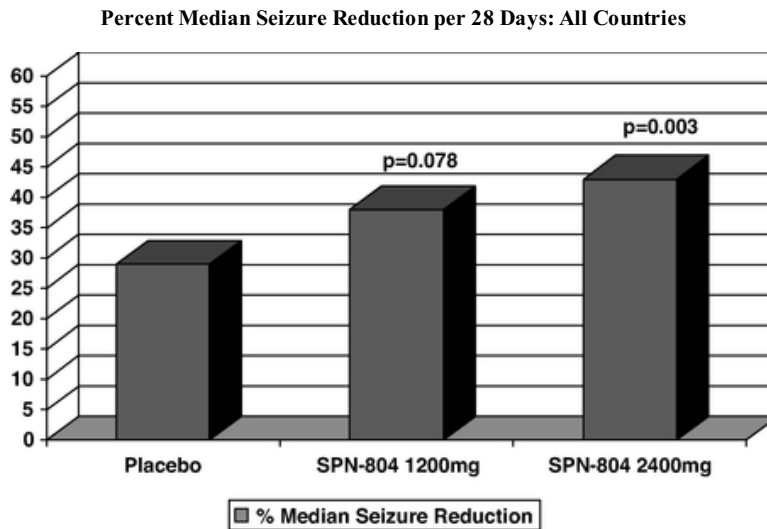
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The Phase III trial was a multi-center, multiple-dose, randomized (1:1:1 ratio), double-blind, placebo-controlled, three-arm, parallel group trial in male and female subjects (18 to 65 years of age, inclusive) with refractory partial epilepsy on at least one and up to three concomitant AEDs. The trial was completed with 366 patients comprising the intent-to-treat (ITT) population and 248 completing the study across 8 different countries in North America and Europe. Patients were randomized to one of three treatment groups, and took either SPN-804 (1200 mg/day or 2400 mg/day) or placebo.

The primary objective of the trial was to evaluate the efficacy of SPN-804 as an adjunctive therapy in the treatment of seizures of partial origin in adults with refractory epilepsy on at least one and up to three other AEDs. The secondary objectives were to primarily assess the safety and tolerability of adjunctive SPN-804 in the treatment of seizures of partial origin in subjects with refractory epilepsy on at least one and up to three other AEDs.

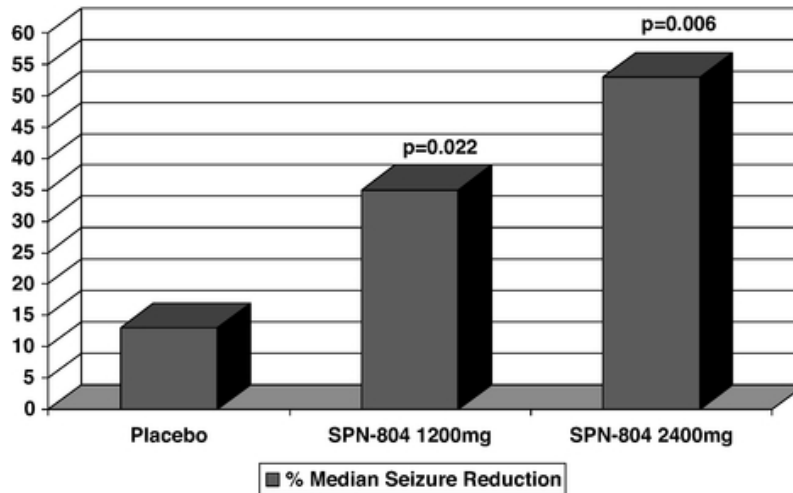
The primary endpoint was the median percentage change from baseline in partial seizure frequency per 28 days. Seizure frequency was assessed at baseline over 4-8 weeks. Patients had to have experienced a minimum of 3 seizures in a 28-day period to be included in the study. Drug titration to 1200mg or 2400mg occurred over 4 weeks using increments of 600 mg/week, and then was maintained between 12 and 13 weeks.

The median seizure reduction achieved in the study was 43% for SPN-804 2400 mg/day with a *P*value (*p*) of 0.003 versus placebo (111 patients), 38% for SPN-804 1200 mg/day with *p*= 0.078 versus placebo (109 patients), and 29% for placebo (117 patients). In North America, the median reduction was 53% (35 patients) for SPN-804 2400 mg/day with *p*=0.006 versus placebo, 35% (40 patients) for SPN-804 1200 mg/day with *p*=0.022 versus placebo, and 13% for placebo (41 patients).





**Percent Median Seizure Reduction per 28 Days: North America**



Secondary endpoints included treatment response (i.e., how many responders had  $\geq 50\%$  reduction in partial seizure frequency), and how many patients were seizure-free. At 2400 mg/day, SPN-804 provided significant treatment response ( $p=0.018$ ) and seizure-free rates during treatment ( $p=0.013$ ) and maintenance ( $p=0.008$ ) periods versus placebo.

**Treatment Response and Seizure-Free Rates (ITT Population)**

	SPN-804 1200 mg/day (n=123)	SPN-804 2400 mg/day (n=122)	Placebo (n=121)
<b>Treatment response</b>			
n	109	111	117
Responder, n (%)	44 (36.1)	50 (40.7)	34 (28.1)
Non-responder, n (%)	65 (53.3)	61 (49.6)	83 (68.6)
<i>P</i> value versus placebo	0.075	0.018	
<b>Seizure-free rates (treatment phase)</b>			
Subjects with valid diary entry	109	111	117
Seizure free, n (%)	6 (4.9)	14 (11.4)	4 (3.3)
<i>P</i> value versus placebo	0.528	0.013	
<b>Seizure-free rates (maintenance phase)</b>			
Subjects with valid diary entry	97	88	109
Seizure free, n (%)	4 (3.3)	17 (13.8)	7 (5.8)
<i>P</i> value versus placebo	0.546	0.008	

Safety assessments were conducted throughout the study. AE rates were similar for patients receiving placebo and SPN-804 1200 mg/day (55.4% and 56.6%, respectively); AE rates were slightly higher in patients receiving SPN-804 2400 mg/day (69.1%). The most frequently reported AEs with SPN-804 were dizziness, somnolence, headache, nausea, double vision, and vomiting. Serious AEs occurred in 8.1%, 5.7%, and 5.8% of those on SPN-804 2400 mg/day, SPN-804 1200 mg/day, and placebo, respectively. One death (resulting from ovarian cancer) occurred on placebo and no deaths occurred on SPN-804 therapy. AEs led to study discontinuation in 12.4% (n=15) of patients receiving placebo, 16.4% (n=20) of patients receiving SPN-804 1200 mg/day, and 30.1% (n=37) of patients receiving SPN-804 2400 mg/day.

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In summary, SPN-804 2400 mg/day significantly reduced partial seizure frequency from baseline versus placebo. Seizure frequency reduction with SPN-804 1200 mg/day was greater than but did not separate from placebo. This finding may be explained by the high placebo response rate noted in this study and is consistent with a general trend of higher placebo response rates observed in pivotal studies of other new AEDs. Both SPN-804 doses were generally well tolerated with no new safety signals observed. The improved tolerability of SPN-804, especially at doses up to 2400 mg/day, may translate to improved adherence and better patient outcomes.

### **Commercialization Strategy**

If we are successful in obtaining regulatory approval, we expect SPN-804 to be the only once-daily oxcarbazepine product indicated for the treatment of epilepsy as an adjunctive therapy and to compete against the existing immediate release oxcarbazepine products on the market. We believe that SPN-804 could, over time, capture a significant share of the oxcarbazepine prescription market, consistent with the performance of similar extended release products that have been introduced in the U.S. epilepsy market over the past 15 years. To support the commercial launch of SPN-804, we plan to further expand our U.S. specialty sales force in epilepsy to promote both SPN-538 and SPN-804.

## **ADHD**

### **Overview**

ADHD is a common CNS disorder characterized by developmentally inappropriate levels of inattention, hyperactivity, and impulsivity. ADHD affects an estimated 6% to 9% of all school-age children and 3% to 5% of adults in the United States.<sup>(15)</sup> An estimated 60% to 80% of children with ADHD continue to meet criteria for ADHD into adolescence.<sup>(16)</sup> In 2008, the U.S. market for ADHD prescription drugs was more than \$4 billion, according to data from IMS Health.

Diagnosis of ADHD requires a comprehensive clinical evaluation based on identifying patients who exhibit the core symptoms of inattention, hyperactivity, and impulsivity. Generally, behavior is sufficiently severe and persistent to cause functional impairment. Although many children may be inattentive, hyperactive or impulsive, the level of severity and degree of functional impairment, as well as considerations of what may be behind the underlying symptoms, determine which children meet the diagnosis and are treated for ADHD. It is estimated that the annual societal cost of illness for ADHD is more than \$36 billion.<sup>(17)</sup>

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(15) Dopheide, J.A., *Attention-Deficit-Hyperactivity Disorder: An Update*, published June 2009 in *Pharmacotherapy*.

(16) Floet, A.M.W., *Attention-Deficit/Hyperactivity Disorder*, published February 2010 in *Pediatrics in Review*.

(17) Pelham, W.E., *The Economic Impact of Attention-Deficit/Hyperactivity Disorder in Children and Adolescents*, published July 2007 in *Journal of Pediatric Psychology*.

### **Current Treatment Options**

Since Ritalin was introduced, stimulant therapies have grown to become the most common form of treatment for ADHD. Studies indicate that approximately 80% of ADHD patients respond to stimulants.<sup>(18)</sup> A key difference between older and newer oral stimulants is the duration of action. Most of the older stimulants, representing approximately 35% of total oral stimulant prescriptions based on IMS Health data, are immediate release products that last approximately four hours, requiring multiple administrations throughout the day. In contrast, most of the recently launched products, representing approximately 65% of total oral stimulant prescriptions based on IMS Health data, are extended release formulations that last up to twelve hours or more.

(18) Swanson, J.M., *Attention-deficit hyperactivity disorder and hyperkinetic disorder*, published February 1998 in *The Lancet* and Budur, K., *Non-Stimulant Treatment for Attention Deficit Hyperactivity Disorder*, published July 2005 in *Psychiatry*.

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While stimulant treatments calm and improve the concentration of ADHD patients, these drugs have been shown to have various side effects including loss of appetite, insomnia and, to a lesser degree, cardiovascular effects. Stimulant treatments are controlled substances and can be associated with social stigma and the potential for abuse. Approximately 30% of patients with ADHD are non-responsive to or non-tolerant of treatment with stimulants.<sup>(19)</sup> Non-stimulants offer physicians an alternative ADHD therapy, including for patients who have coexisting conditions, such as conduct disorder, major depressive disorder, or bipolar disorder, that are contraindicated for stimulant use based on the risk for stimulant abuse.

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- (19) Wigal, S.B., *Efficacy and Safety Limitations of Attention-Deficit Hyperactivity Disorder Pharmacotherapy in Children and Adults*, published August 2009 in *CNS Drugs* and Budur, K., *Non-Stimulant Treatment for Attention Deficit Hyperactivity Disorder*, published July 2005 in *Psychiatry*.

### **Coexisting Conditions**

Studies show that as many as 67% of children who have ADHD may have coexisting conditions such as oppositional defiant disorder, conduct disorder, anxiety disorder and depression.<sup>(20)</sup> In addition, it has been estimated that approximately 25% of children with ADHD also exhibit persistent conduct problems, such as impulsive aggression.<sup>(21)</sup> Untreated, these serious conduct problems can place patients at risk of persistent aggressive and anti-social behavior, such as knowingly destroying property, physically attacking people and bullying. These patients also face an increased risk of suicidal behavior, and are at high risk of entering the juvenile justice system and developing substance abuse problems later in adulthood.

- (20) Floet, A.M.W., *Attention-Deficit/Hyperactivity Disorder*, published February 2010 in *Pediatrics in Review*.
- (21) Jensen, P.S., *Consensus Report on Impulsive Aggression as a Symptom Across Diagnostic Categories in Child Psychiatry: Implications for Medication Studies*, published March 2007 in *Journal of the American Academy of Child and Adolescent Psychiatry*.

Aggression is usually divided into two subtypes: predatory (i.e., "cold") aggression, which can be described as goal-oriented, controlled and/or planned, and impulsive or affective ("hot") aggression, which can be described as reactive, unplanned and/or uncontrolled. Patients with ADHD who exhibit aggression commonly demonstrate the "hot," or impulsive, type of aggression. For these patients, this "hot" aggression is generally recurrent, occurs outside of a justifiable social context, has intensity, frequency, duration or severity that is disproportionate to its triggers and causes distress and impairment to the patient. Impulsive aggression represents a broad category of maladaptive, aggressive behaviors that can complicate the management of ADHD, autism, bipolar disorder, post-traumatic stress disorder and other psychiatric disorders.

### **Current Treatments for Impulsive Aggression in Patients with ADHD**

Currently, there are no approved medications for treating impulsive aggression in patients with ADHD. The current treatment options for impulsive aggression in patients with ADHD include psychosocial interventions, such as school- or family-based behavioral therapies, which are usually not wholly effective. In the large, multisite Multimodal Treatment Study of Children with ADHD,<sup>(22)</sup> a seminal clinical trial designed by experts from key stakeholder communities such as the National Institute of Mental Health, researchers observed that after 14 months of either ADHD medication-only or a regimen that combined ADHD medication with behavioral interventions, 44% of those children with ADHD (or 26% of the total sample size in the trial) who exhibited initial aggression still had what can be described as impulsive aggression at the end of the trial, demonstrating that psychosocial interventions may not work for a large percentage of children with ADHD who exhibit aggressive behaviors.

- (22) The MTA Cooperative Group, *A 14-month randomized clinical trial of treatment strategies for attention-deficit/hyperactivity disorder*, published December 1999 in *Archives of General Psychiatry*.

In response, doctors have also tried to address this group with off-label use of prescription medicines, such as mood stabilizers, stimulants and anti-psychotic drugs. Results have varied, but anti-psychotic drugs appear to have the best therapeutic potential. Unfortunately, many of these agents are associated with adverse effects including obesity, lipid abnormalities, and diabetes, which is of particular concern when treating pediatric populations.

### **Our Psychiatry Portfolio**

Our psychiatry portfolio includes three product candidates for the treatment of ADHD or its coexisting conditions and one product candidate for depression, each of which is designed to bring important advancements in therapy.

#### **SPN-810 (molindone hydrochloride)**

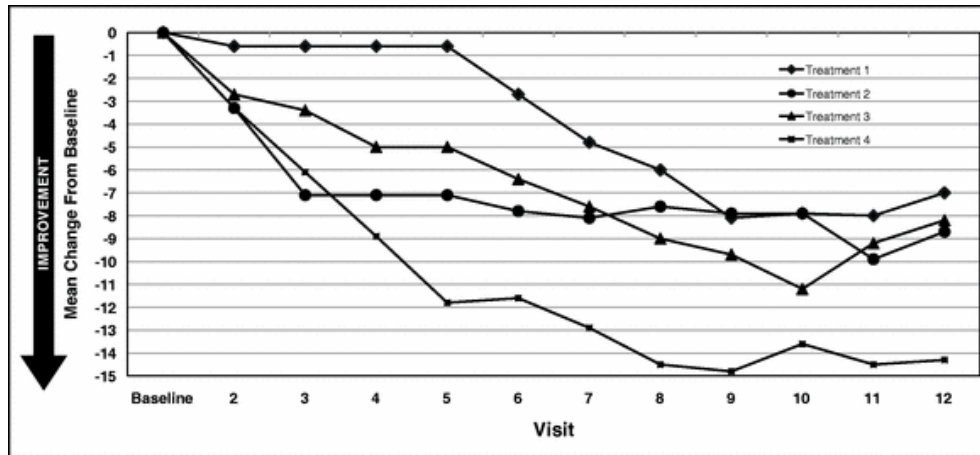
We are developing SPN-810 as a novel treatment for impulsive aggression in patients with ADHD. We initiated a Phase IIb trial of SPN-810 in the U.S. in June 2011. If approved by the FDA, SPN-810 could be the first product available to address this serious, unmet medical need. We submitted INDs for SPN-810 in 2008 and 2009.

We are studying SPN-810, which contains molindone hydrochloride, as a treatment of impulsive aggression in patients with ADHD. Molindone hydrochloride was previously marketed in the United States as an anti-psychotic to treat schizophrenia under the trade name Moban. Molindone hydrochloride is unusual among anti-psychotics in that it is not associated with weight gain. In addition, we believe the lower doses tested for the proposed indication of impulsive aggression should be more easily tolerated than the higher doses approved to treat schizophrenia. SPN-810's low potential to cause weight gain leads us to believe that SPN-810 could be an attractive candidate among the anti-psychotic drugs for the effective treatment of impulsive aggression in patients with ADHD. Although initially we are developing SPN-810 as a treatment of impulsive aggression, if we are successful in demonstrating the effectiveness of SPN-810 for the treatment of impulsive aggression in patients with ADHD, we may then look to develop the product candidate for the treatment of other patient populations that have impulsive aggression, such as autism and bipolar disorder.

#### ***SPN-810 Development Program***

We have completed four clinical trials for SPN-810, including a Phase IIa U.S. trial in which we tested the safety and tolerability of SPN-810, immediate release molindone hydrochloride, in patients with ADHD who suffer from serious persistent conduct problems. This open-label, dose-ranging trial randomized 78 children, 6-12 years of age, into one of four treatment groups, which were given four different doses of immediate release molindone hydrochloride, between 10 mg and 40 mg per day, depending on weight, three times a day over a six-week treatment period, after 2-5 weeks of titration. SPN-810 was well tolerated in the trial, with no clinically meaningful changes in standard hematology, clinical chemistry values, vital signs or electrocardiogram (ECG) results. Besides safety and tolerability assessments, the primary outcome measure was the change in the Nisonger Child Behavior Rating Form-Typical Intelligence Quotient (NCBRF-TIQ) conduct problem subscale scores from baseline to endpoint in the ITT population. NCBRF-TIQ is a known instrument that has been used for assessing child and adolescent behavior. Scores improved after baseline in all treatment groups. By visit 12, after 6 weeks of treatment, the mean reduction from baseline for each treatment group was 7.0, 8.7, 8.2 and 14.3, in groups 1, 2, 3, and 4, respectively, representing decreases of 34%, 34%, 32% and 55%, respectively. In addition, the difference between group 1 and group 4 was statistically significant ( $p \leq 0.041$ ) at all time points except visit 2 and the greatest improvement in scores on the NCBRF-TIQ conduct problem subscale was seen in group 4, which was the highest-dose group (14.8 mean

reduction). The below chart summarizes the mean change in NCBRF-TIQ conduct problem subscale observed in our Phase IIa trial.



**NCBRF-TIQ Conduct Problem Subscale:  
Mean Change from Baseline in ITT Population**

Secondary outcomes included changes in other ADHD and conduct problem scales, as described in the table below. SPN-810 demonstrated improved scores over time in all treatment groups, with more marked improvements in higher-dose groups than in lower-dose groups as set out in greater detail in the table below.

**% Improvement from Baseline to Last Visit,  
Secondary Outcome Measures (ITT Population)**

Outcome Measure	Treatment Groups			
	Group 1 n=20	Group 2 n=19	Group 3 n=19	Group 4 n=20
<b>CGI-S</b>				
% Improvement	23%	21%	27%	36%
<b>SNAP-IV Subscales</b>				
<b>ADHD Inattention</b>				
% Improvement	24%	31%	34%	39%
<b>ADHD Hyperactivity/Impulsivity</b>				
% Improvement	28%	27%	28%	41%
<b>ADHD-Combined</b>				
% Improvement	26%	29%	31%	40%
<b>ODD</b>				
% Improvement	34%	33%	28%	51%

CGI-S=Clinical Global Impression-Severity Scale, an assessment tool to rate the severity of the condition; ODD=Oppositional Defiant Disorder, a coexisting condition of ADHD; SNAP-IV=Swanson, Nolan and Pelham Questionnaire, a commonly used scale to measure ADHD.

In June 2011, we initiated in the U.S. a Phase IIb multicenter, randomized, double-blind, placebo-controlled trial in pediatric subjects 6 to 12 years of age diagnosed with ADHD and impulsive

aggression that is not controlled by optimal stimulant and behavioral therapy. The primary objective is to assess the effectiveness of SPN-810, extended release, at three different doses in reducing impulsive aggression after at least three weeks of treatment. Secondary objectives include measurement of the effectiveness of SPN-810 on Clinical Global Impression and ADHD scales as well as evaluation of the safety and tolerability of the drug. In addition, we will be exploring the potential added advantages of an extended-release formulation, such as greater compliance and, therefore, effectiveness in school-age children and lower unwanted side effects or interpatient variability. Patients who complete the study are offered the opportunity to continue into an open-label phase of six months duration.

## **SPN-812**

We are developing SPN-812, which is currently in Phase II development as a novel non-stimulant treatment for ADHD. SPN-812 is a selective norepinephrine reuptake inhibitor that we believe could be more effective and have a better side effect profile than other non-stimulant treatments for ADHD. The active ingredient in SPN-812 has an extensive safety record in Europe, where it was previously marketed for many years as an antidepressant. SPN-812 has not been developed and marketed in the United States and, therefore, it would be considered and reviewed by the FDA as a new chemical entity. We submitted one IND for SPN-812 in 2010.

SPN-812 would provide an additional option to the few non-stimulant therapies currently available. We believe that SPN-812 could be more effective than other non-stimulant therapies due to its different pharmacological profile. Due to its demonstrated efficacy as an antidepressant, SPN-812, if studied in that specific patient population and is shown to be effective, may exhibit increased benefit in up to an estimated 40% of ADHD patients who also suffer from major depression.<sup>(23)</sup> We are developing an intellectual property position around the novel synthesis process for this product candidate, its novel use in ADHD and its novel delivery with extended release.

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(23) Biederman, J., *New Insights Into the Comorbidity Between ADHD and Major Depression in Adolescent and Young Adult Females*, published in April 2008 in *Journal of the American Academy of Child and Adolescent Psychiatry* and Report of CME Institute of Physicians Postgraduate Press, Inc., published in August 2008 in *Journal of Clinical Psychiatry*.

### ***SPN-812 Development Program***

We completed a proof-of-concept Phase IIa U.S. clinical trial of SPN-812 in adults for the treatment of ADHD in 2011, in which SPN-812 was well tolerated and demonstrated a statistically significant improvement over placebo as a treatment for ADHD. The trial met the primary endpoints of safety and tolerability, and showed statistically significant median reduction versus placebo in both investigator-rated and patient-rated ADHD symptom scores. The trial was a randomized, double-blind, placebo-controlled trial in 52 adults with a current diagnosis of ADHD (26 subjects per treatment group).

Patients in the active arm were administered SPN-812 at a single dose level three times a day over five weeks, after a one-week titration phase. The primary endpoint was safety, and SPN-812 was shown to be safe and well tolerated by patients. The secondary endpoints included: the efficacy of SPN-812 as measured by Total ADHD Symptom Score on the Conners' Adult ADHD Rating Scale, or CAARS, a commonly-used measurement for ADHD in adults, as rated by each of the investigators and the patients, and the effectiveness of SPN-812 when compared to placebo as determined by changes in the Clinical Global Impressions—Improvement, or CGI-I, score. Patients in the active group achieved overall significant median reductions from baseline in investigator-rated CAARS total ADHD symptom scores by study end, of 11.5 points versus 6.0 points for placebo ( $p=0.0414$ ) and in self-rated CAARS total symptom scores by study end, of 10.5 points versus 1.0 for placebo ( $p=0.0349$ ). With respect to the other secondary endpoint of CGI-I scores, patients exhibited a trend, although not statistically significant, toward larger median reductions in scores from baseline versus placebo.

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Given the positive results of this Phase IIa trial, we are focused on developing an extended release formulation that will be the subject of a future Phase IIb trial.

### **SPN-809**

We are developing SPN-809 as a novel once-daily product candidate for the treatment of depression. SPN-809 is based on the same active ingredient as our SPN-812 product candidate. We currently have an open IND for SPN-809 as a treatment of depression, the indication for which the active ingredient in SPN-809 was approved and marketed in Europe for many years. Depression is a serious and common disease affecting approximately 121 million people worldwide.<sup>(24)</sup> Based on IMS Health data, the worldwide market for antidepressants is approximately \$12 billion.

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(24) World Health Organization, *Epilepsy: aetiology, epidemiology and prognosis*, Fact Sheet No. 165, revised February 2001.

SPN-809 is a norepinephrine reuptake inhibitor that represents an opportunity to offer a differentiated treatment option for patients suffering from depression in the United States. Initial market research suggests that psychiatrists would like to have such a once-daily option at their disposal to treat various patients. Because SPN-809 contains the same active ingredient as SPN-812, we expect that many of our activities related to the development of SPN-812 will also benefit the development of SPN-809.

### **Other Product Candidates**

We have additional product candidates in various stages of early development that cover a range of CNS disorders.

### **Our Proprietary Technology Platforms**

We have a long track record of developing novel products by applying proprietary technologies to known drugs to improve existing therapies and enable the treatment of new indications. Our key proprietary technology platforms include: Microtrol, Solutrol and EnSoTrol. These technologies create customized product profiles designed to meet efficacy needs, more convenient and less frequent dosing, enhanced patient compliance, and improved tolerability in certain specific applications. Our broad portfolio of technologies and extensive expertise in this area, which have been built over the past 20 years, enable us to develop products that are technically difficult to formulate or by design are made harder to be copied by others. We have employed our technologies in the development of our legacy products, as well as our current product portfolio.

#### ***Microtrol (multiparticulate delivery platform)***

Microtrol is based on the use of coated and uncoated multi-particulates that can be filled into capsules, administered as a sprinkle, or compressed into tablets as varying ratios to achieve customized release profiles. The following approved and marketed products incorporate our Microtrol technology:

- Sanctura XR (trospium chloride), a treatment for overactive bladder;
- Oracea (doxycycline), a treatment for inflammatory lesions of rosacea;
- Carbatrol (carbamazepine), an anti-epilepsy treatment;
- Equetro (carbamazepine), a treatment for bipolar disorder; and
- Adderall XR (mixed amphetamine salts), a stimulant ADHD treatment.

We do not expect the above products to contribute to our future cash. Carbatrol, Equetro and Adderall XR are legacy products that were developed by us when we were formerly Shire Laboratories. In addition, in April 2008, we monetized the revenues underlying the future royalty streams relating to

Sanctura XR and Oracea by transferring certain of our royalty payment rights and other license rights for such products to Royalty Sub in exchange for \$63 million. We primarily reinvested the proceeds from this transaction into our research and development activities. In December 2011, we sold 100% of our equity ownership interests in Royalty Sub. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—History of our Company" for additional details regarding the sale of Royalty Sub.

***Solutrol (matrix delivery platform)***

Solutrol is a matrix delivery system that can deliver poorly soluble, highly soluble, and pH dependent compounds in a reproducible and complete manner. Solutrol has been incorporated into Intuniv (guanfacine), a nonstimulant ADHD treatment, which is currently licensed to and marketed by Shire plc. In April 2009, this license became fully paid up when we sold to Shire the right to receive royalties and milestone payments owed to us for \$36.9 million, which we primarily reinvested into our research and development activities.

***EnSoTrol (osmotic delivery system)***

EnSoTrol is comprised of a solubility enabled core and other agents surrounded by a semi-permeable membrane with a laser-drilled hole. When EnSoTrol is introduced to the contents of the gastrointestinal tract, it will induce solubilization of the core contents via fluid intake across the membrane coating. The solubilized core contents are then released through the laser-drilled hole along the osmotic gradient, thus yielding a surface-area controlled constant release profile. EnSoTrol has been tested in several clinical trials, including a Phase III trial currently being conducted by United Therapeutics Corporation, or United Therapeutics for an oral formulation of tadalafil diethanolamine, or tadalafil.

In June 2006, we entered into a license agreement with United Therapeutics for the worldwide development and commercialization of an oral formulation of tadalafil, which utilizes EnSoTrol for the treatment of pulmonary arterial hypertension, or PAH, as well as for other indications. Under the terms of the license agreement, we have received pre-commercial milestone payments of \$1.5 million. Remaining milestone payments to us could total up to approximately \$6.0 million, which includes milestone payments that could total \$2.0 million based on the satisfaction of development milestones of oral tadalafil in PAH and up to approximately \$4.0 million for the development of additional tadalafil products for a second indication. If United Therapeutics receives approval to market and sell an oral formulation of tadalafil, we will be entitled to receive royalties in the single digits based on net sales worldwide. Our license agreement with United Therapeutics will expire, on a country-by-country and product-by-product basis, 12.5 years from the first commercial sale of each product in such country. United Therapeutics may terminate, at its option, the agreement for a technical, strategic or market-related cause after giving us a reasonable opportunity to cure. We may terminate the agreement if, after having launched a product in a country, United Therapeutics or its sublicensee discontinues the sale of such product for a prolonged period of time for reasons unrelated to force majeure, regulatory or safety issues. In addition, either party may terminate the agreement for the material, uncured breach by the other party and in certain events of bankruptcy or insolvency of the other party.

***Other Technologies***

We also have proprietary techniques for identifying lead molecules and optimizing their oral delivery consisting of ProScreen, ProPhile and OptiScreen technologies. ProScreen is a predictive screen for lead candidates that warrant oral delivery. ProPhile is a suite of in silico modeling tools that enables multivariate analysis and pharmacokinetic prediction. OptiScreen is a technology for formulation optimization including solubility or permeability enhancement leading to oral bioavailability



improvement. We believe that this suite of technologies enables us to optimize the delivery and the development of existing chemical entities and marketed products.

### **Sales and Marketing**

We are preparing the build-out of our commercial infrastructure to launch both SPN-538 and SPN-804 in the United States. Upon approval of SPN-538, we would hire a small specialty sales force, initially consisting of a limited number of field sales representatives to support the launch of the product. We would then seek to expand our sales force in connection with an approval and commercial launch of SPN-804. Having two epilepsy products that can be promoted to the same physician audience would allow us to leverage our commercial infrastructure with these prescribers. Once we have obtained approval for any of our product candidates in our psychiatry portfolio, we anticipate adding additional sales force members who will be dedicated towards marketing our psychiatry products.

### **Manufacturing**

We do not own or operate manufacturing facilities for the production of any of our product candidates beyond Phase II clinical trials, nor do we have plans to develop our own manufacturing operations for Phase III clinical materials or commercial products in the foreseeable future. We currently depend on third-party contract manufacturing organizations, or CMOs, for all of our required raw materials and drug substance for our preclinical research and clinical trials. We do not have any current contractual relationships for the commercial manufacture of any of our product candidates. For SPN-538 and SPN-804, we currently rely on single suppliers for raw materials including drug substance and single manufacturers for the product candidates, and expect to rely on third-party suppliers and manufacturers for the final commercial products. We currently employ internal resources and as needed third-party consultants to manage our manufacturing contractors.

For our two most advanced product candidates, SPN-538 and SPN-804, we are presently negotiating agreements with leading CMOs headquartered in North America for the manufacture of the final commercial products. These CMOs offer a comprehensive range of contract manufacturing and packaging services and have successfully handled the scale up of the two product candidates to a commercial production scale in preparation for the commercialization of both product candidates.

### **Competition**

The biotechnology and pharmaceutical industries are highly competitive. A number of multinational pharmaceutical companies as well as large biotechnology companies are pursuing the development of or are currently marketing pharmaceutical products in the anti-epilepsy and ADHD markets on which we are focusing.

#### ***Epilepsy***

There are currently over 15 branded products, as well as their generic counterparts, on the U.S. market indicated to treat some form of epilepsy. Several NCEs are expected to enter the epilepsy market in the next few years. Based on IMS Health prescription data from 1994 to 2005 for NCE launches for seizure disorders, such NCEs, on average, experienced slow market penetration characterized by a 0.58% to 1.1% market share point gain on an annual basis. We believe this is because physicians are often reluctant to change a stable patient's existing therapy and risk a breakthrough seizure in their patients. If approved, SPN-538 (extended release topiramate) will compete with all immediate release topiramate products including Topamax and related generic products. We are aware that Upsher-Smith announced the initiation of a Phase III clinical trial for an extended release topiramate product, which it has described as an internally developed program for the management of epilepsy in adults using its proprietary formulation technology. If this product candidate

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is approved by the FDA before SPN-538, then Upsher-Smith could obtain three years of marketing exclusivity, which would significantly delay our entry into the U.S. market.

In late December 2011, Upsher-Smith submitted a citizen petition to the FDA, stating that the FDA refrain from approving any application for extended-release topiramate that does not include an adequate and well-controlled clinical study demonstrating the safety and efficacy of an extended release topiramate product. The citizen petition states that the FDA required Upsher-Smith to conduct such a study for its extended-release topiramate candidate and that it would be inequitable, in Upsher-Smith's opinion, for the FDA not to require other applicants for extended-release topiramate to conduct similar studies. The Federal Food, Drug, and Cosmetic Act provides that the FDA shall not delay approval of a pending 505(b)(2) application on the basis of a citizen petition unless such delay is necessary to protect the public health. To our knowledge, the FDA has not yet substantively responded to the citizen petition.

If approved, SPN-804 (extended release oxcarbazepine) will compete with all immediate release oxcarbazepine products including Trileptal and related generic products. We are not aware of any other company that is currently developing an extended release oxcarbazepine product in the United States. In addition, we believe that SPN-804's once-daily formulation solves a drug delivery challenge specific to oxcarbazepine that must be overcome by all potential competitors. We are aware of companies who have modified-release oxcarbazepine products that are marketed outside of the United States but, to our knowledge, such products are not being pursued for the U.S. market. These modified-release oxcarbazepine products include Apydan, which is developed by Desitin Arzneimittel GmbH and requires twice-daily administration.

### ***ADHD***

Competition in the U.S. ADHD market has increased with the launch of several products in recent years, including the launch of generic versions of branded drugs, such as Adderall XR. Shire plc is one of the leaders in the U.S. ADHD market with three products: Adderall XR, an extended release stimulant treatment designed to provide once-daily dosing; Vyvanse, a stimulant prodrug product launched in 2007; and Intuniv, a non-stimulant treatment launched in November 2009. Other stimulant products for the treatment of ADHD in the U.S. market include the following once-daily formulations: Concerta; Metadate CD; Ritalin LA; Focalin XR; and Daytrana. Other non-stimulants are Strattera and Clonicef. We are also aware of clinical development efforts by several large pharmaceutical companies including Shire plc, GlaxoSmithKline plc, Eisai Inc., AstraZeneca plc and Abbott Laboratories to develop additional treatment options for ADHD.

### **Intellectual Property and Exclusivity**

#### ***Overview***

We have been building and continue to build our intellectual property portfolio relating to our product candidates, including SPN-538 and SPN-804. We seek patent protection, where appropriate, in the United States and internationally for our product candidates. Our policy is to actively seek to protect our proprietary position by, among other things, filing patent applications in the United States and abroad (including Europe, Canada and certain other countries when appropriate) relating to proprietary technologies that are important to the development of our business. We also rely on trade secrets, know-how, continuing technological innovation and in-licensing opportunities to develop and maintain our proprietary position. We cannot be sure that patents will be granted with respect to any of our pending patent applications or with respect to any patent applications filed by us in the future, nor can we be sure that any of our existing patents or any patents that may be granted to us in the future will be commercially useful in protecting our technology.

Our success will depend significantly on our ability to obtain and maintain patent and other proprietary protection for the technologies and products we consider important to our business, defend our patents, preserve the confidentiality of our trade secrets and operate our business without infringing the patents and proprietary rights of third parties.

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We have established and continue to build proprietary positions for SPN-804, SPN-538, our pipeline product candidates and technologies in the United States and abroad.

***Patent Portfolio***

Our oxcarbazepine patent portfolio currently includes three issued U.S. patents, two of which will cover SPN-804, one pending U.S. continuation patent application, and certain pending foreign patent applications that relate to the issued U.S. patents or the pending U.S. continuation patent application. The issued U.S. patents will expire in 2027. We own all the issued patents and the pending application.

In addition to the patents and patent applications relating to SPN-804, we currently have one pending U.S. non-provisional patent application, two pending U.S. continuation patent applications and certain pending foreign counterpart patent applications in Europe, Canada and other countries, which are directed to SPN-538. The U.S. patent applications, if issued, could expire in 2027. We own all of these pending applications.

Our patent portfolio also contains patent applications relating to our other pipeline products. We have a pending U.S. non-provisional patent application and pending foreign patent applications relating to our SPN-810 product candidate. Patents, if issued, from the applications could have terms expiring in 2029. With regard to our SPN-812 product candidate we have a pending U.S. non-provisional patent application and pending foreign patent applications. The U.S. patent application, if issued as a patent, would expire in 2029.

The U.S. patent system permits the filing of provisional and non-provisional patent applications. A non-provisional patent application is examined by the U.S. Patent and Trademark Office, or USPTO, and can mature into a patent once the USPTO determines that the claimed invention meets the standards for patentability. A provisional patent application is not examined for patentability, and automatically expires 12 months after its filing date. As a result, a provisional patent application cannot mature into a patent. The requirements for filing a provisional patent application are not as strict as those for filing a non-provisional patent application. Provisional applications are often used, among other things, to establish an early filing date for a subsequent non-provisional patent application. The term of individual patents depends upon the legal term of the patents in the countries in which they are obtained. In most countries in which we file, the patent term is 20 years from the earliest date of filing a non-provisional patent application. In the United States, a patent's term may be lengthened by patent term adjustment, or PTA, which compensates a patentee for administrative delays by the USPTO in granting a patent. In view of a recent court decision, the USPTO is under greater scrutiny regarding its calculations where the USPTO erred in calculating the patent term adjustment for the patents in question denying the patentee a portion of the patent term to which it was entitled. Alternatively, a patent's term may be shortened if a patent is terminally disclaimed over another patent.

The filing date of a non-provisional patent application is used by the USPTO to determine what information is prior art when it considers the patentability of a claimed invention. If certain requirements are satisfied, a non-provisional patent application can claim the benefit of the filing date of an earlier filed provisional patent application. As a result, the filing date accorded by the provisional patent application may supersede information that otherwise could preclude the patentability of an invention.

The term of a patent that covers an FDA-approved drug may also be eligible for patent term extension, or PTE, which permits patent term restoration as compensation for the patent term lost during the FDA regulatory review process. The Drug Price Competition and Patent Term Restoration Act of 1984, or the Hatch-Waxman Amendments, permits a PTE of up to five years beyond the expiration of the patent. The length of the PTE is related to the length of time the drug is under regulatory review. Patent extension cannot extend the remaining term of a patent beyond a total of 14 years from the date of product approval and only one patent applicable to an approved drug may be

extended. Similar provisions are available in Europe and other foreign jurisdictions to extend the term of a patent that covers an approved drug. In the future, if and when our pharmaceutical products receive FDA or other regulatory approval, we may be able to apply for PTEs on patents covering those products. Depending upon the timing, duration and specifics of FDA approval of SPN-804, SPN-538 and our other product candidates, one or more of our U.S. patents may be eligible for limited patent term restoration.

#### ***Other Intellectual Property Rights***

We seek trademark protection in the United States and internationally where available and when appropriate. We have filed for trademark protection for several marks, which we use in connection with our pharmaceutical research and development collaborations as well as products. We are the owner of various U.S. federal trademark registrations (®) and registration applications (TM), including the following marks referred to in this prospectus pursuant to applicable U.S. intellectual property laws: "Supernus®," "Microtrol®," "Solutrol®," "ProScreen®," "OptiScreen®," "ProPhile®" and the registered Supernus Pharmaceuticals logo.

From time to time, we may find it necessary or prudent to obtain licenses from third party intellectual property holders. Where licenses are readily available at reasonable cost, such licenses are considered a normal cost of doing business. In other instances, however, we may use the results of freedom-to-operate inquiries and internal analyses to guide our early-stage research away from areas where we are likely to encounter obstacles in the form of third party intellectual property. For example, where a third party holds relevant intellectual property and is a direct competitor, a license might not be available on commercially reasonable terms or available at all. We strive to identify potential third party intellectual property issues in the early stages of research of our research programs, in order to minimize the cost and disruption of resolving such issues.

To protect our competitive position, it may be necessary to enforce our patent rights through litigation against infringing third parties. Litigation to enforce our own patent rights is subject to uncertainties that cannot be quantified in advance. In the case of an adverse outcome in litigation, we could be prevented from commercializing a product or using certain aspects of our technology platforms as a result of patent infringement claims asserted against us. This could have a material adverse effect on our business. In addition, litigation involving our patents carries the risk that one or more of our patents will be held invalid (in whole or in part, on a claim-by-claim basis) or held unenforceable. Such an adverse court ruling could allow third parties to commercialize products or use technologies that are similar to ours, and then compete directly with us, without payment to us. See "Risk Factors—If we are sued for infringing intellectual property rights of third parties, it will be costly and time consuming, and an unfavorable outcome in that litigation would have a material adverse effect on our business."

#### ***In-Licensing Arrangements***

##### ***Afecta Pharmaceuticals, Inc.***

We have entered into two license agreements with Afecta Pharmaceuticals, Inc., or Afecta, pursuant to which we obtained 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. Under the terms of the license agreements, we have paid Afecta \$400,000 in license fees and milestone payments. If a product candidate is successfully developed and commercialized, we will be obligated to pay royalties to Afecta based on net sales worldwide in the low-single digits. Unless terminated by us or Afecta for material breach or bankruptcy, by Afecta for our discontinuation of development and commercialization activities, or by us for convenience, the license agreements will continue in full force

and effect on a country-by-country basis until six months from the discontinuation of the commercial sale and collection of revenues for the Afecta product.

***Rune Healthcare Limited***

In June 2006, we entered into a purchase and sale agreement with Rune Healthcare Limited, or Rune, where we obtained the exclusive worldwide rights to a product concept from Rune for SPN-809. Under the terms of the agreement, we have paid Rune a £25,000 up-front fee. If we receive approval to market and sell any products based on the Rune product concept, we will be obligated to pay royalties to Rune based on net sales worldwide in the low-single digits. Unless terminated by us or Rune for material breach, by Rune for our discontinuation of development or commercialization activities relating to a product based on the Rune product concept, we will be obligated to pay royalties to Rune on a country-by-country basis until the earlier of (a) ten years from the date of first commercial sale of a product based on the Rune product concept or (b) the market entry in such country of any product utilizing the Rune product by any entity other than us, our affiliates or our licensees.

***Confidential Information and Inventions Assignment Agreements***

We require our employees, temporary employees and consultants to execute confidentiality agreements upon the commencement of employment, consulting or collaborative relationships with us. These agreements provide that all confidential information developed or made known during the course of the relationship with us be kept confidential and not disclosed to third parties except in specific circumstances. The agreements provide that all inventions resulting from work performed for us or relating to our business and conceived or completed by the individual during employment or assignment, as applicable, shall be our exclusive property to the extent permitted by applicable law.

We seek to protect our product candidates and our technologies through a combination of patents, trade secrets, proprietary know-how, FDA exclusivity and contractual restrictions on disclosure.

**Government Regulation**

***Product Approval***

Government authorities in the United States at the federal, state and local level, and other countries, extensively regulate, among other things, the research, development, testing, manufacture, quality control, approval, labeling, packaging, storage, record-keeping, promotion, advertising, distribution, marketing, export and import of products such as those we are developing. Our product candidates, including SPN-538 and SPN-804, must be approved by the FDA before they may legally be marketed in the United States.

***U.S. Drug Development Process***

In the United States, the FDA regulates drugs under the Federal Food, Drug, and Cosmetic Act, or FDCA, and implementing regulations. The process of obtaining regulatory approvals and ensuring compliance with appropriate federal, state, local and foreign statutes and regulations require the expenditure of substantial time and financial resources. Failure to comply with the applicable U.S. requirements at any time during the product development process, approval process, or after approval, may subject an applicant to administrative or judicial sanctions. These sanctions could include the FDA's refusal to approve pending applications, withdrawal of an approval, a clinical hold, warning letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, fines, refusals of government contracts, restitution, disgorgement or civil or criminal

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penalties. The process required by the FDA before a drug may be marketed in the United States generally involves the following:

- completion of preclinical laboratory tests, animal studies and formulation studies according to Good Laboratory Practices regulations;
- submission to the FDA of an IND, which must become effective before human clinical trials may begin;
- performance of adequate and well-controlled human clinical trials according to Good Clinical Practices, or GCP, to establish the safety and efficacy of the proposed drug for its intended use;
- submission to the FDA of an NDA for a new drug;
- satisfactory completion of an FDA inspection of the manufacturing facility or facilities at which the drug is produced to assess compliance with current Good Manufacturing Practices, or cGMP; and
- FDA review and approval of the NDA.

The testing and approval process require substantial time, effort and financial resources and we cannot be certain that any approvals for our product candidates will be granted on a timely basis, if at all.

Once a pharmaceutical product candidate is identified for development, it enters the preclinical testing stage. Preclinical tests include laboratory evaluations of product chemistry, toxicity, formulation and stability, as well as animal studies. An IND sponsor must submit the results of the preclinical tests, together with manufacturing information, analytical data and any available clinical data or literature, to the FDA as part of the IND. The sponsor must also include a protocol detailing, among other things, the objectives of the initial clinical trial, the parameters to be used in monitoring safety and the effectiveness criteria to be evaluated if the initial clinical trial lends itself to an efficacy evaluation. Some preclinical testing may continue even after the IND is submitted. The IND automatically becomes effective 30 days after receipt by the FDA, unless the FDA places the clinical trial on a clinical hold within that 30-day time period. In such a case, the IND sponsor and the FDA must resolve any outstanding concerns before the clinical trial can begin. Clinical holds also may be imposed by the FDA at any time before or during trials due to safety concerns or non-compliance.

All clinical trials must be conducted under the supervision of one or more qualified investigators in accordance with GCP regulations. These regulations include the requirement that all research subjects provide informed consent. Further, an institutional review board, or IRB, must review and approve the plan for any clinical trial before it commences at any institution. An IRB considers, among other things, whether the risks to individuals participating in the trials are minimized and are reasonable in relation to anticipated benefits. The IRB also approves the information regarding the clinical trial and the consent form that must be provided to each clinical trial subject or his or her legal representative and must monitor the clinical trial until completed.

Once an IND is in effect, each new clinical protocol and any amendments to the protocol must be submitted to the IND for FDA review, and to the IRBs for approval. Protocols detail, among other things, the objectives of the clinical trial, dosing procedures, subject selection and exclusion criteria, and the parameters to be used to monitor subject safety.

Human clinical trials are typically conducted in three sequential phases that may overlap or be combined:

- *Phase I.* The product is initially introduced into healthy human subjects and tested for safety, dosage tolerance, absorption, metabolism, distribution and excretion. In the case of some products for severe or life-threatening diseases, especially when the product may be too

inherently toxic to ethically administer to healthy volunteers, the initial human testing may be conducted in patients.

- *Phase II.* Phase II trials involve investigations in a limited patient population to identify possible adverse effects and safety risks, to preliminarily evaluate the efficacy of the product for specific targeted diseases and to determine dosage tolerance and optimal dosage and schedule.
- *Phase III.* Clinical trials are undertaken to further evaluate dosage, clinical efficacy and safety in an expanded patient population at geographically dispersed clinical trial sites. These trials are intended to establish the overall risk/benefit ratio of the product and provide an adequate basis for regulatory approval and product labeling.

Progress reports detailing the results of the clinical trials must be submitted at least annually to the FDA and safety reports must be submitted to the FDA and the investigators for serious and unexpected side effects. Phase I, Phase II and Phase III testing may not be completed successfully within any specified period, if at all. The FDA or the sponsor may suspend or terminate a clinical trial at any time on various grounds, including a finding that the research subjects or patients are being exposed to an unacceptable health risk. Similarly, an IRB can suspend or terminate approval of a clinical trial at its institution if the clinical trial is not being conducted in accordance with the IRB's requirements or if the drug has been associated with unexpected serious harm to patients.

Concurrent with clinical trials, companies usually complete additional animal studies and must also develop additional information about the chemistry and physical characteristics of the product and finalize a process for manufacturing the product in commercial quantities in accordance with cGMP requirements. The manufacturing process must be capable of consistently producing quality batches of the product candidate and, among other things, the manufacturer must develop methods for testing the identity, strength, quality and purity of the final product. Additionally, appropriate packaging must be selected and tested and stability studies must be conducted to demonstrate that the product candidate does not undergo unacceptable deterioration over its shelf life.

During the development of a new drug, a sponsor may be able to request a Special Protocol Assessment, or SPA, the purpose of which is to reach agreement with the FDA on the Phase III clinical trial protocol design and analysis that will form the primary basis of an efficacy claim. An SPA is intended to provide assurance that if the agreed upon clinical trial protocol is followed, the clinical trial endpoints are achieved, and there is a favorable risk-benefit profile, the data may serve as the primary basis for an efficacy claim in support of an NDA. However, SPA agreements are not a guarantee of an approval of a product candidate or any permissible claims about the product candidate. In particular, SPAs are not binding on the FDA if previously unrecognized public health concerns arise during the performance of the clinical trial, other new scientific concerns regarding product candidate's safety or efficacy arise, or if the sponsoring company fails to comply with the agreed upon clinical trial protocol.

#### ***U.S. Review and Approval Processes***

The results of product development, preclinical studies and clinical trials, along with descriptions of the manufacturing process, analytical tests conducted on the drug, proposed labeling and other relevant information, are submitted to the FDA as part of an NDA for a new drug, requesting approval to market the product.

As an alternate path to FDA approval, particularly for modifications to drug products previously approved by the FDA, an applicant may submit an NDA under Section 505(b)(2) of the FDCA. Section 505(b)(2) was enacted as part of the Drug Price Competition and Patent Term Restoration Act of 1984, commonly referred to as the Hatch-Waxman Amendments, and permits the submission of an NDA where at least some of the information required for approval comes from clinical trials not conducted by or for the applicant and for which the applicant has not obtained a right of reference.

The FDA interprets Section 505(b)(2) of the FDCA to permit the applicant to rely upon the FDA's previous findings of safety and effectiveness for an approved product. The FDA requires submission of information needed to support any changes to a previously approved drug, such as published data or new studies conducted by the applicant, including bioavailability or bioequivalence studies, or clinical trials demonstrating safety and effectiveness. The FDA may then approve the new product candidate for all or some of the label indications for which the referenced product has been approved, as well as for any new indication sought by the Section 505(b)(2) applicant.

The submission of an NDA is subject to the payment of a substantial user fee; a waiver of such fee may be obtained under certain limited circumstances. For example, the agency will waive the application fee for the first human drug application that a small business or its affiliate submits for review.

In addition, under the Pediatric Research Equity Act of 2003, or PREA, which was reauthorized under the Food and Drug Administration Amendments Act of 2007, an NDA or supplement to an NDA must contain data to assess the safety and effectiveness of the drug for the claimed indications in all relevant pediatric subpopulations and to support dosing and administration for each pediatric subpopulation for which the product is safe and effective. The FDA may grant deferrals for submission of data or full or partial waivers. Unless otherwise required by regulation, PREA does not apply to any drug for an indication for which orphan designation has been granted.

**Section 505(b)(2) New Drug Applications.** To the extent that a Section 505(b)(2) NDA relies on clinical trials conducted for a previously approved drug product or the FDA's prior findings of safety and effectiveness for a previously approved drug product, the Section 505(b)(2) applicant must submit patent certifications in its 505(b)(2) application with respect to any patents for the approved product on which the application relies that are listed in the FDA's publication, Approved Drug Products with Therapeutic Equivalence Evaluations, commonly referred to as the Orange Book. Specifically, the applicant must certify for each listed patent that (1) the required patent information has not been filed; (2) the listed patent has expired; (3) the listed patent has not expired, but will expire on a particular date and approval is not sought until after patent expiration; or (4) the listed patent is invalid, unenforceable or will not be infringed by the proposed new product. A certification that the new product will not infringe the previously approved product's listed patent or that such patent is invalid or unenforceable is known as a Paragraph IV certification. If the applicant does not challenge one or more listed patents through a Paragraph IV certification, the FDA will not approve the Section 505(b)(2) NDA application until all the listed patents claiming the referenced product have expired. Further, the FDA will also not approve, as applicable, a Section 505(b)(2) NDA application until any non-patent exclusivity, such as, for example, five-year exclusivity for obtaining approval of a new chemical entity, three year exclusivity for an approval based on new clinical trials, or pediatric exclusivity, listed in the Orange Book for the referenced product, has expired.

If the Section 505(b)(2) NDA applicant has provided a Paragraph IV certification to the FDA, the applicant must also send notice of the Paragraph IV certification to the owner of the referenced NDA for the previously approved product and relevant patent holders within 20 days after the Section 505(b)(2) NDA has been accepted for filing by the FDA. The NDA and patent holders may then initiate a patent infringement suit against the Section 505(b)(2) applicant. Under the FDCA, the filing of a patent infringement lawsuit within 45 days of receipt of the notification regarding a Paragraph IV certification automatically prevents the FDA from approving the Section 505(b)(2) NDA for 30 months beginning on the date the patent holder receives notice, or until a court deems the patent unenforceable, invalid or not infringed, whichever is earlier. Moreover, in cases where a Section 505(b)(2) application containing a Paragraph IV certification is submitted after the fourth year of a previously approved drug's five year exclusivity period and the patent holder brings suit within 45 days of notice of certification, the 30-month period is automatically extended to prevent approval of the Section 505(b)(2) application until the date that is seven and one-half years after approval of the



previously approved reference product. The court also has the ability to shorten or lengthen either the 30 month or the seven and one-half year period if either party is found not to be reasonably cooperating in expediting the litigation. Thus, the Section 505(b)(2) applicant may invest a significant amount of time and expense in the development of its product only to be subject to significant delay and patent litigation before its product may be commercialized. Alternatively, if the NDA applicant or relevant patent holder does not file a patent infringement lawsuit within the specified 45 day period, the FDA may approve the Section 505(b)(2) application at any time.

Notwithstanding the approval of many products by the FDA pursuant to Section 505(b)(2), over the last few years, some pharmaceutical companies and others have objected to the FDA's interpretation of Section 505(b)(2). If the FDA changes its interpretation of Section 505(b)(2), or if the FDA's interpretation is successfully challenged in court, this could delay or even prevent the FDA from approving any Section 505(b)(2) NDA that we submit.

We are pursuing a regulatory strategy pursuant to Section 505(b)(2) in connection with our NDA submissions for SPN-538 and SPN-804. In the NDA submissions for our other product candidates, we intend to follow the development and approval pathway permitted under the FDCA that we believe will maximize their commercial opportunities.

***FDA Review of New Drug Applications.*** The FDA reviews all NDAs submitted to ensure that they are sufficiently complete for substantive review before it accepts them for filing. The FDA may request additional information rather than accept an NDA for filing. In this event, the NDA must be re-submitted with the additional information. The re-submitted application also is subject to review before the FDA accepts it for filing. Once the submission is accepted for filing, the FDA begins an in-depth substantive review. The FDA reviews an NDA to determine, among other things, whether a product is safe and effective for its intended use and whether its manufacturing is cGMP-compliant to assure and preserve the product's identity, strength, quality and purity. Before approving an NDA, the FDA will inspect the facility or facilities where the product is manufactured. The FDA will not approve an application unless it determines that the manufacturing processes and facilities are in compliance with cGMP requirements and adequate to assure consistent production of the product within required specifications. The FDA may refer the NDA to an advisory committee for review, evaluation and recommendation as to whether the application should be approved and under what conditions. An advisory committee is a panel of independent experts who provide advice and recommendations when requested by the FDA on matters of importance that come before the agency. The FDA is not bound by the recommendation of an advisory committee.

The approval process is lengthy and difficult and the FDA may refuse to approve an NDA if the applicable regulatory criteria are not satisfied or may require additional clinical data or other data and information. Even if such data and information is submitted, the FDA may ultimately decide that the NDA does not satisfy the criteria for approval. Data obtained from clinical trials are not always conclusive and the FDA may interpret data differently than we interpret the same data. The FDA will issue a complete response letter if the agency decides not to approve the NDA in its present form. The complete response letter usually describes all of the specific deficiencies that the FDA identified in the NDA. The deficiencies identified may be minor, for example, requiring labeling changes, or major, for example, requiring additional clinical trials. Additionally, the complete response letter may include recommended actions that the applicant might take to place the application in a condition for approval. If a complete response letter is issued, the applicant may either resubmit the NDA, addressing all of the deficiencies identified in the letter, withdraw the application, or request an opportunity for a hearing.

If a product receives regulatory approval, the approval may be significantly limited to specific diseases and dosages or the indications for use may otherwise be limited, which could restrict the commercial value of the product. Further, the FDA may require that certain contraindications,

warnings or precautions be included in the product labeling. In addition, the FDA may require Phase 4 testing which involves clinical trials designed to further assess a drug's safety and effectiveness after NDA approval and may require testing and surveillance programs to monitor the safety of approved products that have been commercialized.

***Patent Term Restoration and Marketing Exclusivity***

Depending upon the timing, duration and specifics of FDA marketing approval of our product candidates, some of our U.S. patents may be eligible for limited patent term extension under the Hatch-Waxman Amendments. The Hatch-Waxman Amendments permit a patent restoration term of up to five years as compensation for patent term lost during product development and the FDA regulatory review process. However, patent term restoration cannot extend the remaining term of a patent beyond a total of 14 years from the product's approval date. The patent term restoration period is generally one-half the time between the effective date of an IND and the submission date of an NDA plus the time between the submission date of an NDA and the approval of that application. Only one patent applicable to an approved drug is eligible for the extension and the application for the extension must be submitted prior to the expiration of the patent and within sixty days of approval of the drug. The U.S. Patent and Trademark Office, in consultation with the FDA, reviews and approves the application for any patent term extension or restoration. In the future, we intend to apply for restorations of patent term for some of our currently owned or licensed patents to add patent life beyond their current expiration dates, depending on the expected length of the clinical trials and other factors involved in the filing of the relevant NDA.

Market exclusivity provisions under the FDCA can also delay the submission or the approval of certain applications. The FDCA provides a five-year period of non-patent marketing exclusivity within the United States to the first applicant to gain approval of an NDA for a new chemical entity. A drug is a new chemical entity if the FDA has not previously approved any other new drug containing the same active pharmaceutical ingredient, or active moiety, which is the molecule or ion responsible for the action of the drug substance. During the exclusivity period, the FDA may not accept for review an abbreviated new drug application, or ANDA, or a Section 505(b)(2) NDA submitted by another company for another version of such drug where the applicant does not own or have a legal right of reference to all the data required for approval. However, the FDCA will not prevent the submission or approval of another full Section 505(b)(1) NDA, but such an NDA applicant would be required to conduct its own preclinical and adequate, well-controlled clinical trials to demonstrate safety and effectiveness. Further, a Section 505(b)(2) application may be submitted after four years if it contains a Paragraph IV certification. The FDCA also provides three years of marketing exclusivity for an NDA, Section 505(b)(2) NDA or supplement to an existing NDA if new clinical investigations, other than bioavailability studies, that were conducted or sponsored by the applicant are deemed by the FDA to be essential to the approval of the application. Such clinical trials may, for example, support new indications, dosages, routes of administration or strengths of an existing drug, or for a new use, if new clinical investigations that were conducted or sponsored by the applicant are determined by the FDA to be essential to the approval of the application. This exclusivity, which is sometimes referred to as clinical investigation exclusivity, prevents the FDA from approving an application under Section 505(b)(2) for the same conditions of use associated with the new clinical investigations before the expiration of three years from the date of approval. Such three-year exclusivity, however, would not prevent the approval of another application if the applicant submits a Section 505(b)(1) NDA and has conducted its own adequate, well-controlled clinical trials demonstrating safety and efficacy, nor would it prevent approval of a generic product or Section 505(b)(2) product that did not incorporate the exclusivity-protected changes of the approved drug product. The FDCA, FDA regulations and other applicable regulations and policies provide incentives to manufacturers to create modified, non-infringing versions of a drug to facilitate the approval of an ANDA or other application for generic substitutes.

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Pediatric exclusivity is another type of exclusivity in the United States. Pediatric exclusivity, if granted, provides an additional six months of exclusivity to be attached to any existing exclusivity (e.g., three or five year exclusivity) or patent protection for a drug. This six month exclusivity, which runs from the end of other exclusivity protection or patent delay, may be granted based on the voluntary completion of a pediatric trial in accordance with an FDA-issued "Written Request" for such a trial. The current pediatric exclusivity provision was reauthorized in September 2007.

### ***Post-Approval Requirements***

Any drugs for which we receive FDA approval are subject to continuing regulation by the FDA, including, among other things, record-keeping requirements, reporting of adverse experiences with the product, providing the FDA with updated safety and efficacy information, product sampling and distribution requirements, complying with certain electronic records and signature requirements and complying with FDA promotion and advertising requirements. In September 2007, the Food and Drug Administration Amendments Act of 2007 was enacted, giving the FDA enhanced post-marketing authority, including the authority to require post-marketing studies and clinical trials, labeling changes based on new safety information, and compliance with risk evaluations and mitigation strategies approved by the FDA. The FDA strictly regulates labeling, advertising, promotion and other types of information on products that are placed on the market. Drugs may be promoted only for the approved indications and in accordance with the provisions of the approved label. Further, manufacturers of drugs must continue to comply with cGMP requirements, which are extensive and require considerable time, resources and ongoing investment to ensure compliance. In addition, changes to the manufacturing process generally require prior FDA approval before being implemented and other types of changes to the approved product, such as adding new indications and additional labeling claims, are also subject to further FDA review and approval.

Drug manufacturers and other entities involved in the manufacturing and distribution of approved drugs are required to register their establishments with the FDA and certain state agencies, and are subject to periodic unannounced inspections by the FDA and certain state agencies for compliance with cGMP and other laws. The cGMP requirements apply to all stages of the manufacturing process, including the production, processing, sterilization, packaging, labeling, storage and shipment of the drug. Manufacturers must establish validated systems to ensure that products meet specifications and regulatory standards, and test each product batch or lot prior to its release. We rely, and expect to continue to rely, on third parties for the production of clinical quantities of our product candidates. Future FDA and state inspections may identify compliance issues at the facilities of our contract manufacturers that may disrupt production or distribution or may require substantial resources to correct.

The FDA may withdraw a product approval if compliance with regulatory standards is not maintained or if problems occur after the product reaches the market. Later discovery of previously unknown problems with a product may result in restrictions on the product or even complete withdrawal of the product from the market. Further, the failure to maintain compliance with regulatory requirements may result in administrative or judicial actions, such as fines, warning letters, holds on clinical trials, product recalls or seizures, product detention or refusal to permit the import or export of products, refusal to approve pending applications or supplements, restrictions on marketing or manufacturing, injunctions or civil or criminal penalties.

From time to time, legislation is drafted, introduced and passed in Congress that could significantly change the statutory provisions governing the approval, manufacturing and marketing of products regulated by the FDA. In addition to new legislation, the FDA regulations and policies are often revised or reinterpreted by the agency in ways that may significantly affect our business and our product candidates. It is impossible to predict whether further legislative or FDA regulation or policy changes will be enacted or implemented and what the impact of such changes, if any, may be.

***Foreign Regulation***

In addition to regulations in the United States, we will be subject to a variety of foreign regulations governing clinical trials and commercial sales and distribution of our product candidates to the extent we choose to clinically evaluate or sell any products outside of the United States. Whether or not we obtain FDA approval for a product, we must obtain approval of a product by the comparable regulatory authorities of foreign countries before we can commence clinical trials or marketing of the product in those countries. The approval process varies from country to country and the time may be longer or shorter than that required for FDA approval. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary greatly from country to country. As in the United States, post-approval regulatory requirements, such as those regarding product manufacture, marketing, or distribution would apply to any product that is approved outside the United States.

***Third Party Payor Coverage and Reimbursement***

In both the United States and foreign markets, our ability to commercialize our product candidates successfully, and to attract commercialization partners for our product candidates, depends in significant part on the availability of adequate financial coverage and reimbursement from third party payors, including, in the United States, governmental payors such as the Medicare and Medicaid programs, managed care organizations, and private health insurers. Medicare is a federally funded program managed by the Centers for Medicare and Medicaid Services, or CMS, through local fiscal intermediaries and carriers that administer coverage and reimbursement for certain healthcare items and services furnished to the elderly and disabled. Medicaid is an insurance program for certain categories of patients whose income and assets fall below state defined levels and who are otherwise uninsured that is both federally and state funded and managed by each state. The federal government sets general guidelines for Medicaid and each state creates specific regulations that govern its individual program. Each payor has its own process and standards for determining whether it will cover and reimburse a procedure or particular product. Private payors often rely on the lead of the governmental payors in rendering coverage and reimbursement determinations. Therefore, achieving favorable CMS coverage and reimbursement is usually a significant gating issue for successful introduction of a new product. The competitive position of some of our products will depend, in part, upon the extent of coverage and adequate reimbursement for such products and for the procedures in which such products are used. Prices at which we or our customers seek reimbursement for our product candidates can be subject to challenge, reduction or denial by the government and other payors.

The United States Congress and state legislatures may, from time to time, propose and adopt initiatives aimed at cost containment, which could impact our ability to sell our product candidates profitably. For example, in March 2010, President Obama signed into law the Patient Protection and Affordable Care Act and the associated reconciliation bill, which we refer to collectively as the Health Care Reform Law, a sweeping law intended to broaden access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, add new transparency requirements for healthcare and health insurance industries, impose new taxes and fees on the health industry and impose additional health policy reforms. Effective October 1, 2010, the Health Care Reform Law revises the definition of "average manufacturer price" for reporting purposes, which could increase the amount of Medicaid drug rebates to states once the provision is effective. Further, beginning in 2011, the new law imposes a significant annual fee on companies that manufacture or import branded prescription drug products. Substantial new provisions affecting compliance have also been enacted, which may require us to modify our business practices with healthcare practitioners. We will not know the full effects of the Health Care Reform Law until applicable federal and state agencies issue regulations or guidance under the new law. Although it is too early to determine the effect of the Health Care Reform Law, the new law appears likely to continue the pressure on pharmaceutical pricing, especially under the Medicare program, and may also increase our regulatory

burdens and operating costs. Moreover, in the coming years, additional changes could be made to governmental healthcare programs that could significantly impact the success of our product candidates.

The cost of pharmaceuticals continues to generate substantial governmental and third party payor interest. We expect that the pharmaceutical industry will experience pricing pressures due to the trend toward managed healthcare, the increasing influence of managed care organizations and additional legislative proposals. Our results of operations could be adversely affected by current and future healthcare reforms.

Some third party payors also require pre-approval of coverage for new or innovative devices or drug therapies before they will reimburse healthcare providers that use such therapies. While we cannot predict whether any proposed cost-containment measures will be adopted or otherwise implemented in the future, the announcement or adoption of these proposals could have a material adverse effect on our ability to obtain adequate prices for our product candidates and operate profitably.

#### ***Other Healthcare Laws and Compliance Requirements***

In the United States, our activities are potentially subject to regulation by various federal, state and local authorities in addition to the FDA, including the Centers for Medicare and Medicaid Services, other divisions of the U.S. Department of Health and Human Services (e.g., the Office of Inspector General), the U.S. Department of Justice and individual U.S. Attorney offices within the Department of Justice, and state and local governments. These regulations include:

- the federal healthcare program anti-kickback law, which prohibits, among other things, persons from soliciting, receiving or providing remuneration, directly or indirectly, to induce either the referral of an individual, for an item or service or the purchasing or ordering of a good or service, for which payment may be made under federal healthcare programs such as the Medicare and Medicaid programs;
- federal false claims laws which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other government reimbursement programs that are false or fraudulent, and which may apply to entities like us which provide coding and billing advice to customers;
- the federal Health Insurance Portability and Accountability Act of 1996, which prohibits executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters and which also imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information;
- the federal transparency requirements under the Health Care Reform Law requires manufacturers of drugs, devices, biologics, and medical supplies to report to the Department of Health and Human Services information related to physician payments and other transfers of value and physician ownership and investment interests;
- the FDCA, which among other things, strictly regulates drug product marketing, prohibits manufacturers from marketing drug products for off-label use and regulates the distribution of drug samples; and
- state law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payor, including commercial insurers, and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by federal laws, thus complicating compliance efforts.

## **Legal Proceedings**

From time to time and in the ordinary course of business, we are subject to various claims, charges and litigation. For example, we may be required to file infringement claims against third parties for the infringement of our patents. For additional information regarding the patent litigation matters in which we are involved, please see "Risk Factors—We may become involved in lawsuits to protect or enforce our patents, which could be expensive, time consuming and unsuccessful."

Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to us, we do not believe the outcome of any such litigation, individually or in the aggregate, will have a material adverse effect on our financial condition, results of operations or cash flows.

## **Employees**

As of September 30, 2011, we employed 67 full-time employees, of which 53 were engaged in research and development, clinical trials and quality assurance and 14 were engaged in administration, finance, marketing and business development. None of our employees are represented by a labor union.

## **Facilities**

Our principal executive offices are located at 1550 East Gude Drive, Rockville, Maryland 20850, where we occupy approximately 44,500 square feet of laboratory and office space. Our lease term expires in April 30, 2018 with an option for a five year extension. We believe that our existing facilities are sufficient for our present and future operations, and we currently have no plans to lease additional space.

## MANAGEMENT

### Executive Officers, Directors And Key Employees

The following table sets forth the names and ages of our executive officers, directors and key employees as of the date of this prospectus.

Name	Age	Position(s)
Jack A. Khattar	50	President & Chief Executive Officer, Director
Gregory S. Patrick	60	Vice President, Chief Financial Officer
Jones W. Bryan, Ph.D.	47	Vice President of Business Development
Padmanabh P. Bhatt, Ph.D.	54	Vice President of Pharmaceutical Sciences
Paolo Baroldi, M.D., Ph.D.	60	Senior Vice President of Clinical Development & Chief Medical Officer
Tami T. Martin, R.N., Esq.	56	Vice President of Regulatory Affairs
M. James Barrett, Ph.D. <sup>(2)</sup>	69	Director and Chairman of the Board
Michael Bigham <sup>(3)</sup>	54	Director
Frederick M. Hudson <sup>(1)</sup>	66	Director
Charles W. Newhall, III <sup>(3)</sup>	67	Director
William A. Nuerge <sup>(1)</sup>	59	Director
Michael B. Sheffery, Ph.D. <sup>(2)</sup>	60	Director
John M. Siebert, Ph.D. <sup>(1)(2)</sup>	71	Director

(1) Member of Audit Committee.

(2) Member of Compensation Committee.

(3) Member of Governance Committee.

**Jack A. Khattar** is the founder of our company and has served as our President and Chief Executive Officer and Director since 2005. From 1999 to 2005, Mr. Khattar served in various positions during that time as a Board member, President and CEO of Shire Laboratories Inc., the drug delivery subsidiary of Shire plc. From 1999 to 2004, he also served as a member of Shire plc's Executive Committee. Prior to that, Mr. Khattar served as an Executive Officer and the Chairman of the Management Committee at CIMA, a drug delivery company that is currently a division of Cephalon. At CIMA, he was also responsible for business development, including the licensing of CIMA's technologies, corporate alliances and strategic planning. Prior to joining CIMA in 1995, Mr. Khattar held several marketing and business development positions at Merck & Co., Novartis, Playtex and Kodak in various locations, including the United States, Europe and the Middle East. Mr. Khattar earned his degrees in Marketing with a BBA from American University of Beirut and an MBA from the Wharton School of the University of Pennsylvania. He is currently a director of Rockville Economic Development Inc. Mr. Khattar's leadership, executive, managerial, business and pharmaceutical company experience, along with his more than 20 years of industry experience in the development and commercialization of pharmaceutical products and drug delivery technologies, qualify him to be a director.

**Gregory S. Patrick** has served as our Chief Financial Officer since November 2011. From 2010 to 2011, he served as Chief Financial Officer for ROI2. From 2008 to 2010, Mr. Patrick was the Chief Financial Officer at another privately held life sciences company, Bionor Immuno. From 2004 to 2008, he served as the Chief Financial Officer of Sopherion Therapeutics. From 2001 through 2004, he served as Chief Financial Officer for Medimmune, and from 1999 to 2001, as Chief Financial Officer of Ventiv Health. Mr. Patrick served in a variety of positions at Merck & Co. from 1985 through 1999, including Vice President and Controller of Merck's Manufacturing Division, Executive Director of Corporate Planning and Reporting, and Executive Director of Financial Evaluation. He started his career with

Exxon Chemical Company in engineering, and subsequently joined Booz, Allen Hamilton as a management consultant. He holds BS and ME degrees from Rensselaer Polytechnic Institute in Environmental Engineering, and an MBA in Finance from New York University.

**Jones W. Bryan, Ph.D.**, has served as our Vice President of Business Development since 2005. From 2000 to 2005, he served as Vice President Business Development for Shire Laboratories Inc. Prior to that, Dr. Bryan was Director of Business Development for Pharmaceuticals and Clinical Supply Manufacturing for AAI. He began his career with Schering Plough in Pharmaceuticals and Formulation Development. Dr. Bryan earned his B.S. degree in Zoology from Clemson University, Ph.D. degree in Pharmaceuticals from the Medical University of South Carolina and Executive Management Certificate from the University of North Carolina Kenan-Flagler Business School. He is a member of the Licensing Executives Society and serves on Clemson University's Spiro Institute Entrepreneurship Advisory Board.

**Padmanabh P. Bhatt, Ph.D.**, has served as our Vice President of Pharmaceutical Sciences since 2005. From 2003 to 2005, Dr. Bhatt was Vice President of Advanced Drug Delivery at Shire Laboratories Inc. From 2001 to 2003, Dr. Bhatt served as Vice President of Research and Development and Chief Technology Officer at Point Biomedical Corporation. From 1996 to 2001, he served at ALZA Corporation (now a Johnson & Johnson company) in various positions from Product Development Manager to Director of Technical Development. Prior to that time, Dr. Bhatt has held positions as Research Specialist and Group Leader of Novel Drug Delivery at Dow Corning Corporation (from 1992 to 1996) and Senior Scientist at Hercon Laboratories (from 1989 to 1992). Dr. Bhatt earned his B.Pharm. and M.Pharm. degrees from the University of Bombay, India. He also holds M.S. and Ph.D. degrees in Pharmaceutical Chemistry from the University of Kansas.

**Paolo Baroldi, M.D., Ph.D.**, has served as our Senior Vice President of Clinical Development & Chief Medical Officer since 2009. From 2006 to 2009, he served as a Senior Vice President and Chief Medical Officer at Vanda. From 2003 to 2006, Dr. Baroldi served as Vice President-Corporate Drug Development and Chairman of the R&D Board at Chiesi Farmaceutici SpA, where he led a research and development organization of 350 people across 3 sites in the United States, Italy and France. From 1998 to 2002, Dr. Baroldi was the Global Head of Clinical Pharmacology at Novartis AG, responsible for a staff of 140 people across five different sites, including France, the United Kingdom, Japan and the United States. Dr. Baroldi holds degrees in Medicine and Surgery and a Ph.D. in Clinical Pharmacology from the University of Milan. Dr. Baroldi also attended executive management programs at Harvard University.

**Tami T. Martin, R.N., Esq.**, has served as our Vice President of Regulatory Affairs since 2008. She has previously held positions as Vice President of Regulatory Affairs at Shire Pharmaceuticals (6 years), and Manager to Sr. Director of Regulatory Affairs at Otsuka America Pharmaceuticals (7 years). Ms. Martin has also consulted privately for domestic and international clients as President and CEO of Pyramid Regulatory Consulting. Earlier in her career, Ms. Martin held legal positions at Hogan & Hartson as a member of the Food and Drug Practice Group, and with the Department of Health and Human Services as a staff attorney. Ms. Martin previously served as an instructor for the Johns Hopkins University Masters of Biotechnology and Regulatory Affairs Graduate Degree program, and teaches a portion of the United States Regulatory Module for TOPRA (The Organization for Professionals in Regulatory Affairs) leading to a MSc in Regulatory Affairs through the University of Wales. Ms. Martin earned her Bachelor of Science in Nursing from Albright College and a Juris Doctorate degree from Suffolk University. Ms. Martin is a member of the Pennsylvania Bar.

**M. James Barrett, Ph.D.**, has served as the Chairman of our Board since 2005. Since September 2001, Dr. Barrett has been a general partner of New Enterprise Associates, or NEA, which is a venture capital firm that focuses on the medical and life sciences and information technology industries. He is currently a member of the board of directors of each of the publicly-traded companies Amicus



Therapeutics, Inc., Inhibitex, Inc. and Targacept, Inc., within the past five years, he served on the board of directors of each of the publicly-traded companies Iomai Corporation (acquired by Intercell AG), MedImmune, LLC (acquired by AstraZeneca), Phamion Corporation (acquired by Celgene Corporation) and YM Biosciences, Inc. As a result of Dr. Barrett's tenure as a general partner of New Enterprise Associates, he has served on numerous boards of directors of both public and private companies in the healthcare sector and brings to the Board significant first-hand experience in shaping strategic direction as a pharmaceutical company matures from a private venture-backed company to a development-stage public company and then to a product revenue-generating company. Dr. Barrett's substantial experience with public and private companies in the healthcare sector and his venture capital, financial and business experience qualify him to serve as a director.

**Michael Bigham** has served as a member of our Board since 2006. Since 2002, Mr. Bigham has been a general partner of Abingworth, a leading international venture capital firm concentrating in life sciences. From December 2002 to March 2004, he served as Vice Chairman of Corixa Corporation, and was President and Chief Executive of Coulter Pharmaceuticals from July 1996 until it merged into Corixa in December 2000. Previously, he was an early employee at Gilead Sciences where he spent eight years serving in various capacities, including Executive Vice President of Operations and Chief Financial Officer. Before joining Gilead, Mr. Bigham was a partner at Hambrecht & Quist where he became Co-Head of Healthcare Investment Banking. He currently chairs the compensation committee of the board of directors of Avila Therapeutics, Inc. and he previously chaired the audit committee of the board of directors of Valeritas, Inc. He is also a director of Secure EDI Holdings, Inc. He has previously served as a director of Hydra Biosciences, Inc., Magellan Inc., PrimeraDx, Inc., Xenogen Corporation and SED, Inc. Prior to February 23, 2009, Mr. Bigham was also a non-executive director of Dynogen Pharmaceuticals Inc., a private clinical stage pharmaceutical company that, on that date, filed a voluntary petition for relief under Chapter 7 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Massachusetts. Mr. Bigham earned his B.S. Degree with distinction from the University of Virginia and holds an MBA from Stanford University Graduate School of Business. Mr. Bigham is also a Certified Public Accountant. Mr. Bigham's significant operational and investment banking experience in life science companies qualify him to serve as a director.

**Frederick M. Hudson** has served as a member of our Board since 2010. Mr. Hudson retired as a partner in charge of the health care audit practice for the Washington—Baltimore business unit of the accounting firm of KPMG, LLP on January 1, 2006 after a 37-year career with the firm. He is a graduate of Loyola University Maryland and currently serves in a board capacity with the Board of Financial Administration of the Catholic Archdiocese of Baltimore and the Board of Trustees of the Maryland Historical Society. He chairs the audit committees of each of the boards of directors of Paradigm Management Services LLC (a provider of catastrophic care services), Woodhaven Holding Corporation, d/b/a Remedi Senior Care (an institutional pharmacy service provider), GBMC Healthcare, Inc. and its affiliate, and the Greater Baltimore Medical Center. He is also a director of Maxim Health Care Services, Inc. Mr. Hudson's extensive accounting and health care audit experience qualify him to serve as a director.

**Charles W. Newhall, III** has served as a member of our Board since 2005. In 1977, Mr. Newhall co-founded NEA, a venture capital firm that focuses on the medical and life sciences and information technology industries. To date, Mr. Newhall has served as a director of over 40 venture-backed companies. He also started several healthcare information technology companies like PatientKeeper, TargetRx and LifeMetrix. Some of his current board memberships include Vitae Pharmaceuticals, TargetRx, Sensors for Medicine and Science, and BrainCells Inc. In 1986, he founded the Mid-Atlantic Venture Capital Association, or MAVA, which now has over 80 venture capital firms that are members, and is one of the most active regional venture associations in the country. He is Chairman Emeritus of MAVA. Before NEA, Mr. Newhall was a Vice President of T. Rowe Price. He served in Vietnam

commanding an independent platoon including an initial reconnaissance of Hamburger Hill. His decorations include the Silver Star and Bronze Star V (1st OLC). He earned an Honors Degree in English from the University of Pennsylvania and an MBA from Harvard Business School. Mr. Newhall's substantial experience with companies in the healthcare sector and his venture capital, financial and business experience qualify him to serve as a director.

**William A. Nuerge** has served as a member of our Board since 2006. Since 2007, Mr. Nuerge has been a managing partner of Fortress Pharms Advisors, LLC. From 2004 to 2007, Mr. Nuerge served as a director and President and CEO of Xanodyne Pharmaceuticals. From 1997 to 2004, he served as President and CEO of Shire US, Inc. Prior to that, Mr. Nuerge served as Chief Operating Officer of Richwood Pharmaceuticals Company, Inc., which subsequently merged with Shire plc in 1997. Mr. Nuerge earned his Bachelor of Science degree from Purdue University and his MBA from Wesleyan University. He has also previously served as a director of Cutanogen Corporation. Mr. Nuerge's significant operational and business experience with life science companies qualify him to serve as a director.

**Michael B. Sheffery, Ph.D.**, has served as a member of our Board since 2005. Dr. Sheffery is a founding General Partner of OrbiMed Advisors, LLC, a healthcare investment firm, and Co-Head of Private Equity at Orbimed. Dr. Sheffery was formerly Head of the Laboratory of Gene Structure and Expression at Memorial Sloan-Kettering Cancer Center. Dr. Sheffery joined Mehta and Isaly, an investment firm, in 1996 as a Senior Analyst covering the biotechnology industry. He earned both his Ph.D. in Molecular Biology and his B.A. in Biology from Princeton University. He is currently a Director of Affimed Therapeutics AG and Pieris AG. Dr. Sheffery's background and expertise in private equity and investment banking, combined with his scientific experience, qualify him to serve as a director.

**John M. Siebert, Ph.D.**, has served as a member of our Board since 2011. Dr. Siebert has over 30 years experience in the pharmaceutical industry. Since 2011, Dr. Siebert has been Chief Operating Officer of New Rhein Healthcare Investors, LLC, a healthcare-based private equity group. Since 2009, Dr. Siebert has been Chairman and CEO of Compan Pharmaceuticals, LLC, a veterinary specialty pharmaceutical company. From 2004 to 2009, Dr. Siebert served as Chairman and CEO at CyDex Pharmaceuticals Inc., a specialty pharmaceutical company. From 1995 through 2003, Dr. Siebert served as President and CEO of CIMA LABS, Inc., an innovative oral drug delivery company. Dr. Siebert started his career at Procter & Gamble. He currently chairs the audit committees of each of the boards of directors of Primus Pharmaceutical Company and Aradigm, Inc. Dr. Siebert's substantial operational and business experience with companies in the healthcare sector, combined with his scientific experience, qualify him to serve as a director.

#### **Composition of Our Board of Directors**

Our board of directors currently consists of seven members. All of our directors were elected pursuant to the board composition provisions of our stockholders voting agreement. Our nominating and corporate governance committee and board of directors may consider a broad range of factors relating to the qualifications and background of nominees, which may include diversity, which is not limited to race, gender or national origin. We have no formal policy regarding board diversity. Our nominating and corporate governance committee's and board of directors' priority in selecting board members is identification of persons who will further the interests of our stockholders through their established records of professional accomplishment, the ability to contribute positively to the collaborative culture among board members, and professional and personal experiences and expertise relevant to our growth strategy.

## **Director Independence**

We have applied to have our common stock listed on the Nasdaq Global Market. Under Rules 5605 and 5615 of the Nasdaq Marketplace Rules, a majority of a listed company's board of directors must be comprised of independent directors within one year of listing. In addition, the Nasdaq Marketplace Rules require that, subject to specified exceptions, each member of a listed company's audit, compensation and nominating and corporate governance committees be independent and that audit committee members also satisfy independence criteria set forth in Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under Rule 5605(a)(2) of the Nasdaq Marketplace Rules, a director will only qualify as an "independent director" if, in the opinion of that company's board of directors, that person does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Upon the completion of this offering, we expect that the composition and functioning of our board of directors and each of our board committees will comply with all applicable rules and regulations of the Securities and Exchange Commission, or the SEC, and the Nasdaq Global Market. There are no family relationships among any of our directors or executive officers.

## **Board Leadership Structure and Board's Role in Risk Oversight**

Our board of directors has elected to separate the roles of Chief Executive Officer and Chairman of the board. Mr. Khattar serves as President and Chief Executive Officer and Dr. Barrett serves as Chairman of the board. The Chief Executive Officer and Chairman work closely together to execute the strategic plan of the Company.

We believe the combination of Mr. Khattar as President and Chief Executive Officer and Dr. Barrett as Chairman is an effective leadership structure for Supernus. The division of duties allows our Chief Executive Officer to focus on our day-to-day business, while allowing our Chairman of the board to lead the board of directors in its fundamental role of providing advice to, and independent oversight of, management. Our board of directors recognizes the time, effort and energy that the Chief Executive Officer is required to devote to his position in the current business environment, as well as the commitment required to serve as our Chairman, particularly as the board of directors' oversight responsibilities continue to grow. Our board of directors also believes that this structure ensures a greater role for the independent directors in the oversight of our company and active participation of the independent directors in setting agendas and establishing priorities and procedures for the work of our board of directors.

Management is responsible for the day-to-day management of risks that we face, while our board of directors, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, our board of directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. Our board of directors is actively involved in oversight of risks that could affect us. This oversight is conducted primarily through the full board of directors who has generally retained responsibility for general oversight of risks. Our board of directors satisfies this responsibility through reports directly from officers responsible for oversight of particular risks within our company as our board of directors believes that full and open communication between management and the board of directors is essential for effective risk management and oversight.

## **Committees of Our Board of Directors**

Our board of directors has established a compensation committee, audit committee and governance committee. Our board of directors recently approved our audit committee charter, and we expect that the compensation committee and governance committee will also operate under charters approved by our board of directors, all of which will be effective upon the closing of this offering.

***Compensation Committee***

The current members of our compensation committee are Dr. Barrett, who is the chair of the committee, Mr. Sheffery and Mr. Nuerge. We expect that upon completion of this offering, each of the members of our compensation committee will be independent under the applicable rules and regulations of the SEC, the Nasdaq Global Market and the Internal Revenue Service. Our compensation committee reviews and recommends policies relating to compensation and benefits of our officers and employees. The compensation committee's responsibilities will include:

- reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer and other executive officers;
- evaluating the performance of these officers in light of those goals and objectives;
- setting the compensation of these officers based on such evaluations;
- reviewing and approving the terms of any employment agreements with our chief executive officer and other executive officers;
- administering the issuance of stock options and other awards under our stock plans; and
- reviewing and evaluating, at least annually, the performance of the compensation committee and its members, including compliance of the compensation committee with its charter.

***Audit Committee***

The current members of our audit committee are Mr. Hudson, who is the chair of the committee, Dr. Siebert and Mr. Nuerge. We expect that upon completion of this offering, all members of our audit committee will meet the requirements for financial literacy under the applicable rules and regulations of the SEC and the Nasdaq Global Market. Our board has determined that Mr. Hudson is an audit committee financial expert as defined under the applicable rules of the SEC and has the requisite financial sophistication as defined under the applicable rules and regulations of the Nasdaq Global Market. Mr. Hudson, Dr. Siebert and Mr. Nuerge are independent directors as defined under the applicable rules and regulations of the SEC and the Nasdaq Global Market. The audit committee will operate under a written charter that satisfies the applicable standards of the SEC and the Nasdaq Global Market. Our audit committee's responsibilities will include:

- overseeing our corporate accounting and financial reporting process;
- evaluating the independent auditors' qualifications, independence and performance;
- determining the engagement of the independent auditors;
- reviewing and approving the scope of the annual audit and the audit fee;
- discussing with management and the independent auditors the results of the annual audit and the review of our quarterly financial statements;
- approving the retention of the independent auditors to perform any proposed permissible non-audit services;
- monitoring the rotation of partners of the independent auditors on our engagement team as required by law;
- reviewing our critical accounting policies and estimates;
- overseeing our internal audit function; and
- annually reviewing the audit committee charter and the audit committee's performance.

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***Governance Committee***

The current members of our governance committee are Mr. Newhall, who is the chair of the committee, and Mr. Bigham. We expect that upon completion of this offering, each of the members of our governance committee will be independent under the applicable rules and regulations of the SEC and the Nasdaq Global Market. The governance committee's responsibilities will include:

- making recommendations to our board of directors regarding candidates for directorships and the size and composition of our board;
- overseeing our corporate governance guidelines; and
- reporting and making recommendations to our board concerning governance matters.

***Other Committees***

Our board of directors may establish other committees as it deems necessary or appropriate from time to time.

**Compensation Committee Interlocks and Insider Participation**

None of the members of our compensation committee has at any time been one of our officers or employees. None of our executive officers currently serves, or in the past fiscal year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee.

**Code of Business Conduct and Ethics**

We have adopted a code of business conduct and ethics that applies to all of our employees, officers and directors, including those officers responsible for financial reporting.

**Executive Compensation**

***Compensation Discussion and Analysis***

***Introduction.*** This section discusses our executive compensation policies and arrangements as they relate to our named executive officers who are listed in the compensation tables set forth below. The following discussion should be read together with the compensation tables and related disclosure set forth below.

Our named executive officers, or NEOs, for the year ended December 31, 2011 are listed in the table below.

<u>Name</u>	<u>Title</u>
Jack A. Khattar	Chief Executive Officer, President
Gregory S. Patrick(1)	Vice President, Chief Financial Officer
Peter L. Buzy(2)	Former Vice President, Chief Financial Officer
Russell P. Wilson(3)	Former Vice President, Chief Financial Officer
Paolo Baroldi, M.D, Ph.D.	Senior Vice President, Chief Medical Officer
Padmanabh Bhatt, Ph.D.	Vice President, Pharmaceutical Sciences
Jones W. Bryan, Ph.D.	Vice President, Business Development

- (1) Mr. Patrick joined as the Vice President, Chief Financial Officer in November 2011.
- (2) Mr. Buzy served as the Vice President, Chief Financial Officer from October 2011 through November 2011.
- (3) Mr. Wilson resigned as the Vice President, Chief Financial Officer in October 2011.

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With respect to these NEOs, our board of directors determined initial compensation for these persons based primarily on negotiations between our board and our NEOs prior to their being hired and our board's past practices and experiences with companies such as ours.

We expect that following the completion of this offering, our Compensation Committee will undertake a substantial review of our existing compensation programs, objectives and philosophy and determine whether such programs, objectives, and philosophy are appropriate after we have become a public company. In addition, as we gain experience as a public company, we expect that the specific direction, emphasis and components of our executive compensation program will continue to evolve.

### **Executive Compensation Objectives and Philosophy**

The key objectives of our executive compensation programs are (1) to attract, motivate, reward and retain superior executive officers with the skills necessary to successfully lead and manage our business; (2) to achieve accountability for performance by linking annual cash incentive compensation to the achievement of measurable performance objectives; and (3) to align the interests of our executive officers and our equity holders through short- and long-term incentive compensation programs. For our NEOs, these short- and long-term compensation are designed to accomplish these objectives by providing a significant correlation between our results of operations and total compensation.

We expect to provide our NEOs with a significant portion of their compensation through cash incentive compensation contingent upon the achievement of operational and personal performance metrics, as well as through equity compensation. These two elements of executive compensation are aligned with the interests of our stockholders because the amount of compensation ultimately received will vary with our company's financial and operational performance. Equity compensation derives its value from our equity value, which in the future is likely to fluctuate based on our financial and operational performance.

We seek to apply a consistent philosophy to compensation for all executive officers. Our compensation philosophy is based on the following core principles.

#### ***To Pay for Performance***

Individuals in leadership roles are compensated based on a combination of total company and individual performance factors. Total company performance is evaluated primarily on the degree to which pre-established operational objectives are met. Individual performance is evaluated based upon several individualized leadership factors, including:

- individual contribution to attaining specific operational objectives;
- building and developing individual skills and a strong leadership team; and
- developing an effective infrastructure to support business development and growth.

#### ***To Pay Competitively***

We are committed to providing a total compensation program designed to retain our highest performing employees and attract strong leaders to our company. We have established compensation levels that we believe are competitive based on our board's experience with pay practices and compensation levels for companies such as ours.

#### ***To Pay Equitably***

We believe that it is important to apply generally consistent guidelines for all executive officer compensation programs. In order to deliver equitable pay levels, our board considers depth and scope

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of accountability, complexity of responsibility, qualifications and executive performance, both individually and collectively as a team.

In addition to short- and long-term compensation, we have found it important to provide certain of our executive officers with competitive post-employment compensation. Post-employment compensation consists primarily of severance pay and benefits continuation. We believe that these benefits are important considerations for our executive officer compensation package, as they afford a measure of financial security in the event of certain terminations of their employment and also enable us to secure their cooperation following termination. We have sought to ensure that each combined compensation package is competitive at the time the package is negotiated with the executive officer. We elect to provide post-employment compensation to our executive officers on a case-by-case basis as the employment market, the qualifications of potential employees and our hiring needs dictate.

**Compensation Committee Review of Compensation**

We expect that following this offering, our Compensation Committee will review compensation elements and amounts for NEOs on an annual basis and at the time of a promotion or other change in level of responsibilities, as well as when competitive circumstances or business needs may require. We may, but do not currently, use a third party consultant to assist us with determining compensation levels. We expect that each year our management will compile a report of benchmark data for executive positions for similar companies, including summaries of base salary, annual cash incentive plan opportunities and awards and long-term incentive award values. We have not yet determined the companies that we will benchmark our compensation packages against, but we expect that the Compensation Committee will determine this list after completion of this offering and that it will compare our pay practices and overall pay levels with other leading industry organizations and, where appropriate, with non-industry organizations when establishing our pay guidelines.

We expect that the CEO will provide compensation recommendations to the Compensation Committee for executives other than himself based on this data and the other considerations mentioned in this Compensation Discussion and Analysis. We expect that the Compensation Committee will recommend a compensation package that is consistent with our compensation philosophy, strategically positioned at the median of the peer group and competitive with other organizations similar to ours. The Compensation Committee will then discuss these recommendations with the CEO and will make a recommendation to the board, which the board will consider and approve, if appropriate.

We expect that the Compensation Committee will consider input from our CEO and CFO when setting performance objectives for our incentive plans. We also expect that the Compensation Committee will consider input from our CEO and CFO, regarding benchmarking and recommendations for base salary, annual incentive targets and other compensation awards. The Compensation Committee will likely give significant weight to our CEO's and CFO's judgment when assessing performance and determining appropriate compensation levels and incentive awards for our other NEOs.

**Elements of Compensation**

As discussed throughout this Compensation Discussion and Analysis, the compensation policies applicable to our NEOs are reflective of our pay-for-performance philosophy and encourage executive officers to enhance equity holder value over the long term.

The elements of our compensation program are:

- base salary;
- performance-based cash incentives;
- equity incentives; and
- certain additional employee benefits.

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Base salary, performance-based cash incentives and long-term equity-based incentives are the most significant elements of our executive compensation program and, on an aggregate basis, they are intended to substantially satisfy our program's overall objectives. Historically, our board of directors has, and following the offering, the Compensation Committee will seek to, set each of these elements of compensation at the same time to enable it to simultaneously consider all of these elements collectively and their impact on compensation as a whole. Taking this comprehensive view of all compensation components allows us also to make compensation determinations that will reflect the principles of our compensation philosophy with respect to allocation of compensation among certain of these elements and total compensation. We strive to achieve an appropriate mix between the various elements of our compensation program to meet our compensation objectives and philosophy; however, we do not apply any rigid allocation formula in setting our executive compensation, and we may make adjustments to this approach for various positions after giving due consideration to prevailing circumstances, the individuals involved and their responsibilities and performance.

**Base Salary**

We provide a base salary to our executive officers to compensate them for their services during the year and to provide them with a stable source of income. The base salaries for our NEOs in 2010 and 2011 were established by our board of directors, based in large part on the recommendation of our management and our board's review of other factors, including:

- the individual's performance, results, qualifications and tenure;
- the responsibilities associated with the position;
- pay mix (base salary, annual cash incentives, equity incentives and employee benefits);
- prevailing market conditions; and
- our financial position.

The annual base salaries in effect in 2010, 2011 and 2012 for each of our NEOs employed by us during fiscal year 2010 or fiscal year 2011, are as follows.

Name	Base Salary		
	2010	2011	2012
Jack A. Khattar	\$ 407,942	\$ 420,180	\$ 432,786
Gregory S. Patrick(1)	—	29,041	265,000
Peter L. Buzy(2)	—	31,644	—
Russell P. Wilson(3)	265,172	219,250	—
Paolo Baroldi, M.D., Ph.D	293,292	302,091	311,153
Padmanabh Bhatt, Ph.D	266,200	274,186	282,412
Jones W Bryan, Ph.D.	210,542	216,858	223,364

- (1) Reflects the pro rated salary for 2011 for Mr. Patrick, who joined as the Chief Financial Officer on November 21, 2011.
- (2) Reflects the pro rated salary for 2011 for Mr. Buzy, who served as Chief Financial Officer from October 17, 2011 through November 28, 2011.
- (3) Reflects the pro rated salary for 2011 for Mr. Wilson, who resigned his employment with the Company effective October 21, 2011.

In early 2010, in connection with setting the 2010 base salaries for our NEOs, our board considered the prevailing market conditions and our financial position, including our need to raise additional funds, and decided to increase the base salary of each of our NEOs by 3.0% over their 2009



base salaries; provided, however, that the 2010 base salaries for Mr. Wilson and Dr. Baroldi were prorated because they only joined us in 2009. In setting the 2011 and 2012 base salaries for our NEOs, our board considered the prevailing market conditions and our financial position, including our need to raise additional funds, and decided to increase the base salaries of our NEOs by 3.0% over their prior year base salaries; provided, however, that the 2012 base salary for Mr. Patrick was not increased because he only joined us in November 2011.

In the future, we expect that salaries for executive officers will be reviewed annually, as well as at the time of a promotion or other change in level of responsibilities, or when competitive circumstances or business needs may require. As noted above, we expect that following completion of the offering, our Compensation Committee will recommend a compensation package that is consistent with our compensation philosophy, strategically positioned at market median of our to-be-determined peer group.

#### ***Performance-Based Cash Incentives***

We pay annual performance-based cash incentives or bonuses in order to align the compensation of our NEOs with our short-term operational and performance goals and to provide near-term rewards for our NEOs to meet these goals. From time to time, our board has exercised its discretion in determining cash incentive amounts and making individual awards, but generally our performance-based cash incentives are made under our annual cash incentive plan. Our annual cash incentive plan for our CEO is based on the attainment by our company of objective operational goals and for all other NEOs is based on two components: the attainment by our company of non-financial operational goals and the achievement by each NEO of personal and often subjective performance goals. The final evaluation made by our board combines often subjective assessments of each of our company's operational goals and each NEO's personal goals and does not necessarily involve a mathematical analysis or pre-established weighting of each goal. Each of these components allows us to establish appropriately aggressive performance expectations and incentives that align business performance expectations to the prevailing market and economic conditions.

Currently, our board has determined that the target bonus for our CEO under our annual cash incentive plan is based 100% on the achievement of our company objectives. The annual performance bonuses for the other NEOs are currently based 60% on the achievement of company objectives and 40% on the achievement of individual performance objectives. Our board establishes our company objectives for each fiscal year prior to the end of the first quarter of the year and determines a separate weighting for each of our company objectives.

We do not disclose our company operational goals component of our annual cash incentive plan. We believe that such disclosure would result in serious competitive harm and be detrimental to our operating performance because the components of our performance goals contain highly sensitive data, such as regulatory, strategic partnering and other non-financial operational goals. These goals are intended to be realistic and reasonable, but challenging, in order to drive performance by our NEOs.

The personal performance goals vary for each NEO whose bonus is based in part on personal performance goals and are based on specific priorities in the NEO's area of responsibility, which may include, among others, regulatory and operating performance measures, as well as more subjective goals such as achievement of operational goals or implementation of specific plans, publications or projects in each NEO's area of management. Each year, our CEO and each NEO jointly determine what the NEO's performance priorities will be for the year, and our CEO makes a recommendation to our Compensation Committee. Our Compensation Committee reviews these recommendations, may have further discussions with our CEO or the NEO and then makes a final determination as to the personal performance goals.

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After our fiscal year 2010 ended, our board reviewed the company goals that were attained and were not attained and determined that the company performance component of our annual cash incentive plan was 98% achieved. This decision was primarily due to the continued progress of SPN-538 towards filing the NDA, and the continued progress of SPN-804, SPN-810 and SPN-812 in the clinic. Concurrently, each of our NEOs prepared an assessment of his or her performance against his or her personal performance goals and discussed them with our CEO, who then made a recommendation to our board. Our board reviewed these recommendations, undertook a similar process with our CEO regarding his personal performance goals and made a determination of overall performance against these goals for each NEO. Taking into account the relative weighting of the corporate and personal performance objectives, with 60% for corporate objectives and 40% for individual performance objectives for each NEO, other than our CEO, we paid each NEO the following 2010 annual performance bonus in 2011:

Name	2010 Annual Performance Bonus		
	Target Bonus Percent	Target Bonus Amount (\$)	Actual Bonus Payout (\$)
Jack A. Khattar	40%	\$ 163,177	\$ 159,913
Russell P. Wilson	25	66,293	64,172
Paolo Baroldi, M.D., Ph.D.	25	73,323	68,044
Padmanabh Bhatt, Ph.D.	25	66,550	64,154
Jones W. Bryan, Ph.D.	25	52,636	47,793

For 2011, our board has set the following target annual performance bonus amounts:

Name	2011 Annual Performance Bonus		
	Target Bonus Percent	Target Bonus Amount (\$)	Actual Bonus Payout (\$)(1)
Jack A. Khattar	40%	\$ 168,072	
Gregory S. Patrick(2)	25	7,260	
Peter L. Buzy(3)	—	—	
Russell P. Wilson(4)	—	—	
Paolo Baroldi, M.D., Ph.D.	25	75,523	
Padmanabh Bhatt, Ph.D.	25	68,547	
Jones W. Bryan, Ph.D.	25	54,215	

- (1) The board has not yet determined 2011 bonus amounts. We expect the amounts will be determined during the first quarter of 2012.
- (2) Mr. Patrick joined as the Chief Financial Officer in November 2011, so his target annual performance bonus amount for 2011 was prorated.
- (3) Mr. Buzy resigned as the Chief Financial Officer in November 2011 and he is not entitled to a bonus for 2011.
- (4) Mr. Wilson resigned as the Chief Financial Officer in October 2011 and he is not entitled to a bonus for 2011.

We expect that following this offering, our Compensation Committee will more directly assess the performance of our NEOs. Many of the personal performance goals either are qualitative in nature or have a single value or accomplishment as the determinant. Accordingly, the final evaluation made by our board often combines subjective assessments of each of the NEO's goals and does not necessarily involve a mathematical analysis or pre-established weighting of each goal. Our board ultimately

determines a single percentage representing overall performance against each NEO's personal goals in the aggregate.

The target bonus percentages for our NEOs under our annual cash incentive plan for 2012 are the same as under the annual cash incentive plan for 2010 and 2011. Because the components of our performance goals contain highly sensitive data, such as regulatory, strategic partnering and other nonfinancial operational goals, we believe that such disclosure would result in serious competitive harm and be detrimental to our operating performance. Our performance goals are intended to be realistic and reasonable, but challenging, in order to drive performance by our NEOs.

### ***Equity Incentives***

All of our NEOs have received equity incentive grants under our 2005 Stock Plan, which is described below, in the form of restricted stock and/or stock options. To date, we have primarily used stock option grants as our principal form of equity incentives because we believe they are an effective means to align the long-term interests of our executive officers with those of our stockholders. The offer of restricted stock and/or options attempts to achieve this alignment by providing our NEOs with equity incentives that vest over time or upon the occurrence of certain events. The restricted stock and options serve also to reward our NEOs for performance.

Prior to this offering, we have used stock options and, to a very limited degree, restricted stock, as the primary long-term equity incentive vehicle. In 2005, we made our only grant of restricted stock when the fair value of our stock was lower and the awards had less income tax consequence to the executive upon vesting. Since then, we have made option grants to executive officers who are newly hired, and generally made stock option grants to existing executives at times when the board deemed appropriate in accordance with the compensation principles outlined above.

The value of an option is at risk for the NEO and is entirely dependent on the value of a share of our stock above the option's strike price. The value of our stock is dependent in many ways on management's success in achieving our goals. If the price of our common stock drops, for any reason, over the option's vesting period, the value of the option to the executive will drop and could become worthless if the price of the underlying stock remains below the option's strike price. In determining the number of stock options to be granted to executives, we take into account the individual's position, scope of responsibility, ability to affect profits and shareholder value, the individual's historic and recent performance and the value of stock options in relation to other elements of the individual executive's total compensation.

We may in the future grant other forms of equity incentives, such as restricted stock or performance shares (shares that vest only upon achievement of performance goals established at the time of grant), subject to the Compensation Committee's discretion, to ensure that our executives are focused on long-term stockholder value. We expect that following completion of the offering, the Compensation Committee will periodically review the equity awards previously awarded to management, the performance of our business and the performance of our stock. We expect that the Compensation Committee will establish levels of equity incentive holdings for our NEOs such that the portion of overall compensation that is variable is consistent with our pay-for-performance philosophy and competitive within our industry. The Compensation Committee is expected to determine appropriate levels of equity awards based on these factors and may make additional grants.

Stock options granted by us to date have an exercise price equal to or greater than the fair market value of our common stock on the date of grant and generally expire ten years after the date of grant. Stock options are subject to vesting, and most of our options vest over time at a rate of 25% of the total grant on the each of the first four anniversaries of the vesting start date, although we have granted some performance options that vest upon attaining certain predetermined company objectives.

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The amount of each of these awards was designed to establish a desired percentage ownership level for each of our NEOs that our board believed was commensurate with their respective roles and responsibilities and based on similarly situated employees of other companies that members of our board had experience with.

***Additional Employee Benefits***

We provide our executive officers with employee benefits that the board believes are reasonable and in the best interests of the company and its stockholders, which consist of the following benefits:

- health insurance;
- vacation and sick days;
- long-term disability; and
- a 401(k) plan.

We have no structured perquisite benefits, such as club memberships or company vehicles, for any executive officer, including our NEOs. We believe the benefits we provide are generally equivalent to the benefits provided by comparable companies.

**Accounting and Tax Considerations**

In determining which elements of compensation are to be paid, and how they are weighted, we will take into account whether a particular form of compensation will be deductible under Section 162(m) of the Code. Section 162(m) generally limits the deductibility of compensation paid to our NEOs to \$1 million during any fiscal year unless such compensation is "performance-based" under Section 162(m). However, under a Section 162(m) transition rule for compensation plans or agreements of corporations which are privately held and which become publicly held in an initial public offering, compensation paid under a plan or agreement that existed prior to the initial public offering will not be subject to Section 162(m) until the earliest of (1) the expiration of the plan or agreement; (2) a material modification of the plan or agreement; (3) the issuance of all employer stock and other compensation that has been allocated under the plan; or (4) the first meeting of stockholders at which directors are to be elected that occurs after the close of the third calendar year following the year of the initial public offering. We refer to the earliest of these events to occur as the "Transition Date." After the Transition Date, rights or awards granted under the plan will not qualify as "performance-based compensation" for purposes of Section 162(m) unless such rights or awards are granted or vest upon pre-established objective performance goals, the material terms of which are disclosed to and approved by our stockholders.

Our compensation program is intended to maximize the deductibility of the compensation paid to our NEOs to the extent that we determine it is in our best interests. Consequently, we may rely on the exemption from Section 162(m) afforded to us by the transition rule described above for compensation paid pursuant to our pre-existing plans.

Many other Code provisions, SEC regulations and accounting rules affect the payment of executive compensation and are generally taken into consideration as we develop our compensation programs. Our goal is to create and maintain plans that are efficient, effective and in full compliance with these requirements.

When determining our compensation policies and practices, our board considered various matters relative to the development of a reasonable and prudent compensation program, including whether the policies and practices were reasonably likely to have a material adverse effect on us. We believe that the mix and design of our executive compensation plans and policies do not encourage management to assume excessive risks and are not reasonably likely to have a material adverse effect on us for the

following reasons: we offer an appropriate balance of short and long-term incentives and fixed and variable amounts; our variable compensation is based on a balanced mix of criteria; and our Compensation Committee has the authority to adjust variable compensation as appropriate.

**Compensation Tables**

Unless otherwise specified, the following tables provide information regarding the compensation earned during our most recently completed fiscal year by our NEOs.

**Summary compensation table**

The following table shows the compensation earned by our NEOs during the fiscal years ended December 31, 2011 and December 31, 2010.

Name and Principal Position	Year	Base Salary (\$)	Non-Equity Incentive Plan Compensation Bonus (\$)(1)	Option Awards (\$)(2)	All Other Compensation (\$)(3)	Total (\$)
Jack A. Khattar <i>Chief Executive Officer, President</i>	2011	\$ 420,180		\$ —	\$ 11,439	\$ 431,619
	2010	407,942	\$ 159,913	—	12,185	580,040
Gregory S. Patrick(4) <i>Vice President, Chief Financial Officer</i>	2011	29,041		279,678	599	309,318
	2010	—	—	—	—	—
Peter L. Buzy(5) <i>Former Vice President, Chief Financial Officer</i>	2011	31,644		—	—	31,644
	2010	—	—	—	—	—
Russell P. Wilson(6) <i>Former Vice President, Chief Financial Officer</i>	2011	219,250		—	11,037	230,287
	2010	265,172	64,172	88,235	12,821	430,400
Paolo Baroldi, M.D., Ph.D. <i>Senior Vice President, Chief Medical Officer</i>	2011	302,091		—	14,342	316,432
	2010	293,292	68,044	98,014	18,303	477,656
Padmanabh Bhatt, Ph.D. <i>Vice President, Pharmaceutical Sciences</i>	2011	274,186		—	12,654	286,840
	2010	266,200	64,154	66,450	14,036	410,841
Jones W. Bryan, Ph.D. <i>Vice President, Business Development</i>	2011	216,858		—	8,262	225,120
	2010	210,542	47,793	66,450	10,499	335,285

- (1) 2010 amounts represent annual performance bonus compensation earned for the year ended December 31, 2010 based on pre-established performance objectives. Annual performance bonus compensation for 2010 was paid in early 2011. Annual performance bonus compensation for 2011 has not yet been awarded. We expect such amounts will be determined during the first quarter of 2012. See the "Grants of Plan-Based Awards" table for the 2011 non-equity incentive plan targets, and maximum amounts, for each of the NEOs. Our annual performance bonus program is described in more detail under "—Compensation Discussion and Analysis—Performance-Based Cash Incentives."
- (2) In accordance with ASC Topic 718, or ASC 718, formerly Statement of Financial Accounting Standards No. 123R, our NEOs will only realize compensation to the extent the market price of our common stock is greater than the exercise price of such stock options. For information regarding assumptions underlying the valuation of equity awards, see Note 10 to our financial statements appearing at the end of this prospectus.

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- (3) Amounts include the premium amounts paid by us for life insurance and long-term disability insurance coverage for each NEO, plus the employer matching contributions made on behalf of each NEO to our 401(k) plan.
- (4) Mr. Patrick became our Vice President, Chief Financial Officer in November 2011. 2011 base salary amount represents salary paid to Mr. Patrick in 2011.
- (5) Mr. Buzy served as our Vice President, Chief Financial Officer from October 2011 through November 2011. 2011 base salary amount represents salary paid to Mr. Buzy in 2011.
- (6) Mr. Wilson resigned as our Vice President, Chief Financial Officer in October 2011. 2011 base salary amount represents salary paid to Mr. Wilson in 2011.

**Grants of Plan-Based Awards**

During fiscal year ended December 31, 2011, each of our NEOs participated in our performance-based cash incentive plan in which each officer was eligible for the awards set forth in the following table. For a detailed discussion of our performance-based cash incentive plan, refer to "—Compensation Discussion and Analysis—Performance-Based Cash Incentives." The following table also sets forth information regarding equity awards granted to our NEOs during the year ended December 31, 2011. Equity awards made to our NEOs are described in more detail under "—Compensation Discussion and Analysis—Equity Incentives."

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		All Other Options Awards:	Exercise or Base Price of Option Awards(1) (\$/sh)	Grant Date Fair Value of Stock and Options Awards(2) (\$)
		Target (\$)	Maximum (\$)	Number of Securities Underlying Options(#)		
Jack A. Khattar	—	\$ 168,072	\$ 168,072	—	—	—
Gregory S. Patrick(3)	12/16/2011	7,260	7,260	420,000	1.06	279,678
Peter L. Buzy	—	—	—	—	—	—
Russell P. Wilson	—	—	—	—	—	—
Paolo Baroldi, M.D., Ph.D.	—	75,523	75,523	—	—	—
Padmanabh Bhatt, Ph.D.	—	68,547	68,547	—	—	—
Jones W. Bryan, Ph.D.	—	54,215	54,215	—	—	—

- (1) Amounts represent the fair value of our common stock as determined in good faith by our board on the date of the grant.
- (2) Amounts reflect the aggregate grant date fair value of the awards calculated in accordance with ASC 718.
- (3) Mr. Patrick joined as the Chief Financial Officer in November 2011, so his target annual performance bonus amount for 2011 was prorated.

**Outstanding Equity Awards at Fiscal Year-End**

The table below sets forth certain information regarding the outstanding equity awards held by our NEOs as of December 31, 2011.

Name		Option Awards			
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)(5)	Option Expiration Date
Jack A. Khattar		—	—	—	—
Gregory S. Patrick	(1)	—	420,000	\$ 1.06	12/16/2021
Peter L. Buzy		—	—	—	—
Russell P. Wilson	(2)	57,500		\$ 0.64	12/15/2019
Paolo Baroldi, M.D., Ph.D.	(1)	100,000	100,000	\$ 0.40	1/19/2019
	(1)	5,000	15,000	\$ 0.84	02/10/2020
	(1)	53,750	161,250	\$ 0.64	11/02/2020
Padmanabh Bhatt, Ph.D.	(1)	200,000		\$ 0.10	1/17/2016
	(3)	25,000		\$ 0.10	1/17/2016
	(4)	25,000		\$ 0.10	1/17/2016
	(1)	12,000		\$ 0.10	2/13/2017
	(1)	2,500	7,500	\$ 0.84	02/10/2020
	(1)	37,500	112,500	\$ 0.64	11/02/2020
Jones W. Bryan, Ph.D.	(1)	2,500	7,500	\$ 0.84	02/10/2020
	(1)	37,500	112,500	\$ 0.64	11/02/2020

- (1) These stock options vest over four years in four equal installments of 25% each on the first four anniversaries from the date of grant.
- (2) On November 2, 2010, this option was repriced from \$1.76 to \$0.64 per share.
- (3) These stock options vested upon the completion of our first clinical trial in humans and was satisfied in 2006.
- (4) These stock options vested upon the launch of a partnered product which was satisfied in 2006.
- (5) The market value of each equity award is based on the fair market value of per share of our common stock as of the date of grant, as determined in good faith by our board.

## Option Exercises and Stock Vested

The table below sets forth certain information regarding options to purchase our common stock that were exercised by our NEOs during 2011.

<u>Name</u>	<u>Number of Shares Acquired On Exercise (#)</u>	<u>Value Realized On Exercise \$(1)</u>
Jack A. Khattar	—	—
Gregory S. Patrick	—	—
Peter L. Buzy	—	—
Russell P. Wilson	—	—
Paolo Baroldi, M.D., Ph.D.	—	—
Padmanabh Bhatt, Ph.D.	—	—
Jones W. Bryan, Ph.D.	262,000	\$ 251,520

- (1) Amount based on the difference between the exercise price of the options and the most recent fair market value of our common stock as determined in good faith by our board at the time of exercise.

### *Pension Benefits*

Our NEOs did not participate in or have account balances in any qualified or nonqualified defined benefit plans sponsored by us. Our board of directors or Compensation Committee may elect to adopt qualified or nonqualified benefit plans in the future if it determines that doing so is in our best interest.

### *Deferred Compensation*

We do not currently provide any deferred compensation program or benefits but may elect to do so in the future.

## Employment Agreement and Severance Benefits

### *Jack A. Khattar*

On December 22, 2005, we entered into an Employment Agreement with Mr. Khattar, our President and Chief Executive Officer, providing for his continued employment, effective as of the signing date. This employment agreement provides that Mr. Khattar's employment is at-will and may be terminated by either us or him at any time for any or no reason. Mr. Khattar's base salary was originally set at \$359,000 per year, subject to review and increases from time to time by our board based on Mr. Khattar's and the company's performance. Mr. Khattar is also eligible to receive an annual bonus payment of up to 40% of his annual base salary, based on achievement of certain performance milestones identified by our board in consultation with Mr. Khattar. Furthermore, he is eligible to participate in our group benefits programs, including but not limited to, medical insurance, vacation and retirement plans, and will be provided with life insurance and the ability to participate in a 401(k) plan.

In the event Mr. Khattar is terminated by us without cause, as defined in the employment agreement, or he resigns with good reason, as defined in the employment agreement to include, among other things, any material reduction in base compensation or material diminution in title, duties or responsibilities as President and Chief Executive Officer, Mr. Khattar will be entitled to receive (i) continued payment of his base salary for 18 months, (ii) the most recent annual bonus paid to him, and (iii) continuation of his taxable and non-taxable benefits for 18 months, subject to the limits under applicable law. In the event that Mr. Khattar is terminated for cause or he terminates his employment



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without good reason, Mr. Khattar will not be entitled to the payments and benefits described above, unless mutually agreed upon in writing. Mr. Khattar's employment agreement also includes a non-solicitation covenant and a non-compete covenant for at least one year following the termination of Mr. Khattar's employment.

**Other NEOs**

Pursuant to the terms of the offer letters with Dr. Bryan and Dr. Bhatt, they are each entitled to receive six months of severance pay in connection with a restructuring of Supernus that results in the elimination of their respective positions.

**Potential Payments Upon Termination and Change in Control**

Assuming Mr. Khattar's employment is terminated without cause or he resigns for good reason, or he resigns for good reason after a change of control, each such term as defined in Mr. Khattar's employment agreement, on December 31, 2011, the estimated values of payments and benefits to Mr. Khattar are set forth in the following table. See "—Employment Agreement and Severance Benefits." In addition, the following table also sets forth the amounts payable upon a restructuring of Supernus that results in the elimination of Dr. Bryan's or Dr. Bhatt's respective positions assuming the restructuring occurred on December 31, 2011. No other NEOs are contractually entitled to payments upon termination or a change of control.

	Benefit	Termination Upon a Restructuring	Termination Without Cause or Resignation for Good Reason	Resignation for Good Reason After a Change of Control
Jack A. Khattar	Base salary continuation		\$ 630,270	\$ 630,270
	Bonus(1)		159,913	159,913
	Continuation of benefits(2)		20,058	20,058
	Total		\$ 810,241	\$ 810,241
Padmanabh Bhatt, Ph.D.	Severance	\$ 137,093		
Jones W. Bryan, Ph.D.	Severance	\$ 108,429		

- (1) Amount shown for bonus in connection with a change in control represents the bonus payment Mr. Khattar would have earned based on the assumption that his employment terminated as of the last day of fiscal 2011, in accordance with his employment agreement. The amount set forth in the table reflects the most recent bonus paid to Mr. Khattar under our annual cash incentive plan as of December 31, 2011.
- (2) Amounts shown for continuation of benefits represent estimates for the continuation of health, medical, life and group life insurance benefits afforded to Mr. Khattar and eligible family members in accordance with his employment agreement.

**Director Compensation**

Upon election to our board, each of our non-employee directors who are not affiliated with any 5% or greater stockholder was granted options to purchase shares of our common stock, subject to an annual vesting over a four-year period from the date of grant. The exercise price of the options was greater than or equal to the fair market value of a share of our common stock at the time of grant. In addition, our non-employee directors who are not affiliated with any 5% or greater stockholder receive \$20,000 annually. All directors have received and will continue to receive reimbursement for reasonable out-of-pocket expenses incurred in connection with attendance at meetings of the board.

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The following table sets forth a summary of the compensation we paid to directors in 2011.

<u>Name</u>	<u>Fees Earned or Paid in Cash (\$)</u>	<u>Total (\$)</u>
William A. Nuerge	20,000	20,000
Frederick M. Hudson	20,000	20,000
John M. Siebert	20,000	20,000

None of the other members of our board received any compensation from us for their service on our board, other than reimbursement for reasonable out-of-pocket expenses as described above.

**Benefit Plans**

Our officers, employees, non-employee directors and other key persons (including consultants and prospective employees) are entitled to participate in various benefit plans as described below, subject to the discretion of the administrators of the plans. Our equity awards are granted under our 2005 Stock Plan. There are an aggregate of 8,000,000 shares of common stock authorized under this plan. This number is subject to adjustment in the event of a stock split, stock dividend or other change in our capitalization. Generally, shares that are forfeited or canceled from awards under the 2005 Stock Plan also will be available for future awards.

**2005 Stock Plan**

**Introduction.** Our 2005 Stock Plan was adopted by our board and approved by our stockholders on December 21, 2005. The 2005 Stock Plan permits us to make grants of stock options (both incentive stock options and non-qualified stock options), purchase rights of common stock and awards of common stock to our executives, employees, directors, consultants and advisors.

**Share Reserve.** 8,000,000 shares of common stock are reserved for the issuance of awards under our 2005 Stock Plan. This number is subject to adjustment in the event of a stock split, stock dividend or other change in our capitalization. Generally, shares that expire or terminate for any reason without having been exercised in full shall be available for subsequent grants under our 2005 Stock Plan.

**Administration.** Our 2005 Stock Plan is administered by either our board or a committee of our board. The administrator has full power and authority to select the participants to whom awards will be granted, to make any combination of awards to participants, to accelerate the exercisability or vesting of any award and to determine the specific terms and conditions of each award, subject to the provisions of the 2005 Stock Plan.

**Eligibility.** All officers, employees, directors and other key persons (including consultants and advisors) are eligible to participate in the 2005 Stock Plan, subject to the discretion of the administrator.

**Types of Awards.** The types of awards that are available for grant under the 2005 Stock Plan are:

- incentive stock options;
- non-qualified stock options;
- purchase rights; and
- common stock awards.

The exercise price of stock options awarded under the 2005 Stock Plan may not be less than either (i) 100% of the fair market value of our common stock on the date of the option grant, with the term

of each option not exceeding ten years from the date of grant, or (ii) for any employee who is the owner, at the time of the grant of such options, of more than 10% of the total combined voting power of all classes of stock of the Company (after taking into account the attribution of stock ownership rules of Section 424(d) of the Code), 110% of fair market value of our common stock on the date of the option grant, with the term of each option not exceeding five years from the date of grant. The administrator will determine at what time or times each option may be exercised and, subject to the provisions of the 2005 Stock Plan, the period of time, if any, after retirement, death, disability or other termination of employment during which options may be exercised. To qualify as incentive stock options, stock options must meet additional federal tax requirements, including a \$100,000 limit on the value of shares subject to incentive options which first become exercisable in any one calendar year, and a shorter term and higher minimum exercise price in the case of certain large stockholders.

Purchase rights allow the recipient the opportunity to make direct purchases of the Company's common stock in accordance with terms and conditions established by the administrator. Awards of common stock are awards entitling the grantee to receive shares of the Company's common stock in accordance with terms and conditions established by the administrator.

**Transferability.** Our 2005 Stock Plan does not allow for the transfer of incentive stock options and all other options granted to Reporting Persons, and may be exercisable only by the grant holder during his or her lifetime, except that non-qualified options may be transferred pursuant to a qualified domestic relations order (as defined in the Code).

**Change in Control.** Except as otherwise provided by the administrator and evidenced in a particular award, in the event of a consolidation or merger or sale of all or substantially all of the assets of the Company in which outstanding shares of common stock are exchanged for securities, cash or other property of any other corporation or business entity, or in the event of a liquidation of the Company, the administrator may, in its discretion, terminate all stock options granted under the 2005 Stock Plan unless the successor entity agrees to assume the awards. In the event the awards are to be terminated, the administrator may provide for payment in exchange for the termination of the awards. Furthermore, at any time the administrator may provide for the acceleration of exercisability and/or vesting of an award.

**Term.** Unless earlier terminated by our board of directors, the 2005 Stock Plan will terminate, with respect to incentive stock options only, upon the earlier of (A) the close of business on the day next preceding the tenth anniversary of the date the Board of Directors approved the 2005 Stock Plan, or (B) the date on which all shares available for issuance under the 2005 Stock Plan shall have been issued. Unless sooner terminated, the 2005 Stock Plan will terminate with respect to options, purchase rights and awards of common stock which are not incentive stock options on the date specified in (B) above.

**Amendment or Termination.** Our board of directors may amend, suspend, or terminate the 2005 Stock Plan in any respect at any time, subject to stockholder approval where such approval is required by applicable law or stock exchange rules. Further, any material amendments to the 2005 Stock Plan will be subject to approval by our stockholders, including any amendment that increases the number of shares available for issuance under the 2005 Stock Plan or expands the types of awards available under, the eligibility to participate in, or the duration of, the plan. No amendment to the 2005 Stock Plan may materially impair any of the rights of a participant under any awards previously granted without his or her consent.

#### **Limitation of Liability and Indemnification Arrangements**

As permitted by the Delaware General Corporation Law, we intend to adopt provisions in our amended and restated certificate of incorporation and amended and restated bylaws, which will be

effective upon the completion of this offering, that limit or eliminate the personal liability of our directors. Consequently, a director will not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any unlawful payments related to dividends or unlawful stock repurchases, redemptions or other distributions; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not alter director liability under the federal securities laws and do not affect the availability of equitable remedies such as an injunction or rescission.

In addition, our amended and restated bylaws, which will be effective upon the completion of this offering, provide that:

- we will indemnify our directors, officers and, at the discretion of our board, certain employees to the fullest extent permitted by the Delaware General Corporation Law; and
- advance expenses, including attorneys' fees, to our directors and, at the discretion of our board, to our officers and certain employees, in connection with legal proceedings, subject to limited exceptions.

We also intend to enter into indemnification agreements with each of our executive officers and directors. These agreements will provide that we will indemnify each of our directors to the fullest extent permitted by the Delaware General Corporation Law and advance expenses to each indemnitee in connection with any proceeding in which indemnification is available.

We also maintain management liability insurance to provide insurance coverage to our directors and officers for losses arising out of claims based on acts or omissions in their capacities as directors or officers, including liabilities under the Securities Act of 1933, as amended, or the Securities Act. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, or persons controlling the registrant pursuant to the foregoing provisions, we have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

These provisions may discourage stockholders from bringing a lawsuit against our directors in the future for any breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. Furthermore, a stockholder's investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors, officers and certain employees pursuant to these indemnification provisions. We believe that these provisions, the indemnification agreements and the insurance are necessary to attract and retain talented and experienced directors and officers.

At present, there is no pending litigation or proceeding involving any of our directors, officers or employees in which indemnification will be required or permitted. We are not aware of any threatened litigation or proceeding that might result in a claim for such indemnification.

**Rule 10b5-1 Sales Plans**

Our directors and executive officers may adopt written plans, known as Rule 10b5-1 plans, in which they will contract with a broker to buy or sell shares of our common stock on a periodic basis. Under a Rule 10b5-1 plan, a broker executes trades pursuant to parameters established by the director or officer when entering into the plan, without further direction from them. The director or officer may amend or terminate the plan in some circumstances. Our directors and executive officers may also buy or sell additional shares outside of a Rule 10b5-1 plan when they are not in possession of material, nonpublic information. However, pursuant to the terms of the lock-up agreements described under "Underwriting," no Rule 10b5-1 plan may provide for the transfer of common stock during the restricted period ending 180 days after the date of this prospectus (as such period may be extended under certain circumstances).

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Other than the compensation agreements and other arrangements described under "Compensation Discussion and Analysis" in this prospectus and the transaction set forth below, since January 1, 2009, there has not been any transaction or series of transactions to which we were or are a party in which the amount involved exceeded or exceeds \$120,000 and in which any director, executive officer, holder of more than 5% of any class of our voting securities or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest. We believe the transaction set forth below was executed on terms no less favorable to us than we could have obtained from unaffiliated third parties.

### **Transactions with Our Executive Officers, Directors and 5% Stockholders**

In May 2009, we entered into an amendment to a license agreement with Shire LLC, a holder of Series A convertible preferred stock, whereby Shire LLC and its affiliates paid us a one-time, lump-sum payment of \$36.9 million in return for a fully paid-up license for one of its products that utilizes our proprietary technologies. All four criteria necessary to recognize revenue in accordance with ASC 605-10-S25, *Revenue Recognition—Overall—Recognition*, were met during 2009 related to this transaction. Accordingly, the entire amount was recorded as royalty revenue in the consolidated statement of operations.

In December 2011, we entered into a Unit Purchase Agreement with Royalty Opportunities S.à.r.l ("ROS"), which transaction is hereafter referred to as the "Purchase Transaction". Pursuant to the Unit Purchase Agreement, we sold 100% of our equity ownership interests in Royalty Sub to ROS for a payment of \$27.0 million on the closing date of the Purchase Transaction and a potential milestone payment of \$3.0 million payable upon occurrence of certain conditions. OrbiMed Advisors LLC ("OrbiMed"), which acts as investment manager for ROS, is the managing member of OrbiMed Capital GP II LLC, which is the general partner of OrbiMed Private Investments II, LP and OrbiMed Private Investments II (QP) LP, both of which are holders of Series A convertible preferred stock. Investment professionals employed by OrbiMed manage the investment portfolio of UBS Juniper Crossover Fund, L.L.C., a holder of Series A convertible preferred stock, on behalf of UBS Juniper Management, L.L.C. under the oversight of UBS Alternative and Quantitative Investments LLC. Michael Sheffery, one of our directors, is a member of OrbiMed.

### ***Indemnification Agreements***

We intend to enter into indemnification agreements with each of our directors and certain of our executive officers. These agreements will require us to indemnify these individuals and, in certain cases, affiliates of such individuals, to the fullest extent permitted under Delaware law against liabilities that may arise by reason of their service to us, and to advance expenses incurred as a result of any proceeding against them as to which they could be indemnified.

### ***Registration Rights***

After the expiration of the 180-day period following the completion of this offering (as may be extended under certain circumstances), certain of our directors and 5% stockholders are party to an investor rights agreement providing for rights to register under the Securities Act certain shares of our capital stock. For more information regarding the registration rights granted pursuant to this agreement, see the section entitled "Description of Capital Stock—Registration Rights."

### ***Employment Agreement and Offer Letters***

We have entered into an employment agreement with our chief executive officer and offer letters with certain of our named executive officers, or NEOs, each of which provides for certain severance

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benefits, among other things. For more information regarding this agreement and the offer letters with certain of our NEOs, see the section entitled "Executive Compensation—Employment Agreement and Severance Benefits."

***Stock Option Awards***

Our 2005 Stock Plan permits us to make grants of stock options, purchase rights of common stock and awards of common stock to our executives, employees, directors, consultants and advisors. For more information regarding stock option awards and restricted stock granted to our named executive officers and directors, see the sections entitled "Executive Compensation—Outstanding Equity Awards at Fiscal Year End" and "Director Compensation."

**Procedures for Related Party Transactions**

Upon the closing of this offering, our audit committee will be responsible for reviewing and approving all material transactions with any related party on a continuing basis. Related parties can include any of our directors or officers, holders of 5% or more of our voting securities and their immediate family members. This obligation is set forth in writing in our Audit Committee Charter. We may not enter into a related person transaction unless our audit committee has reviewed and approved such transaction. Currently, such transactions are reviewed by management on a case-by-case basis.

## PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding the beneficial ownership of our common stock as of December 31, 2011, before and after the completion of this offering, and gives effect to the automatic conversion of all outstanding shares of our preferred stock into 49,000,000 shares of common stock upon the closing of this offering, by: (i) our named executive officers and our directors individually, (ii) all of our executive officers and directors, as a group, and (iii) any person who, to our knowledge, owns 5% or more of the common stock on an as-converted basis. Unless otherwise indicated, the address for each of the stockholders listed in the table below is c/o Supernus Pharmaceuticals, Inc., 1550 East Gude Drive, Rockville, Maryland 20850.

Beneficial ownership is determined in accordance with the rules and regulations of the United States Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options held by that person that are currently exercisable or exercisable within sixty (60) days of December 31, 2011 are deemed outstanding. These shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Except as indicated in the footnotes to this table and pursuant to applicable community property laws, we believe each stockholder named in the table has sole voting and investment power with respect to the shares set forth opposite that stockholders' name.

<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares Beneficially Owned</u>	<u>Percentage of Shares Beneficially Owned</u>	
		<u>Before Offering</u>	<u>After Offering</u>
<b>5% Stockholders:</b>			
New Enterprise Associates 11, Limited Partnership and its affiliates(1) c/o New Enterprise Associates 1954 Greenspring Drive Suite 600 Timonium, MD 21093	25,000,000	44.9%	
OrbiMed Private Investments II, LP and its affiliates(2) c/o OrbiMed Advisors LLC 767 Third Avenue, 30th Floor New York, NY 10017	10,000,000	18.0%	
Abingworth Bioventures IV LP and its affiliates(3) c/o Abingworth Management Inc 890 Winter Street, Suite 150 Waltham, MA 02451	10,000,000	18.0%	
Shire LLC(4) 9200 Brookfield Court Suites 105 & 108 Florence, KY 41042	4,000,000	7.2%	



<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares Beneficially Owned</u>	<u>Percentage of Shares Beneficially Owned</u>	
		<u>Before Offering</u>	<u>After Offering</u>
<b>Executive Officers and Directors:</b>			
Jack A. Khattar(5)	6,088,235	10.9%	
Gregory S. Patrick	—	*	
Paolo Baroldi, M.D., Ph.D.(6)	213,750	*	
Padmanabh P. Bhatt, Ph.D.(7)	304,500	*	
Jones W. Bryan, Ph.D.(8)	304,500	*	
M. James Barrett, Ph.D.(9)	25,000,000	44.9%	
Michael Bigham(10)	10,000,000	18.0%	
Frederick M. Hudson(11)	8,750	*	
Charles W. Newhall, III(12)	25,000,000	44.9%	
William A. Nuerge	35,000	*	
Michael B. Sheffrey, Ph.D.(13)	10,000,000	18.0%	
John M. Siebert	—	*	
All executive officers and directors as a group (13 persons)(14)	52,109,735	93.6%	

\* Less than one percent.

- (1) Consists of (a) 24,965,000 shares of common stock issuable upon the automatic conversion of 24,965,000 shares of Series A convertible preferred stock held by New Enterprise Associates 11, Limited Partnership, or NEA 11; and (b) 35,000 shares of common stock issuable upon the automatic conversion of 35,000 shares of Series A convertible preferred stock held by NEA Ventures 2005, L.P., or Ven 2005. The shares directly held by NEA 11 are indirectly held by NEA Partners 11, Limited Partnership, or NEA Partners 11, the sole general partner of NEA 11, NEA 11 GP, LLC, or NEA 11 LLC, the sole general partner of NEA Partners 11, and each of the individual Managers of NEA 11 LLC. The individual Managers (collectively, the "Managers") of NEA 11 LLC are M. James Barrett, Peter J. Barris, Forest Baskett, Ryan D. Drant, Krishna "Kittu" Kolluri, C. Richard Kramlich, Charles W. Newhall III, Mark W. Perry and Scott D. Sandell. NEA Partners 11, NEA 11 LLC and the Managers share voting and dispositive power over the shares directly held by NEA 11. The shares directly held by Ven 2005 are indirectly held by J. Daniel Moore, the general partner of Ven 2005, who holds voting and dispositive power over the shares directly held by Ven 2005. All indirect holders of the above referenced shares disclaim beneficial ownership of all applicable shares except to the extent of their actual pecuniary interest therein, if any.
- (2) Consists of 6,673,891 shares of common stock issuable upon the automatic conversion of 6,673,891 shares of Series A convertible preferred stock held by OrbiMed Private Investments II, LP; 2,498,842 shares of common stock issuable upon the automatic conversion of 2,498,842 shares of Series A convertible preferred stock held by OrbiMed Private Investments II (QP), LP; and 827,267 shares of common stock issuable upon the automatic conversion of 827,267 shares of Series A convertible preferred stock held by UBS Juniper Crossover Fund, L.L.C. OrbiMed Advisors LLC, or OrbiMed, a registered investment adviser under the Investment Advisers Act of 1940, as amended, is the managing member of OrbiMed Capital GP II LLC, which is the general partner of OrbiMed Private Investments II, LP and OrbiMed Private Investments II (QP), LP. Investment professionals employed by OrbiMed manage UBS Juniper Crossover Fund, L.L.C.'s investment portfolio on behalf of UBS Juniper Management, L.L.C. under the oversight of UBS Fund Advisor, L.L.C. Mr. Samuel D. Isaly is the managing member of and owner of a controlling interest in OrbiMed. Accordingly, OrbiMed and Mr. Isaly may be deemed to have voting and investment power over the shares held by OrbiMed Private Investments II, LP, OrbiMed Private

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Investments II (QP), LP, and UBS Juniper Crossover Fund, L.L.C. noted above. OrbiMed and Mr. Isaly disclaim beneficial ownership with respect to such shares, except to the extent of their pecuniary interest therein, if any.

- (3) Consists of 9,915,000 shares of common stock issuable upon the automatic conversion of 9,915,000 shares of Series A convertible preferred stock held by Abingworth Bioventures IV LP, or ABV IV; and 85,000 shares of common stock issuable upon the automatic conversion of 85,000 shares of Series A convertible preferred stock held by Abingworth Bioventures IV Executives LP, or ABV IV Executives. Abingworth Management Limited, or AML, serves as investment manager of each of ABV IV and ABV IV Executives and may be deemed to share voting and dispositive power with respect to the securities owned by ABV IV and ABV IV Executives.
- (4) Consists of 4,000,000 shares of common stock issuable upon the automatic conversion of 4,000,000 shares of Series A convertible preferred stock held by Shire LLC. Shire LLC is an indirect, wholly-owned subsidiary of Shire plc. The directors of Shire plc are Mr. Matthew Emmens, Mr. Angus Russell, Mr. Graham Hetherington, Mr. David Kappler, Dr. Jeffrey Leiden, Mr. Bill Burns, Dr. David Ginsburg, Ms. Anne Minto, Ms. Susan Kilsby and Mr. David Stout. The board of directors of Shire plc may be deemed to have voting and investment control over the shares held by Shire LLC. The individuals noted above disclaim beneficial ownership of such shares.
- (5) Consists of 4,500,000 shares of common stock held by KBT Trust and 1,588,235 common shares held by Mr. Khattar.
- (6) Consists of 213,750 shares of common stock issuable to Dr. Baroldi upon the exercise of options within 60 days of December 31, 2011.
- (7) Consists of 304,500 shares of common stock issuable to Dr. Bhatt upon the exercise of options within 60 days of December 31, 2011.
- (8) Consists of 42,500 shares of common stock issuable to Dr. Bryan upon the exercise of options within 60 days of December 31, 2011 and 262,000 shares held by Dr. Bryan.
- (9) Consists of 25,000,000 shares of common stock issuable as described in note (1) above. Dr. Barrett, a member of our board, is a Manager of NEA 11 LLC, and disclaims beneficial ownership of the shares of capital stock held by NEA 11, except to the extent of his pecuniary interest therein, if any.
- (10) Consists of 10,000,000 shares of common stock issuable as described in note (3) above. Michael Bigham is a director of AML, and in such capacity may be deemed to beneficially own the securities owned of record by ABV IV and ABV IV Executives, but disclaims beneficial ownership of such securities, except to the extent of his pecuniary interest therein, if any.
- (11) Consists of 8,750 shares of common stock issuable to Mr. Hudson upon the exercise of options within 60 days of December 31, 2011.
- (12) Consists of 25,000,000 shares of common stock issuable as described in note (1) above. Mr. Newhall, a member of our board, is a Manager of NEA 11 LLC and disclaims beneficial ownership of the shares of capital stock held by NEA 11, except to the extent of his pecuniary interest therein, if any.
- (13) Consists of 10,000,000 shares of common stock issuable as described in note (2) above. Dr. Sheffery, a member of our board, is a member of OrbiMed, and disclaims beneficial ownership of such securities, except to the extent of his pecuniary interest therein, if any.
- (14) Consists of 45,000,000 shares of common stock issuable upon the automatic conversion of 45,000,000 shares of Series A convertible preferred stock, 6,385,235 shares of common stock held by directors and executive officers, and 724,500 shares of common stock issuable to our of directors and executive officers upon the exercise of options within 60 days of December 31, 2011.

## DESCRIPTION OF CAPITAL STOCK

### General

Our Amended and Restated Certificate of Incorporation, which will become effective upon the closing of this offering, authorizes the issuance of up to \_\_\_\_\_ shares of common stock, par value \$0.001 per share, and \_\_\_\_\_ shares of preferred stock, par value \$0.001 per share. As of September 30, 2011, there were \_\_\_\_\_ shares of common stock outstanding (after giving effect to the automatic conversion of all outstanding shares of preferred stock into shares of common stock and the \_\_\_\_\_ for reverse stock split). As of September 30, 2011, we had approximately \_\_\_\_\_ record holders of our capital stock. All of our outstanding shares of preferred stock will automatically convert into shares of common stock upon the closing of this offering. After the closing of this offering and after giving effect to the conversion of our preferred stock and the \_\_\_\_\_ for reverse stock split, we will have \_\_\_\_\_ shares of common stock and no shares of preferred stock outstanding. In addition, as of September 30, 2011, \_\_\_\_\_ shares of our common stock were reserved for future grants under our 2005 Stock Plans, and options to purchase \_\_\_\_\_ shares of our common stock were outstanding.

The description below gives effect to the adoption of our Amended and Restated Bylaws and is qualified in its entirety by reference to these documents, copies of which are filed as exhibits to the registration statement of which this prospectus is a part.

### Common Stock

Upon the completion of this offering, we will be authorized to issue one class of common stock. Holders of our common stock are entitled to one vote for each share of common stock held of record for the election of directors and on all matters submitted to a vote of stockholders. Holders of our common stock are entitled to receive dividends ratably, if any, as may be declared by our board of directors out of legally available funds, subject to any preferential dividend rights of any preferred stock then outstanding. Upon our dissolution, liquidation or winding up, holders of our common stock are entitled to share ratably in our net assets legally available after the payment of all our debts and other liabilities, subject to the preferential rights of any preferred stock then outstanding. Holders of our common stock have no preemptive, subscription, redemption or conversion rights. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future. Except as described under "—Antitakeover Effects of Delaware Law and Provisions of Our Certificate of Incorporation and Bylaws" below, a majority vote of the holders of common stock is generally required to take action under our amended and restated certificate of incorporation and amended and restated bylaws.

### Preferred Stock

Upon the completion of this offering, our board of directors will be authorized, without action by the stockholders, to designate and issue up to an aggregate of \_\_\_\_\_ shares of preferred stock in one or more series. Our board of directors can designate the rights, preferences and privileges of the shares of each series and any of its qualifications, limitations or restrictions. Our board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of common stock. The issuance of preferred stock, while providing flexibility in connection with possible future financings and acquisitions and other corporate purposes, could, under certain circumstances, have the effect of restricting dividends on our common stock, diluting the voting power of our common stock, impairing the liquidation rights of our common stock, or delaying, deferring or preventing a change in control of our company, which might harm the market price of our common stock.

Our board of directors will make any determination to issue such shares based on its judgment as to our company's best interests and the best interests of our stockholders. Any shares of our Series A

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convertible preferred stock outstanding immediately prior to this offering will automatically convert into shares of our common stock on a one-for-one basis in connection with this offering. Upon the completion of this offering, we will have no shares of preferred stock outstanding and we have no current plans to issue any shares of preferred stock.

**Warrants**

In connection with our secured credit facility, the lenders received from us ten-year warrants to purchase an aggregate of 375,000 shares of our Series A convertible preferred stock at an exercise price of \$1.00 per share. The warrants were immediately exercisable and expire on January 26, 2021. In December 2011, in connection with the amendment of the secured credit facility, we issued to the lenders warrants to purchase an aggregate of 200,000 shares of our Series A convertible preferred stock at \$1.50 per share. The warrants were immediately exercisable and expire on December 30, 2021. Upon completion of this offering, the respective lender warrants will be exercisable for one share of our common stock for each share of our Series A convertible preferred stock into which it was convertible at a price per share equal to the lesser of the initial public offering price, or \$1.00 or \$1.50, as applicable. All of our warrant holders are subject to lock-up agreements with the underwriters that restrict the sale of our securities for 180 days. See "Underwriting" for a description of these lock-up agreements.

**Registration Rights**

*Demand Registration Rights*

After the expiration of the 180-day period following the completion of this offering (as may be extended under certain circumstances), the holders of approximately \_\_\_\_\_ shares of our common stock will be entitled to certain demand registration rights. If holders of registrable securities then outstanding request a registration having a reasonably anticipated aggregate offering price to the public of at least \$ \_\_\_\_\_, we may be required to register their shares. After the expiration of the 180-day period following the completion of this offering (as may be extended under certain circumstances), certain holders have the right to make two requests that we register all or a portion of their shares of our common stock.

*Piggyback Registration Rights*

After expiration of the 180-day period following the completion of this offering (as may be extended under certain circumstances), in the event that we propose to register any of our securities under the Securities Act, either for our own account or for the account of other stockholders, the holders of approximately \_\_\_\_\_ shares of our common stock will be entitled to certain "piggyback" registration rights allowing the holders to include their shares in such registration, subject to certain marketing and other limitations. As a result, whenever we propose to file a registration statement under the Securities Act, other than with respect to a registration related to the shares issuable upon conversion of debt securities or employee benefit plans, the holders of these shares of our common stock are entitled to notice of the registration and have the right, subject to limitations that the underwriters may impose on the number of shares included in the registration, to include their shares in the registration.

*Form S-3 Registration Rights*

After the expiration of a 180-day period following the completion of this offering (as may be extended under certain circumstances), the holders of approximately \_\_\_\_\_ shares will be entitled to certain Form S-3 registration rights if we are eligible to file a registration statement on Form S-3. As a result, these holders will have the right to demand that we file a registration statement on Form S-3 so

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long as the aggregate value of the securities to be sold under the registration statement on Form S-3 is at least \$500,000, subject to specified exceptions.

**Antitakeover Effects Of Delaware Law And Provisions Of Our Certificate Of Incorporation And Bylaws**

*Delaware Takeover Statute*

We are subject to Section 203 of the Delaware General Corporation Law. This statute regulating corporate takeovers prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for three years following the date that the stockholder became an interested stockholder, unless:

- prior to the date of the transaction, the board of directors of the corporation approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon completion of the transaction that resulted in the interested stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding (a) shares owned by persons who are directors and also officers, and (b) shares owned by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or subsequent to the date of the transaction, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66<sup>2</sup>/3% of the outstanding voting stock which is not owned by the interested stockholder.

Generally, a business combination includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. An interested stockholder is any person who, together with such person's affiliates and associates (i) owns 15% or more of a corporation's voting securities or (ii) is an affiliate or associate of a corporation and was the owner of 15% or more of the corporation's voting securities at any time within the three year period immediately preceding a business combination of the corporation governed by Section 203. We expect the existence of this provision to have an anti-takeover effect with respect to transactions our board does not approve in advance. We also anticipate that Section 203 may discourage takeover attempts that might result in a premium over the market price for the shares of common stock held by our stockholders.

**Certificate Of Incorporation And Bylaw Provisions**

Provisions of our certificate of incorporation and bylaws, which will be effective upon the closing of this offering, may have the effect of making it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of our company by means of a tender offer, a proxy contest or otherwise. These provisions may also make the removal of incumbent officers and directors more difficult. These provisions are intended to discourage certain types of coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of our company to first negotiate with us. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions may make it more difficult for stockholders to take specific corporate actions and could have the effect of delaying or preventing a change in control.

**Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A.

**Listing**

We have applied to list our shares of common stock for quotation on The NASDAQ Global Market under the symbol "SUPN."

## SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common stock, and there can be no assurance that a significant public market for our common stock will develop or be sustained after this offering. Future sales of substantial amounts of our common stock, including shares issued upon exercise of outstanding options or warrants, in the public market following this offering could adversely affect market prices prevailing from time to time and could impair our ability to raise capital through the sale of our equity securities.

Upon completion of this offering, we will have \_\_\_\_\_ shares of common stock outstanding, assuming (1) the conversion of all outstanding shares of preferred stock, (2) no exercise of any options outstanding as of September 30, 2011, (3) no exercise of any warrants to purchase shares outstanding as of the date of this prospectus and (4) no exercise of the underwriters' option to purchase additional shares from us. All shares sold in this offering, plus any shares issued upon exercise of the underwriters' option to purchase additional shares from us, will be freely tradable without restriction under the Securities Act, unless purchased by our "affiliates" as that term is defined in Rule 144 under the Securities Act. The remaining \_\_\_\_\_ shares of common stock outstanding are "restricted securities" within the meaning of Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 701 or meet the safe harbor qualifications under Rule 144 under the Securities Act as summarized below.

The holders of \_\_\_\_\_ shares of outstanding common stock as of the closing of this offering and the holders of \_\_\_\_\_ shares of common stock underlying options or warrants as of the closing of this offering, including all of our officers and directors, have entered into lock-up agreements with the underwriters pursuant to which they have generally agreed, subject to certain exceptions, not to offer or sell any shares of common stock or securities convertible into or exchangeable or exercisable for shares of common stock for a period of 180 days from the date of this prospectus without the prior written consent of Citigroup Global Markets Inc. and Piper Jaffray & Co. At any time and without public notice, Citigroup Global Markets Inc. and Piper Jaffray may, in their sole discretion, release some or all of the securities from these lock-up agreements. In general, if (i) during the last 17 days of the 180-day restricted period, we issue an earnings release or material news or a material event relating to our company occurs; or (ii) prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day restricted period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event. See "Underwriting."

### Rule 144

In general, under Rule 144 under the Securities Act, as in effect on the date of this prospectus, a person who is one of our affiliates and has beneficially owned shares of our common stock for at least six months would be entitled to sell within any three month period a number of shares that does not exceed the greater of:

- one percent of the number of shares of common stock then outstanding, which will equal approximately \_\_\_\_\_ shares immediately after the completion of this offering; or
- the average weekly trading volume of our common stock on the NASDAQ Global Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Sales under Rule 144 by our affiliates or persons selling shares on behalf of our affiliates are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

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In general, under Rule 144 under the Securities Act, as in effect on the date of this prospectus, a person who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least six months, including the holding period of any prior owner other than an affiliate, is entitled to sell the shares without complying with the manner of sale, volume limitation or notice provisions of Rule 144, and will be subject only to the public information requirements of Rule 144. If such a person has beneficially owned the shares proposed to be sold for at least one year, including the holding period of any prior owner other than our affiliates, then such person is entitled to sell such shares without complying with any of the requirements of Rule 144.

Shares of our common stock will qualify for resale under Rule 144 within 180 days of the date of this prospectus, subject to the lock-up agreements as described herein and under "Underwriting" in this prospectus, and to the extent such shares have been released from any repurchase option that we may hold.

### **Rule 701**

Any of our employees, officers, directors or consultants who purchased shares under a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701. Rule 701 permits affiliates to sell their Rule 701 shares under Rule 144 without complying with the holding period requirements of Rule 144. Rule 701 further provides that non-affiliates may sell such shares in reliance on Rule 144 without having to comply with the holding period, public information, volume limitation or notice provisions of Rule 144.

Neither Rule 144 nor Rule 701 supersedes the contractual obligations of our security holders set forth in the lock-up agreements described above.

### **Lock-up Agreements**

We, our officers and directors, our other stockholders, our warrant holders and option holders have agreed, subject to certain exceptions, that, for a period of 180 days from the date of this prospectus, we and they will not, without the prior written consent of Citigroup Global Markets Inc. and Piper Jaffray dispose of or hedge any shares or any securities convertible into or exchangeable for our common stock. Citigroup Global Markets Inc. and Piper Jaffray in their sole discretion may release any of the securities subject to these lock-up agreements at any time without notice. Notwithstanding the foregoing, if (i) during the last 17 days of the 180-day restricted period, we issue an earnings release or material news or a material event relating to our company occurs; or (ii) prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day restricted period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

### **Registration Rights**

After the expiration of the 180-day period following the completion of this offering (as may be extended under certain circumstances), holders of our preferred stock convertible into 49,000,000 shares of our common stock have demand and piggyback registration rights with respect to the shares of common stock to be issued upon conversion of their preferred stock. By exercising their registration rights and causing a large number of shares to be registered and sold in the public market, these holders could cause the price of our common stock to fall. In addition, any demand to include such shares in our registration statements could have a material adverse effect on our ability to raise needed capital. For more information about these registration rights, see "Description of Capital Stock—Registration Rights."

**Stock Options**

As of September 30, 2011, under our 2005 Stock Plan, we had outstanding options to purchase \_\_\_\_\_ shares of common stock.

As soon as practicable after completion of this offering, we intend to register the shares of our common stock subject to the options outstanding or reserved for issuance under this plan on a registration statement on Form S-8 under the Securities Act. Subject to the lock-up agreements and the restrictions imposed under the 2005 Stock Plan, shares of common stock issued pursuant to this plan after the effective date of the registration statement on Form S-8 will be available for sale in the public market without restriction to the extent that they are held by persons who are not our affiliates.

**Warrants**

We have outstanding warrants to purchase (i) 375,000 shares of Series A convertible preferred stock at an exercise price of \$1.00 per share and (ii) 200,000 shares of Series A convertible preferred stock at an exercise price of \$1.50 per share. Upon completion of this offering, the respective lender warrants will be exercisable for one share of our common stock for each share of our Series A convertible preferred stock into which it was convertible at a price per share equal to the lesser of the initial public offering price, or \$1.00 or \$1.50, as applicable. All of our warrant holders are subject to lock-up agreements with the underwriters that restrict the sale of our securities for 180 days. See "Underwriting" for a description of these lock-up agreements.



**MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS  
FOR NON-U.S. HOLDERS OF COMMON STOCK**

The following is a summary of certain material U.S. federal income tax considerations relating to the purchase, ownership and disposition of our common stock by Non-U.S. Holders (as defined below), but does not purport to be a complete analysis of all the potential tax considerations that may be relevant to such holders. For purposes of this summary, a "Non-U.S. Holder" means a beneficial owner of common stock that for U.S. federal income tax purposes is:

- a non-resident alien individual;
- a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of a jurisdiction other than the U.S., any state thereof, or the District of Columbia;
- an estate, other than an estate the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust, other than a trust (a) the administration of which is subject to the primary supervision of a court within the United States and which has one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) that has a valid election to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership (or an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds our common stock, the tax treatment of its partners will generally depend upon the status of the partners and the activities of the partnership. Accordingly, we urge partnerships (and other entities or arrangements treated as partnerships for U.S. federal income tax purposes) that hold our common stock and partners in such partnerships to consult their tax advisors.

This summary deals only with shares of our common stock that are purchased in this offering and held as "capital assets" within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"). This summary is general in nature and thus does not purport to deal with all aspects of U.S. federal income taxation that might be relevant to a particular Non-U.S. Holder in light of its particular circumstances or status, nor does it address specific tax considerations that may be relevant to particular persons (including, for example, financial institutions, broker-dealers, insurance companies, partnerships or other pass-through entities, regulated investment companies, real estate investment trusts, grantor trusts, certain U.S. expatriates, pension plans, tax-exempt organizations, "controlled foreign corporations," "passive foreign investment companies," corporations that accumulate earnings to avoid U.S. federal income tax, persons that receive shares of our common stock in connection with services provided, or persons in special situations, such as those who have elected to mark securities to market or those who hold common stock as part of a straddle, hedge, conversion transaction or other integrated investment). In addition, this summary does not address U.S. federal alternative minimum, estate and gift tax considerations (except to the extent discussed below) or considerations under the unearned income Medicare contribution tax, or considerations under the tax laws of any state, local or non-U.S. jurisdiction.

This summary is based on the Code, the Treasury regulations promulgated or proposed thereunder, and administrative and judicial interpretations thereof, all as of the date hereof and all of which are subject to change at any time, possibly on a retroactive basis. Any change could alter the tax consequences to Non-U.S. Holders described in this prospectus. In addition, the Internal Revenue Service, or the IRS, could challenge one or more of the tax consequences described in this prospectus.

**This summary is for general information only. Non-U.S. Holders are urged to consult their tax advisors concerning the U.S. federal, state, local and non-U.S. taxation and other tax consequences to**

**them of the purchase, ownership and disposition of our common stock, as well as the application of U.S. federal, state, local and non-U.S. income and other tax laws.**

### **Distributions**

In the event that we make a distribution of cash or property with respect to our common stock, such distribution will be treated as a dividend for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Any distribution not treated as a dividend will be treated first as a tax-free return of capital to the extent of the Non-U.S. Holder's tax basis in our common stock and thereafter as capital gain from the sale or exchange of such stock as described in the next section. Dividends paid to a Non-U.S. Holder generally will be subject to a 30% U.S. federal withholding tax unless such Non-U.S. Holder provides us, or the relevant agent, as the case may be, with a properly executed IRS Form W-8, such as:

1. IRS Form W-8BEN (or successor form) claiming, under penalties of perjury, a reduction in withholding under an applicable income tax treaty, or
2. IRS Form W-8ECI (or successor form) stating that a dividend paid on common stock is not subject to withholding tax because it is effectively connected with a U.S. trade or business of the Non-U.S. Holder (in which case such dividend generally will be subject to regular graduated U.S. tax rates as described below).

The certification requirement described above also may require a Non-U.S. Holder to obtain a U.S. taxpayer identification number. If a Non-U.S. Holder holds stock through a financial institution or other agent acting on the Non-U.S. Holder's behalf, the Non-U.S. Holder will be required to provide appropriate documentation to such agent. The agent will then be required to provide certification to us, or our paying agent, as the case may be, either directly or through other intermediaries.

Each Non-U.S. Holder is urged to consult its own tax advisor about the specific methods for satisfying these requirements. A claim for exemption will not be valid if the person receiving the applicable form has actual knowledge or reason to know that the statements on the form are false.

If a Non-U.S. Holder is eligible for a reduced rate of U.S. federal withholding tax pursuant to an income tax treaty, such holder may obtain a refund or credit of any excess amount withheld by timely filing an appropriate claim for refund with the IRS.

If dividends are effectively connected with a U.S. trade or business of the Non-U.S. Holder (and, if required by an applicable income tax treaty, attributable to a U.S. permanent establishment), the Non-U.S. Holder, although exempt from the withholding tax described above (provided that the certifications described above are satisfied), will be subject to U.S. federal income tax on such dividends on a net income basis in the same manner as if it were a resident of the United States. In addition, if such Non-U.S. Holder is a non-U.S. corporation and dividends are effectively connected with its U.S. trade or business (and, if required by an applicable income tax treaty, attributable to a U.S. permanent establishment), such Non-U.S. Holder may be subject to an additional "branch profits tax" equal to 30% (unless reduced by an applicable income treaty) in respect of such effectively-connected income.

### **Taxable Disposition of Our Common Stock**

Subject to the discussion below under the sections entitled "Recently Enacted Legislation Affecting Taxation of Our Common Stock Held by or Through Foreign Entities" and "Information Reporting and Backup Withholding," a Non-U.S. Holder generally will not be subject to U.S. federal income tax on

gain recognized on a sale, exchange or other taxable disposition of a share of our common stock, unless:

- the gain is effectively connected with a trade or business of the Non-U.S. Holder in the United States (and, if required by an applicable income tax treaty, attributable to a U.S. permanent establishment);
- the Non-U.S. Holder is a nonresident alien who is present in the United States for 183 days or more in the taxable year of the disposition and meets certain other conditions; or
- we are or have been a "United States real property holding corporation," as defined in the Code (a "USRPHC"), at any time within the shorter of the five-year period preceding the disposition and the Non-U.S. Holder's holding period the share our common stock.

If a Non-U.S. Holder is engaged in a trade or business in the U.S. and gain recognized by the Non-U.S. Holder on a sale or other disposition of our common stock is effectively connected with the conduct of such trade or business, the Non-U.S. Holder will generally be subject to regular U.S. income tax as if the Non-U.S. Holder were a U.S. person, subject to an applicable income tax treaty providing otherwise. Additionally, a non-U.S. corporation may also, under certain circumstances, be subject to an additional "branch profits tax" imposed at a rate of 30% (or, if applicable, a lower income tax treaty rate). Non-U.S. Holders whose gain from dispositions of our common stock may be effectively connected with the conduct of a trade or business in the United States are urged to consult their own tax advisors with respect to the U.S. tax consequences of the purchase, ownership and disposition of our common stock.

A nonresident alien who is subject to U.S. federal income tax because such individual was present in the United States for 183 days or more in the taxable year of the taxable disposition of our common stock will be subject to a flat 30% tax on the gain derived from such disposition, which may be offset by certain U.S. source capital losses.

We believe that we are not, and do not anticipate becoming, a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property relative to the fair market value of other business and real property assets, there can be no assurance that we will not become a USRPHC in the future. Even if we become a USRPHC, a Non-U.S. Holder would not be subject to U.S. federal income tax on a sale, exchange or other taxable disposition of our common stock so long as our common stock continues to be regularly traded on an established securities market and such Non-U.S. Holder does not own and is not deemed to own (directly, indirectly or constructively) more than 5% of our common stock at any time during the shorter of the five year period ending on the date of disposition and the holder's holding period. There can be no assurance that our common stock will qualify as regularly traded on an established market.

#### **Information Reporting and Backup Withholding**

Generally, we must report annually to the IRS and to each Non-U.S. Holder certain information, including the Non-U.S. Holder's name, address and taxpayer identification number, the aggregate amount of distributions on our common stock paid to that Non-U.S. Holder during the calendar year and the amount of tax withheld, if any. Pursuant to tax treaties and certain other agreements, the IRS may make its reports available to tax authorities in the recipient's country of residence.

Backup withholding is imposed at an applicable rate (currently 28% and scheduled to increase to 31% in 2013) on dividends and certain other types of payments to certain U.S. persons. Backup withholding will not apply to payments of dividends on common stock or proceeds from the sale of common stock payable to a Non-U.S. Holder if the certification described above in "Distributions" is duly provided by such Non-U.S. Holder or the Non-U.S. Holder otherwise establishes an exemption, provided that the payor does not have actual knowledge or reason to know that the holder is a U.S.

person or that the conditions of any claimed exemption are not satisfied. Certain information reporting may still apply to distributions even if an exemption from backup withholding is established.

Information reporting and backup withholding will generally apply to the proceeds of a disposition of our common stock by a Non-U.S. Holder effected by or through the U.S. office of any broker, U.S. or foreign, unless the holder certifies its status as a Non-U.S. Holder and satisfies certain other requirements, or otherwise establishes an exemption. Generally, information reporting and backup withholding will not apply to a payment of disposition proceeds to a Non-U.S. Holder where the transaction is effected outside the United States through a non-U.S. office of a broker. However, for information reporting purposes, dispositions effected through a non-U.S. office of a broker with substantial U.S. ownership or operations generally will be treated in a manner similar to dispositions effected through a U.S. office of a broker. Non-U.S. Holders should consult their own tax advisors regarding the application of the information reporting and backup withholding rules to them.

Backup withholding is not an additional tax and any amounts withheld under the backup withholding tax rules from a payment to a Non-U.S. Holder will be allowed as a refund or a credit against such Non-U.S. Holder's U.S. federal income tax liability by timely filing an appropriate claim for refund with the IRS.

Non-U.S. Holders are urged to consult their own tax advisors regarding their particular circumstances and the availability of and procedure for obtaining an exemption from backup withholding.

#### **Recently Enacted Legislation Affecting Taxation of Our Common Stock Held by or Through Foreign Entities**

Recently enacted legislation generally will impose a U.S. federal withholding tax of 30% on payments to certain foreign entities (including certain intermediaries), including dividends on and the gross proceeds from dispositions of our common stock, unless various U.S. information reporting and due diligence requirements that are different from, and in addition to, the certification requirements described above have been satisfied (generally relating to ownership by U.S. persons of interests in or accounts with those entities). As currently proposed, the withholding rules would apply to payments of dividends on our common stock beginning January 1, 2014, and to gross proceeds from dispositions of our common stock beginning January 1, 2015. Under certain circumstances, a holder might be eligible for refunds or credits of such taxes. The exact scope of this new legislation remains unclear and could be materially changed as a result of future guidance issued by the Treasury or the IRS. Holders are encouraged to consult with their own tax advisors regarding the possible implications of the legislation on their investment in our common stock.

#### **U.S. Federal Estate Tax**

Common stock owned or treated as owned by an individual who is a Non-U.S. Holder at the time of death generally will be included in the individual's gross estate for U.S. federal estate tax purposes and may be subject to U.S. federal estate tax unless an applicable estate tax treaty provides otherwise.

**THE PRECEDING DISCUSSION OF U.S. FEDERAL INCOME TAX AND ESTATE CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY. IT IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAW.**

## UNDERWRITING

Citigroup Global Markets Inc. and Piper Jaffray & Co. are acting as joint book-running managers of the offering and as representatives of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus, each underwriter named below has severally agreed to purchase, and we have agreed to sell to that underwriter, the number of shares set forth opposite the underwriter's name.

<u>Underwriter</u>	<u>Number of Shares</u>
Citigroup Global Markets Inc.	
Piper Jaffray & Co.	
Cowen and Company, LLC	
Stifel, Nicolaus & Company, Incorporated	
Total	

The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the shares (other than those covered by the over-allotment option described below) if they purchase any of the shares.

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount from the initial public offering price not to exceed \$ per share. If all the shares are not sold at the initial offering price, the underwriters may change the offering price and the other selling terms. The representatives have advised us that the underwriters do not intend to make sales to discretionary accounts.

If the underwriters sell more shares than the total number set forth in the table above, we have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to additional shares at the public offering price less the underwriting discount. The underwriters may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent the option is exercised, each underwriter must purchase a number of additional shares approximately proportionate to that underwriter's initial purchase commitment. Any shares issued or sold under the option will be issued and sold on the same terms and conditions as the other shares that are the subject of this offering.

We, our officers and directors, our other stockholders, our warrant holders and option holders have agreed, subject to certain exceptions, that, for a period of 180 days from the date of this prospectus, we and they will not, without the prior written consent of Citigroup Global Markets Inc. and Piper Jaffray, dispose of or hedge any shares or any securities convertible into or exchangeable for our common stock. Citigroup Global Markets Inc. and Piper Jaffray in their sole discretion may release any of the securities subject to these lock-up agreements at any time, which, in the case of officers and directors, shall be with notice. Notwithstanding the foregoing, if (i) during the last 17 days of the 180-day restricted period, we issue an earnings release or material news or a material event relating to our company occurs; or (ii) prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day restricted period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

Prior to this offering, there has been no public market for our shares. Consequently, the initial public offering price for the shares will be determined by negotiations between us and the representatives. Among the factors considered in determining the initial public offering price will be

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our results of operations, our current financial condition, our future prospects, our markets, the economic conditions in and future prospects for the industry in which we compete, our management, and currently prevailing general conditions in the equity securities markets, including current market valuations of publicly traded companies considered comparable to our company. We cannot assure you, however, that the price at which the shares will sell in the public market after this offering will not be lower than the initial public offering price or that an active trading market in our shares will develop and continue after this offering.

We have applied to have our shares listed on the Nasdaq Global Market under the symbol "SUPN."

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' over-allotment option.

	Paid by Supernus Pharmaceuticals, Inc.	
	No Exercise	Full Exercise
Per share	\$	\$
Total	\$	\$

In connection with the offering, the underwriters may purchase and sell shares in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions, which may include purchases pursuant to the over-allotment option, and stabilizing purchases.

- Short sales involve secondary market sales by the underwriters of a greater number of shares than they are required to purchase in the offering.
  - "Covered" short sales are sales of shares in an amount up to the number of shares represented by the underwriters' over-allotment option.
  - "Naked" short sales are sales of shares in an amount in excess of the number of shares represented by the underwriters' over-allotment option.
- Covering transactions involve purchases of shares either pursuant to the over-allotment option or in the open market after the distribution has been completed in order to cover short positions.
  - To close a naked short position, the underwriters must purchase shares in the open market after the distribution has been completed. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.
  - To close a covered short position, the underwriters must purchase shares in the open market after the distribution has been completed or must exercise the over-allotment option. In determining the source of shares to close the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option.
- Stabilizing transactions involve bids to purchase shares so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the underwriters for their own accounts, may have the effect of preventing or retarding a decline in the market price of the shares. They may also cause the price of the shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may

conduct these transactions on the Nasdaq Global Market, in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

The underwriters are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the underwriters have performed commercial banking, investment banking and advisory services for us from time to time for which they have received customary fees and reimbursement of expenses. The underwriters may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve our securities and instruments. Cowen Healthcare Royalty Partners (CHRP), an affiliate of Cowen and Company, LLC, holds certain of the Non-recourse Notes issued by our former subsidiary, Royalty Sub.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

**Notice to Prospective Investors in the European Economic Area**

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of shares described in this prospectus may not be made to the public in that relevant member state other than:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the relevant member state has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by us for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of shares shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For purposes of this provision, the expression an "offer of securities to the public" in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe for the shares, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the relevant member state) and includes any relevant implementing measure in the relevant member state. The expression 2010 PD Amending Directive means Directive 2010/73/EU.

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The sellers of the shares have not authorized and do not authorize the making of any offer of shares through any financial intermediary on their behalf, other than offers made by the underwriters with a view to the final placement of the shares as contemplated in this prospectus. Accordingly, no purchaser of the shares, other than the underwriters, is authorized to make any further offer of the shares on behalf of the sellers or the underwriters.

### **Notice to Prospective Investors in the United Kingdom**

This prospectus is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a "relevant person"). This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

### **Notice to Prospective Investors in France**

Neither this prospectus nor any other offering material relating to the shares described in this prospectus has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or of the competent authority of another member state of the European Economic Area and notified to the *Autorité des Marchés Financiers*. The shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this prospectus nor any other offering material relating to the shares has been or will be:

- released, issued, distributed or caused to be released, issued or distributed to the public in France; or
- used in connection with any offer for subscription or sale of the shares to the public in France.

Such offers, sales and distributions will be made in France only:

- to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with articles L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French *Code monétaire et financier*;
- to investment services providers authorized to engage in portfolio management on behalf of third parties; or
- in a transaction that, in accordance with article L.411-2-II-1<sup>o</sup>-or-2<sup>o</sup>-or-3<sup>o</sup> of the French *Code monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*appel public à l'épargne*).

The shares may be resold directly or indirectly, only in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French *Code monétaire et financier*.

### **Notice to Prospective Investors in Hong Kong**

The shares may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the



meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

**Notice to Prospective Investors in Japan**

The shares offered in this prospectus have not been registered under the Securities and Exchange Law of Japan. The shares have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Securities and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

**Notice to Prospective Investors in Singapore**

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the shares are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the shares pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- where no consideration is or will be given for the transfer; or

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- where the transfer is by operation of law.

**Notice to Prospective Investors in Australia**

No prospectus or other disclosure document (as defined in the Corporations Act 2001 (Cth) of Australia ("Corporations Act") in relation to the common stock has been or will be lodged with the Australian Securities & Investments Commission ("ASIC"). This document has not been lodged with ASIC and is only directed to certain categories of exempt persons. Accordingly, if you receive this document in Australia:

(a) you confirm and warrant that you are either:

- (i) a "sophisticated investor" under section 708(8)(a) or (b) of the Corporations Act;
- (ii) a "sophisticated investor" under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant's certificate to us which complies with the requirements of section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;
- (iii) a person associated with the company under section 708(12) of the Corporations Act; or
- (iv) a "professional investor" within the meaning of section 708(11)(a) and (b) of the Corporations Act, and to the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act any offer made to you under this document is void and incapable of acceptance; and

(b) you warrant and agree that you will not offer any of the common stock for resale in Australia within 12 months of that common stock being issued unless any resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

## LEGAL MATTERS

Our counsel, Ropes & Gray LLP, Boston, Massachusetts, will pass on the validity of the shares of common stock offered by this prospectus. Goodwin Procter LLP, Boston, Massachusetts, has acted as counsel for the underwriters in connection with certain legal matters related to this offering.

## EXPERTS

The consolidated financial statements of Supemus Pharmaceuticals, Inc. at December 31, 2010 and 2009, and for each of the three years in the period ended December 31, 2010, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon (which contains an explanatory paragraph describing conditions that raise substantial doubt about the Company's ability to continue as a going concern as described in Note 2 to the consolidated financial statements) appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

## MARKET AND INDUSTRY DATA

Market data and certain industry data and forecasts included in this prospectus were obtained from internal company surveys, market research, consultant surveys, publicly available information and industry publications and surveys. While we believe that each of these studies and publications is reliable, we have not independently verified market and industry data from third-party sources. While we believe our internal company research is reliable and the market definitions we use are appropriate, neither such research nor these definitions have been verified by any independent source. The industry in which we operate is subject to a high degree of uncertainty and risk due to a variety of factors, including those described in "Risk Factors."

## WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission, or SEC, a registration statement on Form S-1 under the Securities Act that registers the shares of our common stock to be sold in this offering. This prospectus does not contain all of the information set forth in the registration statement and the exhibits filed as part of the registration statement. For further information with respect to us and our common stock, we refer you to the registration statement and the exhibits filed as a part of the registration statement. Statements contained in this prospectus concerning the contents of any contract or any other document are not necessarily complete. If a contract or document has been filed as an exhibit to the registration statement, we refer you to the copy of the contract or document that has been filed. Each statement in this prospectus relating to a contract or document filed as an exhibit is qualified in all respects by the filed exhibit. The reports and other information we file with the SEC can be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. Copies of these materials can be obtained at prescribed rates from the SEC's Public Reference Room at such address. You may obtain information regarding the operation of the public reference room by calling 1-800-SEC-0330. The SEC also maintains a web site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Upon completion of this offering, we will become subject to the reporting and information requirements of the Exchange Act and, as a result, will file periodic reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information will be available for inspection and copying at the SEC's public reference room and the web site of the SEC referred to above.

**Supernus Pharmaceuticals, Inc.**

**Consolidated Financial Statements**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

<a href="#">Report of Independent Registered Public Accounting Firm</a>	<a href="#">F-2</a>
<a href="#">Consolidated Balance Sheets as of December 31, 2009 and 2010 and September 30, 2011 (unaudited)</a>	<a href="#">F-3</a>
<a href="#">Consolidated Statements of Operations for the Years Ended December 31, 2008, 2009, and 2010, and the Nine Months Ended September 30, 2010 (unaudited) and 2011 (unaudited)</a>	<a href="#">F-4</a>
<a href="#">Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the Years Ended December 31, 2008, 2009, and 2010, and the Nine Months Ended September 30, 2011 (unaudited)</a>	<a href="#">F-5</a>
<a href="#">Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2009, and 2010, and the Nine Months Ended September 30, 2010 (unaudited) and 2011 (unaudited)</a>	<a href="#">F-6</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">F-7</a>

**Report of Independent Registered Public Accounting Firm**

The Board of Directors  
Supernus Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of Supernus Pharmaceuticals, Inc. as of December 31, 2009 and 2010, and the related consolidated statements of operations, changes in stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Supernus Pharmaceuticals, Inc. at December 31, 2009 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Supernus Pharmaceuticals, Inc. will continue as a going concern. As more fully described in Note 2, the Company has incurred recurring operating losses and negative cash flows from operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The 2010 financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

As more fully discussed in Note 3, the Company has restated the accompanying consolidated financial statements for the year ended December 31, 2009 to correct an error in the calculation of diluted earnings per share.

/s/ Ernst & Young LLP

McLean, Virginia  
April 5, 2011 except for Note 3, as to which date is February 13, 2012

**Supernus Pharmaceuticals, Inc.**

**Consolidated Balance Sheets**

	December 31,		September 30, 2011	Pro Forma Stockholders' Deficit at September 30, 2011(1)
	2009	2010		
(in thousands except share and per share amounts)				
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 31,406	\$ 23,741	\$ 16,484	
Cash and cash equivalents—restricted	1,851	1,453	3,367	
Marketable securities	35,118	8,964	—	
Marketable securities—restricted	225	261	224	
Accounts receivable	3,408	4,759	3,978	
Interest receivable	334	114	—	
Prepaid expenses	267	197	453	
Deferred financing costs, current	271	325	404	
Total current assets	72,880	39,814	24,910	
Property and equipment, net	1,859	1,249	1,289	
Purchased patents, net	1,371	1,142	970	
Other assets	82	78	72	
Deferred financing costs, long-term	3,707	4,726	5,061	
Total assets	\$ 79,899	\$ 47,009	\$ 32,302	
<b>Liabilities and stockholders' deficit</b>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 6,245	\$ 11,263	\$ 9,149	
Accrued compensation	1,288	1,444	1,088	
Deferred revenue	—	—	135	
Interest payable	2,500	2,500	2,631	
Non-recourse notes payable, current	—	—	364	
Secured notes payable, current	—	—	3,142	
Total current liabilities	10,033	15,207	16,509	
Deferred revenue, net of current portion	—	—	304	
Other non-current liabilities	797	861	1,415	
Supplemental executive retirement plan	225	261	224	
Non-recourse notes payable	75,000	75,000	74,454	
Secured notes payable, net or current portion	—	—	11,554	
Warrant liability	—	—	365	
Total liabilities	86,055	91,329	104,825	
Stockholders' deficit:				
Series A convertible preferred stock, \$0.001 par value—49,000,000, 49,000,000, and 49,625,000 shares authorized at December 31, 2009 and 2010 and September 30, 2011, respectively; 49,000,000 shares issued and outstanding at December 31, 2009 and 2010 and September 30, 2011; aggregate liquidation preference of \$62,660, \$66,090 and \$68,663 at December 31, 2009 and 2010 and September 30, 2011 respectively	49	49	49	—
Common stock, \$0.001 par value—62,000,000, 62,000,000 and 62,625,000 shares authorized at December 31, 2009 and 2010 and September 30, 2011; 6,336,061, 6,371,061, and 6,383,707 shares issued and outstanding at December 31, 2009 and 2010 and September 30, 2011, respectively; 55,383,707 shares issued and outstanding at September 30, 2011 on a pro forma basis	6	6	6	\$ 55
Additional paid-in capital	49,110	49,411	49,368	49,368
Accumulated other comprehensive income (loss)	2	—	1	1
Accumulated deficit	(55,323)	(93,786)	(121,947)	(121,947)
Total stockholders' deficit	(6,156)	(44,320)	(72,523)	(72,523)
Total liabilities and stockholders' deficit	\$ 79,899	\$ 47,009	\$ 32,302	

(1) The pro forma stockholders' deficit at September 30, 2011 reflects the expected automatic conversion of the Series A convertible preferred stock into 49,000,000 shares of common stock upon completion of an initial public offering.

See accompanying notes

**Supernus Pharmaceuticals, Inc.**  
**Consolidated Statements of Operations**

	Year Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
(unaudited)					
(in thousands of dollars, except share and per share data)					
<b>Consolidated Statement of Operations Data:</b>					
Revenues					
Development and milestone revenues	\$ 2,697	\$ 1,550	\$ 106	\$ 97	\$ 761
Royalty revenues	6,192	44,963	13,404	8,635	9,887
<b>Total revenues</b>	<b>8,889</b>	<b>46,513</b>	<b>13,510</b>	<b>8,732</b>	<b>10,648</b>
Costs and expenses					
Research and development	30,463	29,260	35,149	26,080	23,127
General and administrative	4,287	4,649	5,080	3,388	5,143
<b>Total costs and expenses</b>	<b>34,750</b>	<b>33,909</b>	<b>40,229</b>	<b>29,468</b>	<b>28,270</b>
Income (loss) from operations	(25,861)	12,604	(26,719)	(20,736)	(17,622)
Other income (expense):					
Interest income	1,057	514	107	623	30
Interest expense	(8,678)	(12,658)	(12,393)	(9,831)	(10,599)
Other	—	—	542	54	30
<b>Total other income (expense)</b>	<b>(7,621)</b>	<b>(12,144)</b>	<b>(11,744)</b>	<b>(9,154)</b>	<b>(10,539)</b>
Net income (loss)	\$ (33,482)	\$ 460	\$ (38,463)	\$ (29,890)	\$ (28,161)
Cumulative dividends on Series A convertible preferred stock	\$ (3,430)	\$ (3,430)	\$ (3,430)	\$ (2,573)	\$ (2,573)
Net income (loss) attributable to common stockholders	\$ (36,912)	\$ (2,970)	\$ (41,893)	\$ (32,463)	\$ (30,734)
Net income (loss) per common share					
Basic	\$ (6.61)	\$ (0.53)	\$ (6.60)	\$ (5.12)	\$ (4.82)
Diluted (2009 as restated)	\$ (6.61)	\$ (0.53)	\$ (6.60)	\$ (5.12)	\$ (4.82)
Weighted average number of common shares					
Basic	5,587,467	5,653,506	6,351,883	6,345,420	6,377,163
Diluted (2009 as restated)	5,587,467	5,653,506	6,351,883	6,345,420	6,377,163
Net income (loss) used to compute pro forma net income (loss) per common share—basic and diluted (unaudited)(1)(see Note 3)					
			\$ (38,463)		\$ (28,161)
Weighted-average number of shares used in calculating pro forma net income (loss) per share—basic and diluted (unaudited)(1)(see Note 3)					
			55,351,883		55,377,163
Pro forma net income (loss) per share—basic and diluted (unaudited)(1)(see Note 3)					
			\$ (0.69)		\$ (0.51)

See accompanying notes

**Supernus Pharmaceuticals, Inc.**

**Consolidated Statements of Changes in Stockholders' Equity (Deficit)**

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-in (Deficit)	Accumulated OCI(L)	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount				
	(in thousands of dollars except per share and per share data)							
Balance, December 31, 2007	49,000,000	\$ 49	4,902,947	\$ 5	\$ 48,882	—	\$ (22,301)	\$ 26,635
Vesting of unvested stock issued to officer	—	—	617,644	1	61	—	—	62
Stock-based compensation	—	—	—	—	37	—	—	37
Comprehensive income (loss):								
Net loss	—	—	—	—	—	—	(33,482)	(33,482)
Total comprehensive income (loss)								(33,482)
Balance, December 31, 2008	49,000,000	49	5,520,591	6	48,980	—	(55,783)	(6,748)
Vesting of unvested stock issued to officer	—	—	617,644	—	61	—	—	61
Exercise of stock options	—	—	197,826	—	20	—	—	20
Stock-based compensation	—	—	—	—	49	—	—	49
Comprehensive income (loss):								
Net income	—	—	—	—	—	—	460	460
Other comprehensive income (loss)	—	—	—	—	—	2	—	2
Total comprehensive income (loss)								462
Balance, December 31, 2009	49,000,000	49	6,336,061	6	49,110	2	(55,323)	(6,156)
Exercise of stock options	—	—	35,000	—	4	—	—	4
Stock-based compensation	—	—	—	—	297	—	—	297
Comprehensive income (loss):								
Net loss	—	—	—	—	—	—	(38,463)	(38,463)
Other comprehensive income (loss)	—	—	—	—	—	(2)	—	(2)
Total comprehensive income (loss)								(38,465)
Balance, December 31, 2010	49,000,000	49	6,371,061	6	49,411	—	(93,786)	(44,320)
Exercise of stock options (unaudited)	—	—	12,646	—	1	—	—	1
Stock-based compensation (unaudited)	—	—	—	—	(44)	—	—	(44)
Comprehensive income (loss) (unaudited):								
Net loss (unaudited)	—	—	—	—	—	—	(28,161)	(28,161)
Other comprehensive income (unaudited)	—	—	—	—	—	1	—	1
Total comprehensive income (loss) (unaudited)								(28,160)
Balance, September 30, 2011 (unaudited)	<u>49,000,000</u>	<u>\$ 49</u>	<u>6,383,707</u>	<u>\$ 6</u>	<u>\$ 49,368</u>	<u>\$ 1</u>	<u>\$ (121,947)</u>	<u>\$ (72,523)</u>

See accompanying notes



**Supernus Pharmaceuticals, Inc.**  
**Consolidated Statements of Cash Flows**

	Year Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
	(unaudited)				
<b>Operating activities</b>					
Net income (loss)	\$ (33,482)	\$ 460	\$ (38,463)	\$ (29,891)	\$ (28,161)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:					
Other	—	—	(54)	(54)	(35)
Unrealized gain (loss) on marketable securities	—	2	(2)	1	1
Depreciation and amortization	1,115	1,071	1,188	890	651
Amortization of deferred financing costs	179	270	271	180	362
Stock-based compensation expense	99	111	297	124	(44)
Changes in operating assets and liabilities:					
Accounts receivable	(1,163)	(1,131)	(1,351)	375	781
Interest receivable	—	(334)	220	249	114
Notes receivable from employee	63	—	—	—	—
Prepaid expenses and other assets	(72)	12	74	(66)	(250)
Accounts payable, accrued expenses, and supplemental executive retirement plan	1,088	1,813	5,211	7,376	(2,507)
Interest payable	2,500	—	—	—	131
Deferred revenue	—	—	—	—	439
Other non-current liabilities	21	360	64	(24)	554
Net cash provided by (used in) operating activities	<u>(29,652)</u>	<u>2,634</u>	<u>(32,545)</u>	<u>(20,840)</u>	<u>(27,964)</u>
<b>Cash flows from investing activities</b>					
Purchases of marketable securities	(89,513)	(56,289)	(32,781)	(30,746)	(17,891)
Sales and maturities of marketable securities	105,128	28,618	58,898	45,298	26,892
Other	—	—	—	—	—
Purchases of property and equipment	(135)	(714)	(294)	(274)	(494)
Net cash provided by (used in) investing activities	<u>15,480</u>	<u>(28,385)</u>	<u>25,823</u>	<u>14,278</u>	<u>8,507</u>
<b>Cash flows from financing activities</b>					
Change in restricted cash and cash equivalents	(6,111)	4,260	398	408	(1,914)
Proceeds from issuance of common stock	—	20	4	4	1
Proceeds from issuance of non-recourse note payable	75,000	—	—	—	—
Proceeds from issuance of secured notes payable	—	—	—	—	15,000
Payment of principal on non-recourse notes payable	—	—	—	—	(182)
Deferred financing costs	(4,427)	—	(1,345)	—	(705)
Net cash provided by financing activities	<u>64,462</u>	<u>4,280</u>	<u>(943)</u>	<u>412</u>	<u>12,200</u>
Net change in cash and cash equivalents	<u>50,290</u>	<u>(21,471)</u>	<u>(7,665)</u>	<u>(6,150)</u>	<u>(7,257)</u>
Cash and cash equivalents at beginning of period	2,587	52,877	31,406	31,406	23,741
Cash and cash equivalents at end of period	<u>\$ 52,877</u>	<u>\$ 31,406</u>	<u>\$ 23,741</u>	<u>\$ 25,256</u>	<u>\$ 16,484</u>
Supplemental cash flow information:					
Cash paid for interest	<u>\$ 6,000</u>	<u>\$ 12,000</u>	<u>\$ 12,122</u>	<u>\$ 9,090</u>	<u>\$ 10,165</u>

See accompanying notes.

**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

**1. Organization and Nature of Operations**

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 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.

The Company is currently focused on attaining regulatory approval and bringing its two late-stage epilepsy product candidates, SPN-538 and SPN-804, to market. Except for a one-time profit in 2009, the Company has incurred net losses from operations since its inception. The Company had net income (loss) of approximately \$0.5 million, \$(38.5) million and \$(28.2) million during the years ended December 31, 2009 and 2010, and for the nine months ended September 30, 2011, respectively. The Company has financed its operations primarily through the sale of equity securities, non-recourse debt arrangements, and payments received under its royalty and development agreements. To date, none of the Company's product candidates have been approved for sale, and therefore, the Company has not generated any revenues from product sales. Management expects operating losses to continue for the foreseeable future, and until one or more of its products are established in the marketplace. The Company may need to obtain additional capital through equity offerings, debt financings and/or payments under new or existing licensing and research and development collaboration agreements (see Note 2).

The Company's operations are subject to certain risks and uncertainties. The risks include negative outcome of clinical trials, inability or delay in completing clinical trials or obtaining regulatory approvals, changing market conditions for products being developed by the Company, more stringent regulatory environment, the need to retain key personnel and protect intellectual property, product liability, and the availability of additional capital financing on terms acceptable to the Company.

**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 needs to raise additional capital to continue its business operations as currently conducted and fund deficits in operating cash flows.

As described more fully in Note 8, the Company has entered into a secured credit facility providing for term loans of up to an aggregate of \$25.0 million. Through September 30, 2011, the Company drew down \$15.0 million under the secured credit facility. Subsequent to September 30, 2011 and as described in Note 16, the Company finalized an agreement to sell all of its equity interest in its wholly-owned subsidiary, TCD Royalty Sub LLC (TCD), for consideration consisting of a cash payment of \$27.0 million and contingent consideration of \$3.0 million to be paid in the future if certain criteria are met. 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 proceeds from the additional term loans and proceeds from the sale of the subsidiary will not be sufficient to fund operations as currently conducted through the end of 2012. The Company is seeking to raise additional

**Supernus Pharmaceuticals, Inc.****Notes to Consolidated Financial Statements (Continued)****Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011****2. Management's Plans as to Continuing as a Going Concern (Continued)**

capital through either an initial public offering of its common stock or a sale of additional private equity securities to finance the development of its business operations, although there can be no assurance that such 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.

In the event the Company does not access funding to continue operations for the next 12 months, the Company will likely revise its commercial plans for its two late-stage epilepsy product candidates, its planned clinical trials, other development activities, capital expenditure plans, and the scale of its operations, until it is able to obtain sufficient financing to do so, or pursue other alternatives. If the Company is required to significantly reduce operating expenses and delay, reduce the scope of, or eliminate one or more of its development programs, these events could have a material adverse effect on the Company's business, results of operations and financial condition.

These factors could significantly limit the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

**3. Net Earnings (Loss) Per Share and Restatement of 2009 Diluted Net Loss Per Share**

Basic net income (loss) per common share is determined by dividing the net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration of common stock equivalents. Diluted net income (loss) per share is computed by dividing the net income (loss) attributable to common stockholders by the weighted-average number of common share equivalents outstanding for the period. The treasury stock method is used to determine the dilutive effect of the Company's stock option grants and warrants and the if-converted method is used to determine the dilutive effect of the Company's Series A Preferred Stock. The weighted-average shares used to calculate both basic and diluted loss per share are the same. The following common stock equivalents were excluded in the calculation of diluted net income (loss) per share because their effect would be anti-dilutive:

	Year Ended December 31,			Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
Series A convertible preferred stock	49,000,000	49,000,000	49,000,000	49,000,000	49,000,000
Warrants to purchase Series A convertible preferred stock	—	—	—	—	375,000
Stock options and non-vested stock	2,183,152	2,060,873	3,069,723	2,141,223	2,469,065

**Supernus Pharmaceuticals, Inc.****Notes to Consolidated Financial Statements (Continued)****Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011****3. Net Earnings (Loss) Per Share and Restatement of 2009 Diluted Net Loss Per Share (Continued)**

The accompanying 2009 consolidated financial statements have been restated to correct an error in computing diluted earnings per share, as follows.

	Net income (loss) per common share: Diluted	Weighted-average number of common shares: Diluted
As Reported	\$ 0.01	56,324,761
Adjustment	\$ (0.54)	50,671,255
As Restated	\$ (0.53)	5,653,506

The restatement does not affect any other amounts in the 2009 consolidated financial statements.

**4. Summary of Significant Accounting Policies****Basis of Presentation**

The Company's consolidated financial statements include the accounts of Supernus Pharmaceuticals, Inc. and its wholly owned subsidiary, TCD, collectively referred to herein as "Supernus" or "the Company." All significant 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). The Company currently operates in one business segment.

**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 values of assets, convertible preferred stock 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 that it believes to be reasonable under the circumstances. Actual results could differ from these estimates.

**Unaudited Interim Financial Information**

The accompanying unaudited interim consolidated balance sheet as of September 30, 2011, the consolidated statements of operations and cash flows for the nine months ended September 30, 2010 and 2011, the consolidated statement of changes in stockholders' deficit for the nine months ended September 30, 2011, and the related interim information contained within the notes to the consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and the notes required by U.S. GAAP for complete financial statements. In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments,

**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

**4. Summary of Significant Accounting Policies (Continued)**

consisting of normal and recurring adjustments, necessary for the fair presentation of the Company's consolidated financial position at September 30, 2011 and consolidated results of its operations and its cash flows for the nine months ended September 30, 2010 and 2011. The results for the nine months ended September 30, 2011 are not necessarily indicative of future results. All references to September 30, 2011 or to the nine months ended September 30, 2010 and 2011 in the notes to the consolidated financial statements are unaudited.

**Unaudited Pro Forma Balance Sheet Presentation**

The unaudited pro forma consolidated balance sheet as of September 30, 2011, reflects the expected automatic conversion of the outstanding shares of Series A convertible preferred stock (Series A Preferred Stock) into 49,000,000 shares of common stock as though the completion of the Company's initial public offering (IPO) had occurred on September 30, 2011. The shares of common stock issued in the IPO and any related estimated net proceeds are excluded from such pro forma information.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary TCD. TCD was formed for the purpose of issuing non-recourse notes payable secured by certain royalty payment and license rights (see Note 8). All intercompany balances and transactions have been eliminated in consolidation.

**Cash and Cash Equivalents and Restricted Cash**

The Company considers all investments in highly liquid financial instruments with an original maturity of three months or less to be cash equivalents. Under the terms of a non-recourse note agreement, TCD is required to maintain a cash account to cover interest payments (see Note 8). These cash and cash equivalents are restricted as to their withdrawal or use and, therefore, are segregated and presented as restricted cash and cash equivalents.

**Marketable Securities**

Marketable securities consist of investments in U.S. Treasuries and various U.S. government agency debt 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, as accumulated other comprehensive income (loss), which is a separate component of stockholders' equity (deficit). Realized gains and losses, and declines in value judged to be other-than-temporary, if any, are included in 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.

**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

**4. Summary of Significant Accounting Policies (Continued)**

**Marketable Securities—Restricted**

On January 21, 2006, the Company 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, 2009 and 2010 and September 30, 2011, the estimated fair value of the mutual fund investment securities within the SERP 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.

**Accounts Receivable**

Accounts receivable are reported in the consolidated balance sheets at outstanding amounts, less an allowance for doubtful accounts. The Company extends credit without requiring collateral. The Company writes off uncollectible receivables when the likelihood of collection is remote. The Company evaluates the collectability of accounts receivable on a regular basis. An allowance, when needed, is based upon various factors including the financial condition and payment history of customers, an overall review of collections experience on other accounts, and economic factors or events expected to affect future collections experience. No allowance was recorded as of December 31, 2009, December 31, 2010 or September 30, 2011.

**Concentration of Credit Risk**

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

Substantially all of the Company's cash and cash equivalents are maintained with major financial institutions in the United States. 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.

**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 carrying value and the estimated fair value of the non-recourse notes payable, held in TCD, was approximately \$66.0 million at December 31, 2009 and 2010 and was approximately \$63.6 million at September 30, 2011. The fair value was estimated based on actual trade information as well as quoted prices provided by bond traders.

**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

**4. Summary of Significant Accounting Policies (Continued)**

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 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. 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:

	Fair Value Measurements at December 31, 2009			
	Total Carrying Value at December 31, 2009	Quoted Prices in Active Markets (Level 1)	Significant	
			Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)				
Cash and cash equivalents	\$ 31,406	\$ 31,406	\$ —	\$ —
Cash and cash equivalents—restricted	1,851	1,851	—	—
Marketable securities	35,118	35,118	—	—
Marketable securities—restricted	225	—	225	—
<b>Total assets at fair value</b>	<b>\$ 68,600</b>	<b>\$ 68,375</b>	<b>\$ 225</b>	<b>\$ —</b>

Supernus Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2008, 2009, and 2010 and the unaudited nine month periods ended September 30, 2010 and 2011

4. Summary of Significant Accounting Policies (Continued)

	Total Carrying Value at December 31, 2010	Fair Value Measurements at December 31, 2010		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Cash and cash equivalents	\$ 23,741	\$ 23,741	\$ —	\$ —
Cash and cash equivalents—restricted	1,453	1,453	—	—
Marketable securities	8,964	1,024	7,940	—
Marketable securities—restricted	261	—	261	—
Total assets at fair value	\$ 34,419	\$ 26,218	\$ 8,201	\$ —

	Total Carrying Value at September 30, 2011	Fair Value Measurements at September 30, 2011 (unaudited)		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
<b>Assets:</b>				
Cash and cash equivalents	\$ 16,484	\$ 16,484	\$ —	\$ —
Cash and cash equivalents—restricted	3,367	3,367	—	—
Marketable securities	—	—	—	—
Marketable securities—restricted	224	—	224	—
Total assets at fair value	\$ 20,075	\$ 19,851	\$ 224	\$ —
<b>Liabilities:</b>				
Warrant liability	\$ 365	\$ —	\$ —	\$ 365

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, 2009, Level 2 assets include mutual funds in which the SERP assets are invested. Mutual funds are valued using third-party pricing sources that apply applicable inputs and other relevant data into their models to estimate fair value. At December 31, 2010 and September 30, 2011, Level 2 assets include mutual funds in which the SERP assets are invested and municipal bonds whose values are based upon quoted prices in inactive markets.

Level 3 liabilities include the fair market value of outstanding warrants to purchase Series A Preferred Stock recorded as a derivative liability. The fair value of the preferred stock warrant liability



**Supernus Pharmaceuticals, Inc.****Notes to Consolidated Financial Statements (Continued)****Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011****4. Summary of Significant Accounting Policies (Continued)**

has been calculated using the probability-weighted expected return method (PWERM). The following table presents information about the Company's preferred stock warrant liability:

	<b>Nine Months Ended September 30, 2011</b>
	<b>(in thousands)</b>
Balance at December 31, 2010	\$ —
Issuance of Series A convertible preferred stock warrants	375
Changes in fair value of warrants included in earnings	(10)
Balance at September 30, 2011	<u>\$ 365</u>

**Property and Equipment**

Property and equipment are stated at cost. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to operations. Repairs and maintenance costs are expensed as incurred. Depreciation and amortization are computed using the straight-line method over the following average useful lives:

Computer equipment	3 years
Software	3 years
Furniture	7 years
Lab and office equipment	5 years
Leasehold Improvements	Shorter of lease term or useful life

**Intangible Assets**

Intangible assets consist primarily of patents. Patents are carried at cost less accumulated amortization, which is calculated on a straight-line basis over the estimated useful lives of the patents, estimated to be ten years. The carrying value of the patents is assessed for impairment annually during the fourth quarter of each year, or more frequently if impairment indicators exist.

**Deferred Financing Costs**

Deferred financing costs consists of syndication costs of approximately \$4.4 million incurred by the Company in connection with the sale of non-recourse notes issued by TCD (see Note 8), financing costs of approximately \$0.5 million incurred by the Company in connection with the closing of the Company's term loan (see Note 8) and legal, accounting and other costs of approximately \$1.6 million incurred in connection with Company's IPO. The Company amortizes the deferred financing costs associated with the non-recourse notes and the outstanding term loan over the term of the related debt using the effective interest method. The Company will record its legal, accounting and other costs against the proceeds received from its successful IPO. Until the completion of its IPO, the Company evaluates the realizability of the related deferred costs at the end of each reporting period.

**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

**4. Summary of Significant Accounting Policies (Continued)**

**Impairment of Long-Lived Assets**

Long-lived assets consist primarily of patents and property and equipment. The Company assesses the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If indications of impairment exist, projected future undiscounted cash flows associated with the asset are compared to the carrying amount to determine whether the asset's value is recoverable. Evaluating for impairment requires judgment, including the estimation of future cash flows, future growth rates and profitability and the expected life over which cash flows will occur. Changes in the Company's business strategy or adverse changes in market conditions could impact impairment analyses and require the recognition of an impairment charge equal to the excess of the carrying value of the long-lived assets over its estimated fair value. For the years ended December 31, 2008, 2009 and 2010 and for the nine months ended September 30, 2010 and 2011, the Company determined that there was no impairment of the Company's long-lived assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. As of December 31, 2009 and 2010 and September 30, 2011, the Company determined that there were no impaired assets and had no assets intended for disposal.

**Preclinical Study and Clinical Trial Accruals and Deferred Advance Payments**

The Company estimates preclinical study and clinical trial expenses based on the services performed pursuant to contracts with research institutions and clinical research organizations that conduct these activities on its behalf. In recording service fees, the Company estimates the time period over which the related services will be performed and compares the level of effort expended through the end of each period to the cumulative expenses recorded and payments made for such services and, as appropriate, accrues additional service fees or defers any non-refundable advance payments until the related services are performed. If the actual timing of the performance of services or the level of effort varies from the estimate, the Company will adjust its accrual or deferred advance payment accordingly. If the Company later determines that it no longer expects the services associated with a nonrefundable advance payment to be rendered, the advance payment will be charged to expense in the period that such determination is made.

**Income Taxes**

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

**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

**4. Summary of Significant Accounting Policies (Continued)**

**Revenue Recognition**

The Company's revenues have been generated through collaboration and research and development agreements. These agreements included fees for development services provided to customers, payments for achievement of specified development, regulatory and sales milestones, and to a lesser extent, upfront license payments, which comprise the Company's development and milestone revenue, as well as royalties on product sales of licensed products, Oracea®, Sanctura XR®, and Intuniv®, which comprise the Company's royalty revenue. The Company records any amounts received in advance of services performed as deferred revenue and recognizes the amount as revenue when earned.

*Multiple Element Arrangements*

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

The Company's development revenues have been earned under contracts that were less than one year in duration. Development contracts generally take the form of fee-for-service arrangements based on an annual contractual full-time equivalent billing rate. In cases where performance spanned multiple accounting periods, the Company has recognized revenue as services were performed, measured on a proportional-performance basis. Output measures, specifically labor hours, were used to measure performance as they reflect the Company's pattern of performance over the contractual term.

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

In January 2011, the Company adopted Accounting Standard Update (ASU) No. 2009-13, *Revenue Recognition (Topic 605)—Multiple-Deliverable Revenue Arrangements: a consensus of the FASB Emerging Issues Task Force* (ASU No. 2009-13). ASU No. 2009-13 establishes a selling-price hierarchy for determining the selling price of each element within a multiple-deliverable arrangement. Specifically, the selling price assigned to each deliverable is to be based on vendor-specific objective evidence (VSOE) if available; third-party evidence, if VSOE is unavailable; and estimated selling prices if neither VSOE or third-party evidence is available. In addition, ASU No. 2009-13 eliminates the residual method of allocating arrangement consideration and instead requires allocation using the relative selling price method. The adoption of ASU No. 2009-13 did not impact the Company's consolidated financial statements, as the Company did not enter into any multiple element arrangements during 2011. The Company will evaluate new or materially modified multiple element arrangements pursuant to the guidance in ASU No. 2009-13.

**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

**4. Summary of Significant Accounting Policies (Continued)**

*Milestone Payments*

Milestone payments have been recognized as revenue when the collaborative partner acknowledges completion of the milestone and substantive effort was necessary to achieve the milestone. In January 2011, the Company adopted ASU No. 2010-17, *Revenue Recognition—Milestone Method*, (ASU No. 2010-17). Under this guidance, 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 within the guidance to be considered substantive. Substantive milestone payments are recognized upon achievement of the milestone only if all of the following conditions are met:

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

Determination as to whether a payment meets the aforementioned conditions involves management's judgment. If any of these conditions are not met, the resulting payment would not be considered a substantive milestone, and therefore the resulting payment would be considered part of the consideration for the single unit of accounting. The adoption of ASU No. 2010-17 did not have a material impact on the Company's consolidated results of operations, financial position, or liquidity.

The Company's recorded milestone revenues were approximately \$1.5 million, \$0.8 million, \$0.0, \$0.0, and \$0.8 million, respectively, during the years ended December 31, 2008, 2009, and 2010 and the nine months ended September 30, 2010 and 2011. During 2011, after the adoption of ASU No. 2010-17, the Company recorded revenues upon achievement of the milestone as the Company concluded that the milestone was substantive in accordance with its accounting policy.

*Royalty Revenues*

Except as noted below, the Company records royalty revenues based on estimates of the sales that occurred during the relevant period. The relevant period estimates of sales are based on interim data provided by licensees and analysis of historical royalties received (adjusted for any changes in facts and circumstances, as appropriate). The Company maintains regular communication with licensees in order to obtain information to develop reasonable estimates. Differences between actual royalty revenues and estimated royalty revenues are reconciled and adjusted for in the period which they are collected, typically the following quarter. Historically, adjustments have not been material based on actual amounts received from licensees. To the extent the Company does not have sufficient ability to accurately estimate revenue, it records revenue when received.

**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

**4. Summary of Significant Accounting Policies (Continued)**

In 2009, the Company recognized approximately \$36.9 million in royalty revenues related to an amendment to a license agreement with Shire plc for Intuniv, which is a novel ADHD product marketed by Shire plc and utilizes one of the Company's proprietary technologies. Under the terms of the license amendment, the parties agreed to delete all provisions regarding milestone and royalty payments and replaced those provisions with, among other things, (1) a commitment by Shire plc to make a one-time payment of \$36.9 million within 15 days of signing the amendment, (2) an acknowledgement by the Company that no other sums would be payable to the Company, then or in the future, under the amended license; and (3) a statement that the amended license was permanent, irrevocable and fully paid. The Company concluded that immediate revenue recognition was appropriate because (1) the executed contract constituted persuasive evidence of an arrangement, (2) the delivery of the license amendment had occurred and Shire plc had assumed all risks and rewards regarding Intuniv, and the Company had no current or future performance obligations, (3) the total consideration for the license amendment was fixed and known at the time of its execution and there were not any extended payment terms or rights of return, and (4) collection was reasonably assured as the Company determined that Shire plc was creditworthy and had the financial ability to make the payment in accordance with the terms of the license amendment.

**Research and Development Costs**

Research and development expenditures are expensed as incurred. Research and development costs primarily consist of employee-related expenses, including salaries and benefits; expenses incurred under agreements with contract research organizations, investigative sites, and consultants that conduct the Company's clinical trials; the cost of acquiring and manufacturing clinical trial materials; facilities 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; stock-based compensation expense; and costs associated with non-clinical activities and regulatory approvals.

**Stock-Based Compensation**

Employee stock-based compensation is measured based on the estimated fair value on the grant date. The grant date fair value of options granted is calculated using the Black-Scholes option-pricing model, which requires the use of subjective assumptions including volatility, expected term, risk-free rate, and the fair value of the underlying common stock. For awards that vest based on service conditions, the Company recognizes expense using the straight-line method less estimated forfeitures. The Company has awarded non-vested stock. The estimated fair value of these awards is determined at the date of grant based upon the estimated fair value of the Company's common stock. The Company recognizes the estimated fair value on a straight-line basis over the requisite service period as the awards vest.

The Company records the expense for stock option grants and non-vested stock subject to performance-based milestone vesting over the remaining service period when management determines that achievement of the milestone is probable. Management evaluates when the achievement of a performance-based milestone is probable based on the relative satisfaction of the performance conditions as of the applicable reporting date.

**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

**4. Summary of Significant Accounting Policies (Continued)**

The Company records the expense for stock option grants to non-employees based on the estimated fair value of the stock option using the Black-Scholes option-pricing model. The fair value of non-employee awards is re-measured at each reporting period. As a result, stock compensation expense for non-employee awards with vesting is affected by changes in the fair value of the Company's common stock.

**Warrant Liability**

In January 2011, the Company entered into a secured credit facility and issued warrants to purchase 375,000 shares of the Company's Series A Preferred Stock (see Note 8). The warrants became exercisable upon issuance and will expire on January 26, 2021. Subsequent to the completion of an IPO, the warrants become exercisable into shares of common stock and the per share exercise price will adjust to the lesser of the IPO price or \$1.00. These warrants are accounted for as a derivative liability, and as such, the Company reflects the warrant liability at fair value in the consolidated balance sheets. The fair value of this derivative liability is re-measured at the end of every reporting period and the change in fair value is reported in the consolidated statements of operations as other income (expense).

The fair value of the preferred stock warrants is estimated in accordance with the guidance outlined in the American Institute of Certified Public Accountants' Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation* (the Technical Practice Aid). Several objective and subjective factors are considered when valuing each equity security and related warrant at a valuation date. The Company utilized the PWERM to estimate the fair value of the preferred stock warrants. Under the PWERM, the value of each equity security and warrant is estimated based upon an analysis of future values for the entire equity instrument assuming various future outcomes. Share value is based upon the probability-weighted present value of the expected outcomes, as well as the rights of each class of preferred and common stock. A probability is estimated for each possible event based on the facts and circumstances as of the valuation date. The Company will continue to adjust the warrant liability for changes in fair value until the earlier of the exercise or expiration of the warrants. Subsequent to the completion of an IPO, the fair value of the warrants will be determined using either a risk-neutral lattice methodology within a Monte-Carlo analysis or a Black-Scholes model within a Monte-Carlo framework. The Monte-Carlo simulation is a generally accepted statistical method used to estimate fair value based on the application of subjective assumptions, consistently applied for each period, including the probability, timing and magnitude of our issuance of additional common stock in future financings. This valuation is computed at the end of each fiscal quarter until the warrants are exercised or they expire to reflect conditions at each such valuation date. Under either methodology, in addition to assumptions regarding future equity financings, consideration is also given to the current stock price, anticipated stock volatility going forward, and the anti-dilution provisions embedded in the warrant agreements.

**Pro Forma Net Income (Loss) Per Share**

The pro forma net income (loss) per share is computed using the weighted-average number of common shares outstanding and assumes the conversion of all outstanding shares of the Company's Series A Preferred Stock into an aggregate of 49,000,000 shares of common stock upon completion of

Supernus Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011

4. Summary of Significant Accounting Policies (Continued)

the Company's planned IPO, as if they had converted at the beginning of the period. The Company believes the unaudited pro forma net income (loss) per share provides material information to investors, as the conversion of the Company's Series A Preferred Stock to common stock is expected to occur upon the closing of its IPO, and the disclosure of pro forma net income (loss) per share thus provides an indication of net income (loss) per share that is comparable to what will be reported by the Company as a public company.

	Year Ended December 31, 2010	Nine Months Ended September 30, 2011
	(unaudited)	
	(in thousands except share and per share amounts)	
Pro forma net loss per common share		
Numerator:		
Net loss attributable to common stockholders	\$ (38,463)	\$ (28,161)
Net income (loss) used to compute pro forma net income (loss) per common share—basic and diluted	\$ (38,463)	\$ (28,161)
Denominator:		
Weighted-average number of common shares, used to calculate net income (loss) per common share:		
Basic	6,351,883	6,377,163
Diluted	6,351,833	6,377,163
Add: Pro forma adjustments to reflect assumed weighted-average effect of conversion of convertible preferred stock	49,000,000	49,000,000
Weighted-average number of common shares used in calculating pro forma net income (loss) per common share		
Basic	55,351,883	55,377,163
Diluted	55,351,883	55,377,163
Pro forma net income (loss) per common share		
Basic	\$ (0.69)	\$ (0.51)
Diluted	\$ (0.69)	\$ (0.51)

Recently Issued Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* (ASU No. 2011-05), which requires entities to present reclassification adjustments included in other comprehensive income on the face of the financial statements and allows entities to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate consecutive statements. It also eliminates the option for entities to present components of other comprehensive income as part of the statement of changes to stockholders' equity. The updated guidance is effective for fiscal and interim periods beginning after December 15, 2011, with early adoption permitted. The adoption of ASU No. 2011-05 is not expected to have a material effect on the Company's consolidated results of operations.

## Supernus Pharmaceuticals, Inc.

## Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011

## 4. Summary of Significant Accounting Policies (Continued)

In May 2011, the Financial Accounting Standards Board and International Accounting Standards Board, issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (ASU No. 2011-04). ASU No. 2011-04 created a uniform framework for applying fair value measurement principles and clarified existing guidance in GAAP. ASU No. 2011-04 will be effective for the first annual reporting period beginning after December 15, 2011 and must be applied prospectively. The Company will adopt ASU No. 2011-04 in the first quarter of fiscal year 2012. The Company does not believe that the adoption of ASU No. 2011-04 will have a material impact on its consolidated financial statements.

## 5. Marketable Securities

Marketable securities held by the Company were as follows:

At December 31, 2009:

<u>Available for Sale</u>	<u>Amortized Cost</u>	<u>Unrealized Gains (Losses)</u> (in thousands)	<u>Fair Value</u>
U.S. Treasuries and agencies	\$ 35,116	\$ 2	\$ 35,118
Mutual funds for SERP	225	—	225
	<u>\$ 35,341</u>	<u>\$ 2</u>	<u>\$ 35,343</u>

At December 31, 2010:

<u>Available for Sale</u>	<u>Amortized Cost</u>	<u>Unrealized Gains (Losses)</u> (in thousands)	<u>Fair Value</u>
U.S. Treasuries and agencies	\$ 1,026	\$ (2)	\$ 1,024
Municipal bonds	7,940	—	7,940
Mutual funds for SERP	261	—	261
	<u>\$ 9,227</u>	<u>\$ (2)</u>	<u>\$ 9,225</u>

At September 30, 2011 (unaudited):

<u>Available for Sale</u>	<u>Amortized Cost</u>	<u>Unrealized Gains (Losses)</u> (in thousands)	<u>Fair Value</u>
U.S. Treasuries and agencies	\$ —	\$ —	\$ —
Mutual funds for SERP	224	—	224
	<u>\$ 224</u>	<u>\$ —</u>	<u>\$ 224</u>



Supernus Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011

6. Property and Equipment

Property and equipment consists of the following:

	December 31,		September 30,
	2009	2010	2011 (unaudited)
	(in thousands)		
Computer equipment	\$ 532	\$ 554	\$ 581
Software	174	174	210
Lab equipment and furniture	3,328	3,480	3,511
Leasehold improvements	815	979	1,405
	4,849	5,187	5,707
Less accumulated depreciation and amortization	(2,990)	(3,938)	(4,418)
	\$ 1,859	\$ 1,249	\$ 1,289

Depreciation expense on property and equipment for the years ended December 31, 2008, 2009, and 2010, was approximately \$886,000, \$842,000 and \$959,000, respectively and \$708,000 and \$479,000, for the nine months ended September 30, 2010 and 2011, respectively.

7. Purchased Patents

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

	Weighted- Average Life	December 31, 2009		December 31, 2010		September 30, 2011	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Purchased patents	10.0	\$ 2,292	\$ 921	\$ 2,292	\$ 1,150	\$ 2,292	\$ 1,322

Amortization expense for the years ended December 31, 2008, 2009 and 2010 was approximately \$229,000 each year, as is the estimated annual aggregate amortization expense through December 31, 2015. Amortization expense for the nine months ended September 30, 2010 and 2011 was approximately \$172,000. The net book value of intangible assets as of December 31, 2009 and 2010 was approximately \$1.4 million and \$1.1 million, respectively, and was approximately \$1.0 million as of September 30, 2011.

8. Notes Payable

*Non-recourse Notes Payable*

In April 2008, pursuant to a Purchase and Sale Agreement and Residual License Agreements executed by the Company and TCD, certain royalty payment rights and other license rights of the Company that it had under license agreements with two unrelated companies were transferred to TCD,

**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

**8. Notes Payable (Continued)**

a 100%-owned subsidiary of the Company, in exchange for approximately \$63.3 million. TCD raised funds for the transaction from a completed private placement of \$75.0 million in secured 16% notes, due April 15, 2024 (the Notes). Net proceeds amounted to \$63.3 million, net of financing costs and required interest reserve. The Notes are non-recourse to the Company and are secured by TCD's assets including the royalty payment rights and other related rights of the transferred license agreements. While the Notes are outstanding, all royalty payments under these license agreements go to the payment of interest.

Royalties earned in excess of the stated interest rate will be applied to the principal on such Notes. Interest expense related to the Notes for the years ended December 31, 2008, 2009, and 2010, was \$8.5 million, \$12.0 million, and \$12.1 million, respectively, and \$9.1 million and \$9.0 million for the nine months ended September 30, 2010 and 2011, respectively. As of December 31, 2009 and 2010 and September 30, 2011, TCD had interest payable of \$2.5 million, \$2.5 million, and approximately \$2.5 million, respectively.

In conjunction with the issuance of the Notes, TCD initially placed \$8.0 million into a restricted cash interest reserve account to cover payments required when the initial royalties are not sufficient to meet the interest payments due. Royalties earned are also deposited into a restricted cash account to meet interest and principal payments. At December 31, 2009 and 2010 and September 30, 2011, the balance of restricted cash available to pay interest was approximately \$1.9 million, \$1.5 million and \$3.4 million respectively. Any excess restricted cash will be used as additional principal payments. In April 2011, TCD paid approximately \$182,000 in principal on the Notes, and as of September 30, 2011, approximately \$74.8 million in principal remained outstanding.

The syndication costs to complete the transaction were approximately \$4.4 million for investment banking, legal, consulting, accounting, and printing fees. These costs were capitalized as deferred financing costs and are being amortized over the term of the related debt using the effective interest method. Amortization of deferred financing costs for the years ended December 31, 2008, 2009, and 2010 approximated \$179,000, \$270,000, and \$271,000, respectively, and \$202,000 and \$204,000 for the nine months ended September 30, 2010 and 2011, respectively.

In the first quarter of 2010, the \$8.0 million interest reserve was exhausted, and as such, all subsequent interest payments are made solely from royalty payments received. At September 30, 2011, TCD had approximately \$3.4 million in cash available to apply to the next quarterly interest payment of approximately \$3.0 million due on October 15, 2011. Under the terms of the Notes, TCD is not in default for payment of interest unless it fails to make payment in full on the interest payment by the next succeeding payment date, which is October 15, 2011. To date, TCD has been able to make up all interest shortfalls in full before the next succeeding payment date. In the event of a default for failure to pay interest on a timely basis, the holders of the Notes do not have recourse to the Company as the Notes are non-recourse beyond TCD, are not convertible into any other securities of the Company, and have not been guaranteed by the Company. The Company has pledged all equity interests of TCD to the holders of the Notes so, upon an event of default, the holders of the Notes could elect to exercise their rights to acquire those equity interests in TCD.

**Supernus Pharmaceuticals, Inc.****Notes to Consolidated Financial Statements (Continued)****Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011****8. Notes Payable (Continued)**

In connection with the Notes, the Company executed a Servicing Agreement with TCD. The Servicing Agreement provided for a servicing fee of \$10,000 per quarter to be paid to the Company for performance of services related to the collection of amounts due in connection with the License Agreements. The Company is also to be reimbursed for any out-of-pocket expenses. As the Servicer, the Company is to service and administer on behalf of TCD the purchased assets, including the maintenance and defense of the related patent rights, and service and administer on behalf of TCD the collection of the royalty payments (and replacement royalty payments, if any) and the related reporting requirements to TCD.

*Secured Notes Payable*

In January 2011, the Company entered into a secured credit facility pursuant to a loan and security agreement with certain lenders, that provided for term loans of up to an aggregate of \$25.0 million on or before April 30, 2011. On January 26, 2011, the Company drew down \$15.0 million of term loans under this secured credit facility. The term loans bear interest at a fixed rate per annum of 11.0% and will mature on August 1, 2014. The Company's right to obtain the additional term loans of up to \$10.0 million under the secured credit facility expired on April 30, 2011. The Company is required to make twelve months of interest only payments, beginning in March 2011, and thereafter, principal and interest payments will be made over the remaining term of the loan. As of September 30, 2011, the Company is required to make the following principal payments:

	<u>As of</u> <u>September 30, 2011</u> <u>(unaudited)</u> <u>(in thousands)</u>
Year ending December 31:	
2011	\$ —
2012	4,551
2013	6,039
2014	4,410
	<u>\$ 15,000</u>

The Company may voluntarily prepay all, but not less than all, outstanding term loans under its secured credit facility at any time, subject to the payment of a premium. With respect to any prepayment, the premium is 5.0%, if such prepayment is made before the amortization date of March 2012, 2.0%, if such prepayment is made during the 15-month period after March 2012, and 1.0%, if such prepayment is made thereafter. Upon the maturity of any outstanding term loans or the acceleration or prepayment thereof, the Company will also be required to make a final payment equal to 2.5% of the aggregate principal amount, or \$375,000, of the term loans borrowed under our secured credit facility. This payment is being recorded as additional interest expense over the life of the loan.

The Company capitalized deferred financing costs of approximately \$461,000 in issuing the secured notes payable, which are being amortized to interest expense over the term of the debt. The balance of deferred financing costs was approximately \$374,000 at September 30, 2011. The Company recorded

**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

**8. Notes Payable (Continued)**

interest expense related to the secured notes payable of approximately \$1.1 million during the nine months ended September 30, 2011.

In connection with the drawdown of \$15.0 million under the secured credit facility on January 26, 2011, the Company issued to its lenders warrants to purchase an aggregate of 375,000 shares of the Company's Series A Preferred Stock at an exercise price of \$1.00 per share. The warrants became exercisable immediately and expire on January 26, 2021. Upon completion of an initial public offering, the lender warrants will be exercisable into one share of the Company's Common Stock for each share of its Series A Preferred Stock into which it was convertible prior to the IPO at a price per share equal to the lesser of the initial public offering price, or \$1.00. These warrants are recorded as a derivative liability in the Company's consolidated balance sheets and will continue to be accounted for in this manner subsequent to the completion of an IPO. As the warrants were issued after the Company had commenced its IPO process, the Company has used the PWERM (see Note 4) to calculate the value upon issuance on January 26, 2011 and all subsequent quarterly valuations. As of January 26, 2011 and September 30, 2011, the fair value was estimated to be approximately \$375,000 and \$365,000, respectively. The change in fair value of approximately \$10,000 has been recorded in other income (expense) in the Company's consolidated statements of operations.

All obligations under the secured credit facility are secured by substantially all of the Company's existing property and assets (excluding its intellectual property) and by a pledge of the capital stock of, subject to certain exceptions, the Company's U.K. subsidiary and any future subsidiary.

**9. Stockholders' Equity (Deficit)**

In 2005 and 2006, the Company issued an aggregate of 49,000,000 shares of its Series A Preferred Stock, which includes 4,000,000 shares issued in connection with the purchase of certain assets from Shire Laboratories, Inc. The offering price per share was \$1.00, resulting in aggregate gross cash proceeds of \$45.0 million. The Company incurred approximately \$286,000 in expenses directly related to these offerings, and these expenses were charged to additional paid-in capital.

Dividends on the Series A Preferred Stock are cumulative and accrue at a rate per annum of \$0.07 per share, subject to adjustment for certain dilutive events. The Company is not obligated to pay the dividends unless it declares or pays dividends on any other shares of capital stock or in the event of a liquidation, dissolution or winding up of the Company. As of December 31, 2009 and 2010 and September 30, 2011, dividends of approximately \$13.7 million, \$17.1 million and \$19.7 million, respectively, have been accumulated. In liquidation, the holders of Series A Preferred Stock are entitled to receive \$1.00 per share plus an amount equal to all accrued unpaid dividends and any dividends declared but unpaid before any distribution to the holders of any shares of common stock or any other class or series of stock ranking on liquidation junior to the Series A Preferred Stock. A merger or consolidation in which the Company is a constituent party is deemed to be a liquidation.

The holders of the Series A Preferred Stock are entitled to cast the number of votes equal to the number of whole shares of common stock into which the shares of Series A Preferred Stock held are convertible as of the specified record date. The holders of the Series A Preferred Stock are entitled to elect four directors of the Company. Without the affirmative vote of two-thirds of the then outstanding

**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

**9. Stockholders' Equity (Deficit) (Continued)**

shares of Series A Preferred Stock, the Company shall not, among other things, change the number of directors from nine; create any additional shares of preferred stock; liquidate or dissolve the business affairs of the Company; create or issue any security or obligation that is convertible or exchangeable into securities of the Company; pay dividends or distributions on any shares of stock; or incur any liability for indebtedness that exceeds \$500,000.

At any time, the holders of Series A Preferred Stock may convert their Series A shares into shares of common stock. The initial conversion is one-for-one. The conversion ratio is subject to adjustment should specified dilutive events occur. The Company has reserved 49,000,000 shares of common stock for the potential conversion of its Series A Preferred Stock. Each share of Series A Preferred Stock automatically converts into shares of the Company's common stock upon closing of a firm commitment underwritten public offering of common stock registered under the Securities Act of 1933 at a price of at least \$3.00 per share (adjusted to reflect stock splits, stock dividends, stock combinations, recapitalizations, and like occurrences), and which generates gross proceeds to the Company of at least \$35.0 million. The holders of the Series A Preferred Stock have the right to elect to convert all outstanding shares of their stock into shares of common stock upon a two-thirds vote. The Series A Preferred Stock is not redeemable or contingently redeemable.

**Common Stock**

The holders of the common stock are entitled to one vote for each share of common stock held. Except for certain matters specified in the Company's amended and restated certificate of incorporation, the holders of common stock shall vote together as a single class on all matters with the holders of the Series A Preferred Stock.

**10. Share-Based Payments**

As of September 30, 2011, the Company had one share-based compensation plan. The Supernus Pharmaceuticals, Inc. 2005 Stock Plan (the Plan), which is stockholder-approved, permits the grant of options, purchase rights, and awards to its employees, officers, directors, consultants, or advisors for up to 8,000,000 shares of common stock. The Company believes that such awards better align the interest of its employees with those of its stockholders. Option awards are generally granted with an exercise price equal to the estimated fair value of the Company's common stock at the grant date; those option awards generally vest in four annual installments, starting on the first anniversary of the date of grant and have ten-year contractual terms. The Plan provides for the issuance of common stock of the Company upon the exercise of stock options. A portion of the grants to certain employees vests upon the achievement of specified Company milestones.

If an optionee is terminated for cause, the Company has the right and option to purchase, for a period of 180 days from the termination date, the shares of common stock the optionee obtained through the exercise of a stock option. The purchase price will equal the estimated fair market value of the common stock determined by mutual agreement between the Company and the optionee. There were no shares subject to repurchase at December 31, 2009, and 2010 or September 30, 2011.

Supernus Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2008, 2009, and 2010 and the unaudited nine month periods ended September 30, 2010 and 2011

10. Share-Based Payments (Continued)

Stock-based compensation recognized related to the grant of employee and non-employee stock options, and non-vested stock was as follows:

	Year Ended December 31,			Nine Months September 30,	
	2008	2009	2010	2010	2011
	(in thousands)			(unaudited)	
Research and development	\$ 28	\$ 28	\$ 53	\$ 32	\$ 44
General and administrative	71	83	244	92	(88)
Total	\$ 99	\$ 111	\$ 297	\$ 124	\$ (44)

In November 2010, the Company's Board of Directors (the "Board") repriced 255,000 of the options granted on December 15, 2009, from a per-share exercise price of \$1.76 to \$0.64. In addition, the Board approved the modification of the performance vesting requirements related to 157,697 employee stock options and 411,765 shares of non-vested stock awarded to the Company's chief executive officer. The vesting of these share-based awards was contingent upon the submission and the FDA's acceptance of the Company's first new drug application (NDA) on or before December 22, 2010, and the Board extended the deadline for the achievement of this performance condition to March 31, 2011. This performance condition was not met. As a result of the Board actions, there was no immediate charge related to the repriced and modified options. The Company recognized approximately \$190,000 of stock-based compensation related to the modified performance vesting options during the period January 1, 2010 through February 28, 2011. As of March 31, 2011, the performance condition was not met and all performance vesting options expired. As a result, all previously recorded compensation expense related to the performance vesting options was reversed.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model using the assumptions in the following table:

	Year Ended December 31,			September 30,
	2008	2009	2010	2010
				(unaudited)
Fair value of common stock	\$0.40	\$0.40 – \$1.76	\$0.64 – \$0.84	\$0.84
Expected volatility	60%	60.3% – 61.5%	59.1% – 74.7%	59.1% – 60.7%
Expected dividends	0%	0%	0%	0%
Expected term	6.25 years	6.25 years	0.41 – 6.25 years	6.25 years
Risk-free rate	3.70% – 3.94%	1.65% – 2.72%	0.15% – 2.93%	1.78% – 2.93%
Expected forfeiture rate	5%	5%	0% – 5%	5%

There were no options granted during the nine month period ended September 30, 2011.

**Fair Value of Common Stock**—For all option grants, the fair value of the common stock underlying the option grants was determined by the Board, with the assistance of management, which intended all options granted to be exercisable at a price per share not less than the per share fair value of the Company's common stock underlying those options on the date of grant. The Company utilized

**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

**10. Share-Based Payments (Continued)**

methodologies, approaches and assumptions as set forth in the Technical Practice Aid, when estimating the fair value of common stock at each grant date.

Given the lack of an active public market for the Common Stock, the Board employed a third-party valuation firm to assist in the determination of fair value by completing contemporaneous valuations. In the absence of a public market, and as a clinical stage company with no significant revenues from product sales, the Company considered a range of factors to determine the fair market value of the common stock at each grant date. The factors include: (1) the achievement of clinical and operational milestones by the Company, (2) the status of strategic relationships with collaborators, (3) the significant risks associated with the Company's stage of development, (4) capital market conditions for life science companies, particularly similarly situated privately held, early-stage life science companies, (5) the Company's available cash, financial condition, and results of operations, (6) the most recent sales of the Company's preferred stock, and (7) the preferential rights of the outstanding preferred stock.

**Expected Volatility**—Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. The Company does not maintain an internal market for its shares and its shares are not traded privately. The Company has identified several public entities of similar size, complexity, and stage of development and, accordingly, historical volatility has been calculated using the volatility of these companies.

**Dividend Yield**—The Company has never declared or paid dividends and has no plans to do so in the foreseeable future.

**Expected Term**—This is the period of time that the options granted are expected to remain unexercised. Options granted have a maximum term of ten years. The Company determines the average expected life of stock options according the "simplified method" as described in Staff Accounting Bulletin 110, which is the mid-point between the vesting date and the end of the contractual term. Over time, management will track estimates of the expected life of the option term so that estimates will approximate actual behavior for similar options.

**Risk-Free Interest Rate**—This is the U.S. Treasury rate for the week of each option grant during the year, having a term that most closely resembles the expected term of the option.

**Expected Forfeiture Rate**—The forfeiture rate is the estimated percentage of options granted that are expected to be forfeited or canceled on an annual basis before becoming fully vested. The Company estimates the forfeiture rate based on turnover data with further consideration given to the class of employees to whom the options were granted.

Supernus Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011

10. Share-Based Payments (Continued)

Information with respect to stock options granted to employees and non-employees from January 1, 2009 through September 30, 2011 was as follows:

Grant Date	Number of Options Granted	Exercise Price	Estimated Fair Value	Intrinsic Value
01/19/2009	225,000	\$ 0.40	\$ 0.23	\$ —
12/15/2009	257,200	\$ 1.76	\$ 1.03	\$ —
02/10/2010	52,500	\$ 0.84	\$ 0.49	\$ —
04/16/2010	32,750	\$ 0.84	\$ 0.49	\$ —
07/20/2010	38,500	\$ 0.84	\$ 0.48	\$ —
10/15/2010	15,000	\$ 0.64	\$ 0.37	\$ —
11/02/2010	880,000	\$ 0.64	\$ 0.41	\$ —
11/16/2010	35,000	\$ 0.64	\$ 0.41	\$ —

The following table summarizes stock option activity under the Plan:

	Number of Options	Weighted- Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding, December 31, 2009	1,649,108	\$ 0.44	7.53
Granted	1,053,750	\$ 0.66	9.78
Exercised	(35,000)	\$ 0.10	
Forfeited or expired	(9,900)	\$ 0.33	
Outstanding, December 31, 2010	2,657,958	\$ 0.43	7.83
Granted	—	—	
Exercised	(12,646)	\$ 0.10	
Forfeited or expired	(176,247)	\$ 0.33	
Outstanding, September 30, 2011	2,469,065	\$ 0.44	7.16
As of December 31, 2010:			
Vested and expected to vest	2,583,223	\$ 0.42	7.79
Exercisable	1,006,824	\$ 0.18	5.81
As of September 30, 2011:			
Vested and expected to vest	2,402,301	\$ 0.43	7.12
Exercisable	1,132,629	\$ 0.21	5.32

The aggregate intrinsic value of options outstanding, vested and expected to vest, and exercisable as of December 31, 2010 is approximately \$589,000, \$585,000 and \$463,000, respectively. The aggregate intrinsic value of options outstanding, vested and expected to vest, and exercisable as of September 30, 2011 is approximately \$1.5 million, \$1.5 million and \$958,000, respectively.

The weighted-average, grant-date fair value of options granted for the years ended December 31, 2008, 2009, and 2010 and for the nine months ended September 30, 2010 and 2011, was \$0.24, \$0.66, \$0.42, \$0.47, and \$0.00 per share, respectively. The total fair value of the underlying common stock related to shares that vested during the years ended December 31, 2008, 2009, and 2010 and for the



**Supernus Pharmaceuticals, Inc.****Notes to Consolidated Financial Statements (Continued)****Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011****10. Share-Based Payments (Continued)**

nine months ended September 30, 2010 and 2011, was approximately \$37,000, \$49,000, \$104,000, \$34,000, and \$37,000, respectively. The total intrinsic value of options exercised amounted to approximately \$0, \$65,000, \$26,000, \$26,000, and \$7,000, respectively, during the years ended December 31, 2008, 2009 and 2010 and the nine months ended September 30, 2010 and 2011. As of December 31, 2010 and September 30, 2011, the total unrecognized compensation expense, net of related forfeiture estimates, was approximately \$628,000 and \$481,000, respectively, which the Company expects to recognize over weighted-average periods of 3.01 and 2.72 years, respectively.

On December 22, 2005, the Company granted an officer a restricted award for 3,500,000 shares of common stock. Approximately 2,500,000 shares of the award vested on a quarterly basis over a four-year period through 2009. The remaining 1,000,000 shares of the award vest upon the achievement of specified clinical and regulatory milestones. Of the 1,000,000 restricted awards subject to performance based vesting, there were 411,765 unvested shares as of December 31, 2010, which would vest upon the pending successful completion of one last milestone, which is the filing and the FDA's acceptance of the Company's first NDA filing on or before March 31, 2011. As the Company believed that achievement of this milestone was probable, the Company began recording stock compensation expense related to the fair value of this performance based restricted award in its consolidated statements of operations during the period ended December 31, 2010. The performance condition was not met, so the unvested portion of the restricted stock award expired as of March 31, 2011 and the related expense was reversed on that date.

On the grant date, the Company estimated the fair value of restricted common stock to be \$0.10 per share. The total estimated fair value of \$350,000 is being recognized during a) to the requisite service period ratably over four years and b) the portion subject to the achievement of the specified performance conditions is being recognized when achievement of those conditions is considered probable. For the years ended December 31, 2008, 2009 and 2010 and for the nine months ended September 30, 2010 and 2011, the Company recognized approximately \$62,000, \$62,000, \$141,000, \$0, and \$(141,000), respectively, in stock compensation related to this arrangement. The following table summarizes activity related to these non-vested shares:

	Number of Shares	Weighted- Average Fair Value
Non-vested shares, December 31, 2009	411,765	\$ 0.10
Granted	—	
Vested	—	
Forfeited or expired	—	
Non-vested shares, December 31, 2010	411,765	\$ 0.10
Granted	—	
Vested	—	
Forfeited or expired	(411,765)	\$ 0.10
Non-vested shares, September 30, 2011	—	

**Supernus Pharmaceuticals, Inc.****Notes to Consolidated Financial Statements (Continued)****Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011****11. Income Taxes**

For the years ended December 31, 2008, 2009 and 2010, there was no current provision or benefit for federal or state income taxes. A reconciliation of the expected income tax benefit computed using the federal statutory income tax rate to the Company's effective income tax rate is as follows:

	Year Ended December 31,		
	2008	2009	2010
	(in thousands)		
Income tax computed at federal statutory tax rate	\$ (11,384)	\$ 157	\$ (13,077)
Permanent Items	26	38	61
State taxes	(1,819)	33	(2,085)
Change in valuation allowance	15,234	(667)	16,400
Prior year true-up	414	1,425	(32)
Research and development credits	(2,471)	(986)	(1,267)
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which the net operating loss (NOL) carryforwards are available. Management considers projected future taxable income, the scheduled reversal of deferred tax liabilities, and available tax planning strategies that can be implemented by the Company in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the NOL carryforwards are available to reduce income taxes payable, management has established a full valuation allowance.

As of December 31, 2010, the NOL carryforwards amounted to approximately \$92.3 million and will begin to expire in various years beginning in 2025. As of December 31, 2010, the Company has available research and development credit carryforwards of approximately \$4.3 million, which expire, if unused, starting 2025. The use of the Company's NOL carryforwards and research and development credits may be restricted due to changes in Company ownership. Additionally, despite the NOL carryforwards, the Company may have a future tax liability due to an alternative minimum tax or state tax requirements. The Company paid no income taxes in the years ended December 31, 2008, 2009 or 2010.

Supernus Pharmaceuticals, Inc.

Notes to Consolidated Financial Statements (Continued)

Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011

11. Income Taxes (Continued)

The deferred tax benefit has been entirely offset by valuation allowances. The significant components of the (Company's deferred tax assets (liabilities) were as follows:

	Year Ended December 31,		
	2008	2009	2010
	(in thousands)		
Deferred tax assets:			
Net operating loss carryforward	\$ 21,900	\$ 21,335	\$ 36,418
Deferred rent credit	173	314	339
Accrued compensation and non-qualified stock options		27	57
Deferred financing costs		(6)	(8)
Depreciation and amortization	(228)	(94)	(15)
Research and development credits	3,552	3,138	4,282
Other	0	17	8
Net deferred tax asset before valuation allowance	25,397	24,731	41,081
Valuation allowance	(25,397)	(24,731)	(41,081)
Net deferred tax asset	\$ —	\$ —	\$ —

The Company accounts for uncertain tax positions pursuant to the guidance in FASB ASC Topic 740, *Income Taxes*. The Company recognizes interest and penalties related to uncertain tax positions, if any, in income tax expense. As of December 31, 2009 and 2010, the Company did not accrue any interest related to uncertain tax positions. The Company's income taxes have not been subject to examination by any tax jurisdictions since its inception. Due to NOL and research and development credit carryforwards, all income tax returns filed by the Company are subject to examination by the taxing jurisdictions.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits is as follows:

	Year Ended December 31,		
	2008	2009	2010
	(in thousands)		
Balance as of January 1	\$ —	\$ —	\$ —
Gross increases related to prior-year tax positions	—	—	452
Gross increases related to current-year tax positions	—	—	190
Balance as of December 31	\$ —	\$ —	\$ 642

The Company believes that any of its uncertain tax positions would not result in adjustments to its effective income tax rate because likely corresponding adjustments to deferred tax assets would be offset by adjustments to recorded valuation allowances.

**Supernus Pharmaceuticals, Inc.****Notes to Consolidated Financial Statements (Continued)****Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011****12. Commitments and Contingencies**

The Company leases office and lab space over periods originally extending through April 2013. The lease contains tenant and capital improvement allowances in the aggregate of \$1.1 million. In December 2010, the Company amended its lease arrangement for its office and lab space in order to extend the expiration of the term from April 2013 to April 2018. Commencing in November 2013, the base annual rent will be increased 2% per annum for the remaining term. The Company may elect to extend the term of the lease for an additional five-year period on the same terms and conditions. In addition, the lease amendment provides for an additional tenant improvement allowance of approximately \$1.3 million. Through December 31, 2010 and September 30, 2011, approximately \$949,000 and \$1.4 million, respectively, of the allowance has been utilized and included in fixed assets and deferred rent.

Rent expense for the years ended December 31, 2008, 2009, and 2010, was approximately \$921,000, \$921,000 and \$918,000, respectively and \$691,000 and \$679,000 for the nine months ended September 30, 2010 and 2011, respectively. Future minimum lease payments under non-cancelable operating leases as of December 31, 2010 and September 30, 2011, follows:

	As of December 31, 2010	As of September 30, 2011
	(in thousands)	
Year ending December 31:		
2011	\$ 650	\$ 243
2012	971	971
2013	966	966
2014	985	985
Thereafter	3,428	3,428
	<u>\$ 7,000</u>	<u>\$ 6,593</u>

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 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. The Company does not owe any future milestone payments for SPN-810. The Company will also be obligated to pay royalties to Afecta based on worldwide net sales of each of these products in the low-single digits. 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 owing 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, the Company will be obligated to pay royalties to Rune based on net sales worldwide in the low single digits.

**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

**13. Employee Benefit Plan**

On January 2, 2006, the Company established the Supernus Pharmaceuticals, Inc. 401(k) Profit Sharing Plan (the 401(k) Plan) for its employees under Section 401(k) of the Internal Revenue Code (Code). Under the 401(k) Plan, all full-time employees who are at least 21 years old are eligible to participate in the 401(k) Plan. Employees may participate starting on the first day of the month following employment. Employees may contribute up to the lesser of 90% of eligible compensation or the applicable limit established by the Code.

Employees are 100% vested in their contributions to the 401(k) Plan. The Company matches 100% of a participant's contribution for the first 3% of their salary deferral and matches 50% of the next 2% of their salary deferral. As determined by the Board, the Company may elect to make a discretionary contribution not exceeding 60% of the annual compensation paid to all participating employees. The Company's contributions to the 401(k) Plan approximated \$273,000, 255,000 and \$254,000, for the years ended December 31, 2008, 2009 and 2010, respectively, and \$204,000 and \$217,000 for the nine months ended September 30, 2010 and 2011, respectively.

**14. Related-Party Transactions**

In May 2009, the Company entered into an amendment to a license agreement with Shire LLC, a holder of Series A Preferred Stock, whereby Shire LLC and its affiliates paid the Company a one-time, lump-sum payment of \$36.9 million in return for a fully paid-up license for one of its products that utilizes the Company's proprietary technologies. All four criteria necessary to recognize revenue in accordance with Accounting Standards Codification 605-10-S25, *Revenue Recognition—Overall—Recognition*, were met during 2009 related to this transaction (see Note 4). Accordingly, the entire amount was recorded as royalty revenue in the consolidated statements of operations.

In December 2011, we entered into a Unit Purchase Agreement with Royalty Opportunities S.à.r.l ("ROS"). Pursuant to the Unit Purchase Agreement, we sold 100% of our equity interests in TCD to ROS for a payment of \$27.0 million upon closing and a potential milestone payment of \$3.0 million payable upon the occurrence of certain conditions. ROS is an affiliate of one of the Company's Series A Preferred Stock stockholders.

**15. Collaboration Agreements**

***United Therapeutics***

The Company has a license agreement with United Therapeutics to use one of its proprietary technologies for an oral formulation of Remodulin for the treatment of PAH and potentially for additional indications. Through September 30, 2011, the Company has received \$1.5 million in pre-commercial milestone payments under the agreement. Remaining milestone payments to the Company could total \$2.0 million, based on satisfaction of development milestones of oral treprostinil in PAH and up to approximately \$4.0 million for the development of additional treprostinil products for a second indication. If United Therapeutics receives approval to market and sell oral treprostinil for additional indications and/or any additional combination products that utilizes the Company's technologies, the Company will receive royalties in the single digits based on net sales worldwide. The Company's license agreement with United Therapeutics will expire, on a country-by-country and

**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

**15. Collaboration Agreements (Continued)**

product-by-product basis, 12.5 years from the first commercial sale of each product in such country. United Therapeutics may terminate, at its option, the agreement for a technical, strategic or market-related cause after giving the Company a reasonable opportunity to cure. The Company may terminate the agreement if, after having launched a product in a country, United Therapeutics or its sub-licensee discontinues the sale of such product for a prolonged period of time for reasons unrelated to force majeure, regulatory or safety issues. In addition, either party may terminate the agreement for the material, uncured breach by the other party and in certain events of bankruptcy or insolvency of the other party.

***Stendhal***

In August 2011, the Company executed a Development and Licensing Agreement (Stendhal License Agreement) with Especificos Stendhal, S.A., DE C.V. (Stendhal) that provided Stendhal an exclusive license to the Company's licensed intellectual property underlying the SPN-804 product in the defined territory. The license included the right to the Company's patents, proprietary information, and know-how of the Company's drug-delivery technology and pharmaceutical product underlying its SPN-804 product. Stendhal is responsible for all costs associated with clinical development, approval, commercialization and distribution of the product in the defined territory, which may be expanded upon certain events. As of September 30, 2011, the Company had recorded approximately \$439,000 as deferred revenue that is being recognized as revenue on a straight-line basis over its substantive obligation period until approval, which is estimated to be December 2014. The Company monitors this estimate on a quarterly basis to determine if facts and circumstances may have changed that would require a prospective adjustment of the recognition period. As of September 30, 2011, we may receive up to \$3.3 million in additional milestone payments, based on certain milestones defined in the Stendhal License Agreement.

**16. Subsequent Events**

Pursuant to a Unit Purchase Agreement executed on December 14, 2011, the Company sold 100% of its equity ownership interests in TCD to an entity affiliated with Orbimed Advisors LLC, one of our stockholders, hereafter referred to as the "Purchase Transaction." The purchase price consisted of \$27.0 million and a milestone payment of \$3.0 million payable within 10 days of the occurrence of the earlier of the following conditions:

- The purchaser receives royalty payments equal to at least \$35.1 million, the purchaser has not entered into a transaction to sell, refinance or monetize its equity interests in TCD, and no generic formulations of the products underlying the royalty payments and related license agreements have entered the market, or
- The purchaser receives proceeds in excess of the aggregate of (a) \$27.0 million, plus (b) the purchase price paid by the purchaser, if any, to acquire a beneficial interest in one or more of the non-recourse notes, plus (c) the aggregate redemption price paid by the purchaser, if any, to redeem any of the non-recourse notes, from any transaction that refinances or liquidates the equity interests in TCD or the non-recourse notes.

**Supernus Pharmaceuticals, Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**Years ended December 31, 2008, 2009, and 2010 and the unaudited  
nine month periods ended September 30, 2010 and 2011**

**16. Subsequent Events (Continued)**

Pursuant to the Purchase Transaction, we retained certain duties and responsibilities under the ongoing Servicing Agreement for so long as the non-recourse notes remain outstanding. The Company will continue to perform these services in exchange for a quarterly fee of \$10,000, or \$40,000 annually. These retained duties primarily consist of: (i) maintaining the licensed patents covering Sanctura XR and Oracea, including supporting our licensees with their defenses on any challenges of patents that may arise, and (ii) overseeing the payments by the counterparties under the two license agreements and the ultimate payout to the holders of the non-recourse notes.

At the time the non-recourse notes cease to be outstanding, the purchaser must make an election to either (1) terminate the Servicing Agreement and execute the New Servicing Agreement, which was contemplated and drafted at the time of the Purchase Transaction, or (2) obtain from the Company the assignment and transfer of all the licensed intellectual property and all of the Company's rights and obligations under the license agreements subject to certain conditions described in the Unit Purchase Agreement.

The Company determined it had not retained any interests nor any of the risks and rewards of TCD ownership nor had it guaranteed any payment of principal and interests on the non-recourse notes. The Company is serving as an agent for the debt holders in discharging its retained duties. Therefore, pursuant to ASC 810-10, "Consolidation", the Company is accounting for the Purchase Transaction as a sale of a subsidiary will record the resulting gain, expected to be approximately \$90.0 million, as "gain on the sale of the subsidiary", a component of other income (expense) in its consolidated statements of operations. The gain on the sale of the subsidiary is calculated as the aggregate of the fair value of consideration and the carrying value of TCD's assets and liabilities, less its fees and expenses. Should the Company receive the milestone payment or additional consideration, the fair value of amounts received, less any related fees and expenses, will be recorded as "gain on the sale of the subsidiary", a component of other income (expense) in the Company's consolidated statements of operations.

In December 2011, the Company amended its secured credit facility. The amendment provided for additional term loans of up to an aggregate amount of \$15.0 million, bringing the total term loans under the secured credit facility to \$30.0 million. The terms of the additional term loans are substantially similar to the terms of the initial borrowings made under the secured credit facility in January 2011 (see Note 8), except that the term loans will mature on January 1, 2015 and the Company is required to make six months of interest only payments, beginning in February 2012.

In connection with the drawdown of the addition \$15.0 million in December 2011, the Company issued to the lenders warrants to purchase an aggregate of 200,000 shares of the Company's Series A Preferred Stock at \$1.50 per share. The warrants became exercisable upon issuance and will expire on December 30, 2021. Upon completion of an initial public offering, the lender warrants will be exercisable into one share of the Company's Common Stock for each share of its Series A Preferred Stock into which it was convertible prior to the IPO at a price per share equal to the lesser of the initial public offering price, or \$1.50. The warrants will be accounted for as a derivative liability, and as such the Company will reflect the warrant liability at fair value in the consolidated balance sheet.

**Shares**

**SUPERNUS PHARMACEUTICALS, INC.**

**Common Stock**



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**PRELIMINARY PROSPECTUS**

**, 2012**

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*Joint Book-Running Managers*

**Citigroup  
Piper Jaffray**

*Co-Managers*

**Cowen and Company**

**Stifel Nicolaus Weisel**

Until \_\_\_\_\_, 2012 (25 days after the date of this prospectus), all dealers that buy, sell or trade shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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**PART II**

**INFORMATION NOT REQUIRED IN PROSPECTUS**

**ITEM 13. *Other Expenses of Issuance and Distribution.***

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by us in connection with the sale of the common stock being registered hereby. All amounts are estimates except the SEC Registration Fee, the FINRA filing fee and NASDAQ Global Market listing fee.

	<b>Amount to be Paid</b>
SEC registration fee	\$ 7,130
FINRA filing fee	\$ 10,500
NASDAQ Global Market initial listing fee	\$ 25,000
Blue Sky fees and expenses	\$ *
Printing and engraving expenses	\$ *
Legal fees and expenses	\$ *
Accounting fees and expenses	\$ *
Transfer agent and registrar fees	\$ *
Miscellaneous	\$ *
Total	\$ *

\* To be completed by amendment.

**ITEM 14. *Indemnification of Directors and Officers.***

On completion of this offering, our amended and restated certificate of incorporation will contain provisions that eliminate, to the maximum extent permitted by the General Corporation Law of the State of Delaware, the personal liability of directors and executive officers for monetary damages for breach of their fiduciary duties as a director or officer. Our amended and restated certificate of incorporation and bylaws will provide that we shall indemnify our directors and executive officers and may indemnify our employees and other agents to the fullest extent permitted by the General Corporation Law of the State of Delaware.

Sections 145 and 102(b)(7) of the General Corporation Law of the State of Delaware provide that a corporation may indemnify any person made a party to an action by reason of the fact that he or she was a director, executive officer, employee or agent of the corporation or is or was serving at the request of the corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful, except that, in the case of an action by or in right of the corporation, no indemnification may generally be made in respect of any claim as to which such person is adjudged to be liable to the corporation.

We are entering into indemnification agreements with each of our directors and executive officers, in addition to the indemnification provided for in our amended and restated certificate of incorporation and bylaws, and intend to enter into indemnification agreements with any new directors and executive officers in the future.

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We intend to purchase and maintain insurance on behalf of any person who is or was a director or officer of our company against any loss arising from any claim asserted against him or her and incurred by him or her in any such capacity, subject to certain exclusions.

The Underwriting Agreement (to be filed as Exhibit 1.1 hereto) provides for indemnification by the underwriters of us and our executive officers and directors, and by us of the underwriters, for certain liabilities, including liabilities arising under the Securities Act.

See also the undertakings set out in response to Item 17 herein.

**ITEM 15. *Recent Sales of Unregistered Securities.***

The following sets forth information regarding all unregistered securities sold during the last three years:

(a) Within the last three years, we have issued and sold the following securities:

- (1) From February 5, 2009 to November 4, 2011, we issued 511,067 shares of common stock upon the exercise of options to purchase shares of our common stock under the 2005 Stock Plan at prices ranging from \$0.10 to \$0.39 per share.

The sales and issuances of restricted securities in the transactions described in the paragraph above were deemed to be exempt from registration under the Securities Act in reliance upon the following exemptions: Rule 701 promulgated under Section 3(b) of the Securities Act, as transactions pursuant to a written compensation benefit plan and contracts relating to compensation as provided under Rule 701.

- (2) From January 19, 2009 to December 16, 2011, we granted to our employees and consultants options to purchase an aggregate of 2,114,950 shares of our common stock under the 2005 Stock Plan at prices ranging from \$0.40 to \$1.76 per share.

The sales and issuances of securities in the transactions described in the above paragraph (2) were deemed to be exempt from registration under the Securities Act in reliance upon Rule 701 promulgated under Section 3(b) of the Securities Act, as transactions pursuant to a written compensation benefit plan and contracts relating to compensation as provided under Rule 701.

- (3) On April 15, 2008, our subsidiary, TCD Royalty Sub LLC, issued and sold \$75.0 million aggregate principal amount of 16% non-convertible, non-recourse, secured promissory notes due April 15, 2024 in a private placement to certain institutional investors for an aggregate purchase price of \$75.0 million. TCD Royalty Sub LLC paid Morgan Stanley & Co. Incorporated, as placement agent, a cash placement fee of approximately \$3.0 million.

- (4) On January 26, 2011, in connection with our secured credit facility, we issued promissory notes and ten-year warrants to purchase shares of our Series A convertible preferred stock at an exercise price of \$1.00 per share to each of our lenders under our secured credit facility. On December 30, 2011, the secured credit facility was amended and we issued additional promissory notes and ten-year warrants to purchase shares of our Series A convertible preferred stock at an exercise price of \$1.50 per share to the lenders. The promissory notes and warrants were issued in the following amounts:

- to Oxford Finance LLC, an aggregate of \$20,000,000 in promissory notes and 300,000 warrants at an exercise price of \$1.00 per share and 106,667 warrants at an exercise price of \$1.50 per share; and

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- to Compass Horizon Funding Company LLC, an aggregate of \$10,000,000 in promissory notes and 75,000 warrants at an exercise price of \$1.00 per share and 93,333 warrants at an exercise price of \$1.50 per share.

Upon completion of this offering, the respective lender warrants will be exercisable for one share of our common stock for each share of Series A convertible preferred stock into which it was convertible at a price per share equal to the lesser of the initial public offering price, or \$1.00 or \$1.50, as applicable.

The issuance of the securities in the transactions described in the above paragraphs (3) and (4) were deemed to be exempt from registration under the Securities Act in reliance upon Section 4(2) of the Securities Act and Rule 506 of Regulation D promulgated thereunder. The securities were issued directly by the registrant and did not involve a public offering or general solicitation. All recipients of the securities were "accredited investors" as that term is defined in Rule 501 of Regulation D.

- (b) There were no underwritten offerings employed in connection with any of the transactions set forth in Item 15.

**ITEM 16. Exhibits and Financial Statement Schedules.**

- (a) Exhibits—The exhibits to the registration statement are listed in the Exhibit Index to this Registration Statement beginning on page E-1 and are incorporated herein by reference.
- (b) Financial Statements Schedules—All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

**ITEM 17. Undertakings.**

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification by the Registrant for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described in Item 14 or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4), or 497(h) under the Securities Act of 1933, shall be deemed to be part of this Registration Statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and this offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Amendment No. 3 to the Registration Statement on Form S-1 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Rockville, State of Maryland, on the 13th day of February, 2012.

**SUPERNUS PHARMACEUTICALS, INC.**

By: /s/ JACK A. KHATTAR

Name: Jack A. Khattar  
Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 3 to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated below:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ JACK A. KHATTAR</u> Jack A. Khattar	President and Chief Executive Officer and Director (Principal Executive Officer)	February 13, 2012
<u>/s/ GREGORY S. PATRICK</u> Gregory S. Patrick	Vice President, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 13, 2012
<u>*</u> M. James Barrett, Ph.D.	Director and Chairman of the Board	February 13, 2012
<u>*</u> Michael F. Bigham	Director	February 13, 2012
<u>*</u> Frederick M. Hudson	Director	February 13, 2012
<u>*</u> Charles W. Newhall, III	Director	February 13, 2012
<u>*</u> William A. Nuerge	Director	February 13, 2012
<u>*</u> Michael B. Sheffery, Ph.D.	Director	February 13, 2012
<u>*</u> John M. Siebert, Ph.D.	Director	February 13, 2012

\*By: /s/ JACK A. KHATTAR  
Jack A. Khattar  
Attorney-in-Fact

**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
1.1*	Form of Underwriting Agreement
3.1**	Amended and Restated Certificate of Incorporation of the Registrant, as amended (as currently in effect)
3.2*	Form of Second Amended and Restated Certificate of Incorporation (to be effective upon the closing of this offering)
3.3**	By-laws of the Registrant (as currently in effect)
3.4*	Form of Amended and Restated By-laws of the Registrant (to be effective upon the closing of this offering)
4.1*	Specimen Stock Certificate evidencing the shares of common stock
4.2**	Secured Promissory Note, dated as of January 26, 2011, between the Registrant and Oxford Finance Corporation
4.3**	Secured Promissory Note, dated as of January 26, 2011, between the Registrant and Compass Horizon Funding Company LLC
4.4	Form of Amended and Restated Warrant to Purchase Stock, issued in connection with the Loan and Security Agreement, dated as of December 30, 2011, by and among the Registrant, Oxford Finance LLC (successor in interest to Oxford Finance Corporation), as collateral agent and lender and Horizon Credit II LLC (successor in interest to Compass Horizon Funding Company LLC), as lender
4.5	Secured Promissory Note—1 (Term B Loan), dated as of December 30, 2011, between the Registrant and Oxford Finance LLC (successor in interest to Oxford Finance Corporation)
4.6	Secured Promissory Note—2 (Term B Loan), dated as of December 30, 2011, between the Registrant and Oxford Finance LLC (successor in interest to Oxford Finance Corporation)
4.7	Secured Promissory Note (Term B Loan), dated as of December 30, 2011, between the Registrant and Compass Horizon Funding Company LLC
4.8	Form of Warrant to Purchase Stock, issued in connection with the First Amendment to the Loan and Security Agreement, dated as of December 30, 2011, by and among the Registrant, Oxford Finance LLC (successor in interest to Oxford Finance Corporation) and Compass Horizon Funding Company LLC
5.1*	Opinion of Ropes & Gray LLP
10.1**	2005 Stock Plan and form agreements thereunder
10.2**	Supplemental Executive Retirement Plan
10.3**	Employment Agreement, dated as of December 22, 2005, by and between the Registrant and Jack Khattar
10.4**	Stock Restriction Agreement, dated December 22, 2005, by and between the Registrant and Jack Khattar
10.5**	Lease, dated as of April 19, 1999, by and between ARE Acquisitions, LLC and Shire Laboratories Inc.
10.6**	First Amendment to Lease, dated as of November 1, 2002, by and between ARE Acquisitions, LLC and Shire Laboratories Inc.

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<b>Exhibit Number</b>	<b>Description</b>
10.7**	Second Amendment to Lease, dated as of December 22, 2005, by and among ARE-East Gude Lease, LLC, Shire Laboratories Inc. and Supernus Pharmaceuticals, Inc.
10.8**	Third Amendment to Lease, dated as of November 24, 2010, by and between ARE-East Gude Lease, LLC and the Registrant (successor-in-interest to Shire Laboratories Inc.)
10.9**	Investor Rights Agreement, dated as of December 22, 2005, by and among the Registrant and the holders of shares of Series A convertible preferred stock identified therein, as amended
10.10**†	Asset Purchase and Contribution Agreement, dated as of December 22, 2005, by and among the Registrant, Shire Laboratories Inc. and Shire plc
10.11**†	Guanfacine License Agreement, dated as of December 22, 2005, by and among the Registrant, Shire LLC and Shire plc, as amended
10.12**†	Exclusive License Agreement, dated as of June 6, 2006, by and between the Registrant and United Therapeutics Corporation
10.13**†	Exclusive Option and License Agreement, dated as of April 27, 2006, by and between the Registrant and Afecta Pharmaceuticals, Inc.
10.14**†	Purchase and Sale Agreement, dated as of June 9, 2006, by and between the Registrant and Rune Healthcare Limited
10.15**†	Exclusive License Agreement, dated as of November 2, 2007, by and between the Registrant and Afecta Pharmaceuticals, Inc.
10.16**	Indenture, dated as of April 15, 2008, by and between TCD Royalty Sub LLC, as issuer of the non-recourse notes, and U.S. Bank National Association, as initial trustee of the non-recourse notes
10.17**	Loan and Security Agreement, dated as of January 26, 2011, by and among the Registrant, Oxford Finance Corporation, as collateral agent and lender, and Compass Horizon Funding Company LLC, as lender
10.18	First Amendment to Loan and Security Agreement, dated as of December 30, 2011, by and among the Registrant, Oxford Finance LLC (successor in interest to Oxford Finance Corporation), as collateral agent and lender, and Compass Horizon Funding Company LLC, as lender
10.19	Unit Purchase Agreement, dated December 14, 2011, by and between the Registrant and Royalty Opportunities S.à.r.l
10.20	Form of Indemnification Agreement
21.1	Subsidiaries of the Registrant
23.1	Consent of Ernst & Young LLP
23.2*	Consent of Ropes & Gray LLP (included in 5.1)
24.1**	Power of Attorney (included on signature pages to original Filing)
24.2**	Power of Attorney of John M. Siebert, Ph.D.

\* To be filed by amendment.

\*\* Previously filed.

† Confidential treatment requested under 17 C.F.R. §§200.80(b)(4) and 230.406. The confidential portions of this exhibit have been omitted and are marked accordingly. The confidential portions have been filed separately with the Securities and Exchange Commission pursuant to the Confidential Treatment Request.



THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AND PURSUANT TO THE PROVISIONS OF ARTICLE 5 BELOW, MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAW OR, IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS EXEMPT FROM REGISTRATION.

**AMENDED AND RESTATED WARRANT TO PURCHASE STOCK**

Company: SUPERNUS PHARMACEUTICALS, INC., a Delaware corporation  
 Number of Shares: , Subject to adjustment (including pursuant to Sections 1.7 and 1.8 hereof)  
 Class of Stock: Series A Convertible Preferred Stock (the "Class")  
 Warrant Price: \$1.00  
 Issue Date:  
 Expiration Date: The 10th anniversary after the Issue Date  
 Credit Facility: This Warrant is issued in connection with the Loan and Security Agreement among Company, Oxford Finance LLC (successor in interest to Oxford Finance Corporation), as Collateral Agent and the Lenders a party thereto from time to time, dated as of January 26, 2011, as the same may be amended, restated, modified or supplemented from time to time, including by that certain First Amendment to Loan and Security Agreement dated as of December 30, 2011 (the "Loan Agreement").

This Warrant amends and restates in its entirety that certain Warrant issued to the Holder dated (the "Existing Warrant"), it being the intention of the parties that all of the terms of the Existing Warrant, are amended and restated in and are replaced by the terms of this Warrant, but this Warrant shall not be deemed or construed to have been issued in payment, satisfaction, cancellation or novation of the Existing Warrant.

THIS WARRANT CERTIFIES THAT, for good and valuable consideration, including without limitation the mutual promises contained in the Loan Agreement (together with any registered holder from time to time of this Warrant or any holder of the shares issuable or issued upon exercise of this Warrant, "Holder") is entitled to purchase the number of fully paid and nonassessable shares of the class of securities (the "Shares") of the Company at the Warrant Price, all as set forth above and as adjusted pursuant to Article 2 of this Warrant, subject to the provisions and upon the terms and conditions set forth in this Warrant.

ARTICLE 1. EXERCISE.

1.1 Method of Exercise. Holder may exercise this Warrant by delivering the original of this Warrant together with a duly executed Notice of Exercise in substantially the form attached as Appendix 1 to the principal office of the Company. Unless Holder is exercising the conversion right set forth in Article 1.2, Holder shall also deliver to the Company a check, wire transfer (to an account designated by the Company), or other form of payment acceptable to the Company for the aggregate Warrant Price for the Shares being purchased.

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1.2 Conversion Right. In lieu of exercising this Warrant as specified in Article 1.1, Holder may from time to time convert this Warrant, in whole or in part, by surrendering this Warrant for that number of shares of the Class equal to the quotient obtained by dividing (x) the product of (i) the number of Shares underlying that portion of the Warrant to be surrendered, multiplied by (ii) the positive difference, if any, between the exercise price of such Warrant and the fair market value (as defined below), by (y) the fair market value. The fair market value of the Shares shall be determined pursuant to Article 1.3.

1.3 Fair Market Value. If the Company's common stock is traded in a public market, the fair market value of each Share shall be the average closing price of the Company's common stock for the ten (10) trading days ending on the trading date immediately prior to the date Holder delivers its Notice of Exercise to the Company. Solely in the instance where the Warrant is exercised immediately prior to the effectiveness of the Company's initial public offering, the fair market value of each Share shall be the "price to public" per share price specified in the final prospectus relating to such offering. If the Company's common stock is not traded in a public market, the Board of Directors of the Company shall determine fair market value in its reasonable good faith judgment based on the Company's 409A independent valuations dated no more than 30 days prior to the proposed date of exercise.

1.4 Delivery of Certificate and New Warrant. Promptly after Holder exercises or converts this Warrant and, if applicable, the Company receives payment of the aggregate Warrant Price, the Company shall deliver to Holder certificates for the Shares acquired and, if this Warrant has not been fully exercised or converted and has not expired, a new warrant of like tenor representing the Shares not so acquired.

1.5 Replacement of Warrants. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of mutilation on surrender and cancellation of this Warrant, the Company shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor.

1.6 Treatment of Warrant Upon Acquisition of Company.

1.6.1 "Acquisition". For the purpose of this Warrant, "Acquisition" means any sale, license, or other disposition of all or substantially all of the assets of the Company, or any reorganization, consolidation, or merger of the Company where the holders of the Company's securities before the transaction beneficially own less than 50% of the outstanding voting securities of the surviving entity after the transaction.

1.6.2 Treatment of Warrant at Acquisition. Treatment of Warrant Upon Acquisition. Upon the consummation of any Acquisition, the Underlying Shares shall have the rights, preferences, powers, privileges, qualifications and restrictions set forth in the Company's Certificate of Incorporation as in effect on the date of such Acquisition attributed to (i) the Company's common stock if the Shares are common stock or (ii) the Company's Series A Convertible Preferred Stock if the Shares are Series A Convertible Preferred Stock.

1.7 Treatment of Warrant Upon a Deemed Liquidation Event.

1.7.1 “Deemed Liquidation Event”. For the purpose of this Warrant, “Deemed Liquidation Event” has the meaning given such term in the Company’s Certificate of Incorporation as in effect on the date of such Deemed Liquidation Event.

1.7.2 Treatment of Warrant at Deemed Liquidation Event. Upon the occurrence of any Deemed Liquidation Event, the Underlying Shares shall have the rights, preferences, powers, privileges, qualifications and restrictions set forth in the Company’s Certificate of Incorporation as in effect on the date of such Deemed Liquidation Event attributed to (i) the Company’s common stock if the Shares are common stock or (ii) the Company’s Series A Convertible Preferred Stock if the Shares are Series A Convertible Preferred Stock

1.8 Adjustment in Class of Stock and Warrant Price. If the Company consummates a public offering of its equity securities after the Issue Date (the “IPO”), the unexercised portion of this Warrant, if any, shall automatically convert into a Warrant exercisable for Common Stock at the lesser of (i) the price per share of Company’s common stock issued in the IPO, or (ii) \$1.00 per share. The Shares for which this Warrant is exercisable, if at all, shall bear the same rights, preferences, and privileges of such Common Stock (and not less than the rights, preferences and privileges provided the holders of the Company’s Series A Preferred stock). Company shall provide Holder no less than twenty (20) days’ written notice prior to any IPO. Any adjustment to the Class of Stock and/or Warrant Price to be made as a result of an automatic conversion pursuant to this Section 1.8 shall be in addition to any adjustment(s) to be made in accordance with Article 2 hereof.

ARTICLE 2. ADJUSTMENTS TO THE SHARES.

2.1 Stock Dividends, Splits, Etc. If the Company declares or pays a dividend on the outstanding shares of the Class or the underlying common stock in the event the Class is converted to common stock (the “Underlying Shares”) payable in additional shares of the Class or other securities, then upon exercise or conversion of this Warrant, for each Share acquired, Holder shall receive, without cost to Holder, the total number and kind of securities to which Holder would have been entitled had Holder owned the Shares of record as of the date the dividend occurred. If the Company subdivides the outstanding shares of the Class or the Underlying Shares by reclassification or otherwise into a greater number of shares or takes any other action which increases the amount of the Underlying Shares, the number of Shares purchasable hereunder shall be proportionately increased and the Warrant Price shall be proportionately decreased. If the outstanding shares of the Class or the Underlying Shares are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Warrant Price shall be proportionately increased and the number of Shares shall be proportionately decreased.

2.2 Reclassification, Exchange, Combinations or Substitution. Upon any reclassification, exchange, substitution, or other event that results in a change of the number and/or class of the securities issuable upon exercise or conversion of this Warrant, Holder shall be entitled to receive, upon exercise or conversion of this Warrant, the number and kind of securities and property that Holder would have received for the Shares if this Warrant had been exercised immediately before such reclassification, exchange, substitution, or other event. Such an event shall include any automatic conversion of the outstanding or issuable securities of the Company of the same class or series as the Shares to common stock pursuant to the terms of the Company’s Certificate of Incorporation upon the closing of a registered public offering of the Company’s common stock. The Company or its successor shall promptly issue to Holder an amendment to this Warrant setting forth the number and kind of such new

securities or other property issuable upon exercise or conversion of this Warrant as a result of such reclassification, exchange, substitution or other event that results in a change of the number and/or class of securities issuable upon exercise or conversion of this Warrant. The amendment to this Warrant shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article 2 including, without limitation, adjustments to the Warrant Price and to the number of securities or property issuable upon exercise of the new Warrant. The provisions of this Article 2.2 shall similarly apply to successive reclassifications, exchanges, substitutions, or other events.

2.3 Adjustments for Diluting Issuances. The Warrant Price and the number of Shares issuable upon exercise of this Warrant or, if the Shares are preferred stock, the number of shares of common stock issuable upon conversion of the Shares, shall be subject to adjustment, from time to time in the manner set forth in the Company's Certificate of Incorporation as if the Shares were issued and outstanding on and as of the date of any such required adjustment. The provisions set forth for the Shares in the Company's Certificate of Incorporation relating to the above in effect as of the Issue Date may not be amended, modified or waived, without the prior written consent of Holder unless such amendment, modification or waiver affects the rights associated with the Shares in the same manner as such amendment, modification or waiver affects the rights associated with all other shares of the same series and class as the Shares granted to the Holder.

2.4 No Impairment. The Company shall not, by amendment of its Certificate of Incorporation or through a reorganization, transfer of assets, consolidation, merger, dissolution, issue, or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed under this Warrant by the Company, but shall at all times in good faith assist in carrying out of all the provisions of this Article 2 and in taking all such action as may be necessary or appropriate to protect Holder's rights under this Article against impairment; provided, however, that notwithstanding the foregoing, nothing in this Article 2.4 shall restrict or impair the Company's right to effect changes to the rights, preferences, and privileges associated with the Shares with the requisite consent of the stockholders as may be required to amend the Certificate of Incorporation from time to time so long as such amendment affects the rights, preferences, and privileges granted to Holder associated with the Shares in the same manner as the other holders of outstanding shares of the Class.

2.5 Fractional Shares. No fractional Shares shall be issuable upon exercise or conversion of this Warrant and the number of Shares to be issued shall be rounded down to the nearest whole Share. If a fractional share interest arises upon any exercise or conversion of the Warrant, the Company shall eliminate such fractional share interest by paying Holder the amount computed by multiplying the fractional interest by the fair market value of a full Share.

2.6 Certificate as to Adjustments. Upon each adjustment of the Warrant Price, Class and/or number of Shares or Underlying Shares, the Company shall promptly notify Holder in writing, and, at the Company's expense, promptly compute such adjustment, and furnish Holder with a certificate of its Chief Financial Officer setting forth such adjustment and the facts upon which such adjustment is based. The Company shall, upon written request, furnish Holder a certificate setting forth the Warrant Price, Class and number of Shares or Underlying Shares in effect upon the date thereof and the series of adjustments leading to such Warrant Price, Class or Underlying Shares and number of Shares.

ARTICLE 3. REPRESENTATIONS AND COVENANTS OF THE COMPANY.

3.1 Representations and Warranties. The Company represents and warrants and covenants to the Holder as follows:

- (a) The initial Warrant Price referenced on the first page of this Warrant is not greater than the price per share at which the Shares were last issued.
- (b) All Shares including, but not limited to, Underlying Shares, which may be issued upon the exercise or conversion of this Warrant shall at all times during the term hereof and prior to exercise or conversion in full hereof be duly reserved out of the Company's authorized and unissued capital stock for issuance upon exercise or conversion hereof and shall, upon issuance, be duly authorized, validly issued, fully paid and non-assessable, and free of any liens and encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws.
- (c) The Company's capitalization table attached hereto as Schedule 1 is true and complete as of the Issue Date.

3.2 Notice of Certain Events. If the Company proposes at any time (a) to declare any dividend or distribution upon the outstanding shares of the Class, whether in cash, property, stock, or other securities and whether or not a regular cash dividend; (b) to offer for subscription or sale any additional shares of any class or series of the Company's stock; (c) to effect any reclassification, reorganization or recapitalization of the shares of the Class; or (d) to effect an Acquisition or to liquidate, dissolve or wind up; then, in each such event the Company shall provide written notice thereof to Holder at the same time and in the same manner as the Company gives notice thereof to the holders of the outstanding shares of the Class. Company will also provide information requested by Holder reasonably necessary to enable the Holder to comply with the Holder's accounting or reporting requirements.

3.3 Registration Under Securities Act of 1933, as amended. The Company agrees that the Shares or, if the Shares are convertible into common stock of the Company, such common stock, shall have certain incidental, or "Piggyback," registration rights pursuant to and as set forth in the Company's Investor Rights Agreement or similar agreement. The provisions set forth in the Company's Investor Right Agreement or similar agreement relating to the above in effect as of the Issue Date may not be amended, modified or waived without the prior written consent of Holder unless such amendment, modification or waiver affects the rights associated with the Shares in the same manner as such amendment, modification, or waiver affects the rights associated with all other shares of the same series and class as the Shares granted to the Holder.

3.4 No Shareholder Rights. Without limitation of any provision of this Warrant, Holder agrees that it will not have any rights as a shareholder of the Company until the exercise or conversion of this Warrant.

ARTICLE 4. REPRESENTATIONS, WARRANTIES OF THE HOLDER. The Holder represents and warrants to the Company as follows:

4.1 Purchase for Own Account. This Warrant and the securities to be acquired upon exercise of this Warrant by Holder will be acquired for investment for Holder's account, not as a nominee or agent, and not with a view to the public resale or distribution in

violation of applicable securities laws. Holder also represents that it has not been formed for the specific purpose of acquiring this Warrant or the Shares.

4.2 Disclosure of Information. Holder has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access.

4.3 Investment Experience. Holder understands that the purchase of this Warrant and its underlying securities involves substantial risk. Holder has experience as an investor in securities of companies in the development stage and acknowledges that Holder can bear the economic risk of such Holder's investment in this Warrant and its underlying securities and has such knowledge and experience in financial or business matters that Holder is capable of evaluating the merits and risks of its investment in this Warrant and its underlying securities and/or has a preexisting personal or business relationship with the Company and certain of its officers, directors or controlling persons of a nature and duration that enables Holder to be aware of the character, business acumen and financial circumstances of such persons.

4.4 Accredited Investor Status. Holder is an "accredited investor" within the meaning of Regulation D promulgated under the Act.

4.5 The Act. Holder understands that this Warrant and the Shares issuable upon exercise or conversion hereof have not been registered under the Act in reliance upon one or more exemptions therefrom, which exemptions depend upon, among other things, the bona fide nature of the Holder's investment intent as expressed herein. Holder understands that this Warrant and the Shares issued upon any exercise or conversion hereof must be held indefinitely unless subsequently registered under the Act and qualified under applicable state securities laws, or unless an exemption from such registration and qualification requirements is otherwise available.

ARTICLE 5. MISCELLANEOUS.

5.1 Term. This Warrant is exercisable in whole or in part at any time and from time to time on or before the Expiration Date.

5.2 Legends. This Warrant and the Shares shall be imprinted with a legend in substantially the following form:

THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AND PURSUANT TO THE PROVISIONS OF ARTICLE 5 OF THE WARRANT TO PURCHASE STOCK, MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAW OR, IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER,

SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS EXEMPT FROM REGISTRATION.

5.3 Compliance with Securities Laws on Transfer. This Warrant and/or the Shares issuable upon exercise or conversion of this Warrant may not be transferred or assigned in whole or in part without compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably requested by the Company). The Company shall not require Holder to provide an opinion of counsel if the transfer is to any "affiliate" (as such term is defined in Regulation D promulgated under the Act) of Holder, provided that any such transferee is an "accredited investor" as defined in Regulation D promulgated under the Act. Additionally, the Company shall also not require an opinion of counsel if there is no material question as to the availability of current information as referenced in Rule 144(c), Holder represents that it has complied with Rule 144(d) and (e) in reasonable detail, the selling broker represents that it has complied with Rule 144(f), and the Company is provided with a copy of Holder's notice of proposed sale.

5.4 Transfer Procedure. After receipt by Holder of the executed Warrant, \_\_\_\_\_ may transfer all or part of this Warrant to one or more of \_\_\_\_\_ affiliates (each, an "\_\_\_\_\_  
Affiliate"), by execution of an Assignment substantially in the form of Appendix 2. Subject to the provisions of Article 5.3 and upon providing Company with written notice, \_\_\_\_\_, any such \_\_\_\_\_ Affiliate and any subsequent Holder may transfer all or part of this Warrant or the Shares issuable upon exercise of this Warrant (or the Shares issuable directly or indirectly, upon conversion of the Shares, if any) to any transferee, provided, however, in connection with any such transfer, the \_\_\_\_\_ Affiliate(s) or any subsequent Holder will give the Company notice of the portion of the Warrant being transferred with the name, address and taxpayer identification number of the transferee and Holder will surrender this Warrant to the Company for reissuance to the transferee(s) (and Holder if applicable). The foregoing provisions of this Article 5.4 shall not apply to a public sale of any Shares issued on exercise or conversion of this Warrant in reliance on the provisions of Rule 144 promulgated under the Act.

5.5 Notices. All notices and other communications from the Company to the Holder, or vice versa, shall be deemed delivered and effective when given personally or mailed by first-class registered or certified mail, postage prepaid (or on the first business day after transmission by facsimile), at such address as may have been furnished to the Company or Holder, as the case may be, in writing by the Company or such holder from time to time. All notices to Holder shall be addressed as follows until the Company receives notice of a change of address in connection with a transfer or otherwise:

Attn:  
Telephone:  
Facsimile:

Notice to the Company shall be addressed as follows until the Holder receives notice of a change in address:

SUPERNUS PHARMACEUTICALS, INC.  
1550 East Gude Drive

Rockville, Maryland 20850  
Attn: Greg Patrick  
Telephone: (301) 838-2522  
Facsimile: (301) 424-1364

5.6 Waiver. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

5.7 Attorneys' Fees. In the event of any dispute between the parties concerning the terms and provisions of this Warrant, the party prevailing in such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable attorneys' fees.

5.8 Automatic Conversion upon Expiration. In the event that, upon the Expiration Date, the fair market value of one Share (or other security issuable upon the exercise hereof) as determined in accordance with Article 1.3 above is greater than the Warrant Price in effect on such date, then this Warrant shall automatically be deemed on and as of such date to be converted pursuant to Article 1.2 above as to all Shares (or such other securities) for which it shall not previously have been exercised or converted, and the Company shall promptly deliver a certificate representing the Shares (or such other securities) issued upon such conversion to Holder.

5.9 Counterparts. This Warrant may be executed in counterparts, all of which together shall constitute one and the same agreement.

5.10 Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to its principles regarding conflicts of law.

5.11 Market Stand-Off Agreement. Holder agrees that, if requested in writing by the underwriters for the initial underwritten public offering of securities of the Company, Holder shall agree not to sell publicly any Underlying Shares or any other shares of common stock (other than Underlying Shares or other shares of common stock being registered in such offering), without the consent of such underwriters, for a period not to exceed 180 days following the effective date of the registration statement relating to such offering; provided, however, that all persons entitled to registration rights with respect to shares of the Company's common stock who are not parties to the Company's Investor Rights Agreement dated December 22, 2005 (the "IRA"), all other persons selling shares of common stock in such offering, all persons holding in excess of 1% of the capital stock of the Company on a fully diluted basis and all executive officers and directors of the Company shall also have agreed not to sell publicly their common stock under the circumstances and pursuant to the terms set forth in Section 15(g) of the IRA; and provided, further, however, that any such lock-up agreement shall provide that if the managing underwriter releases any shares from the lock-up with respect to such offering prior the scheduled expiration date of such lock-up, the managing underwriter shall contemporaneously release a pro rata portion of the Underlying Shares from such lock-up.

5.12 Conflicts with Certificate of Incorporation. Except with respect to Section 2.4 hereof, in the event that any provisions of this Warrant conflict with the Company's Certificate of Incorporation in any manner related to the subject matter hereof, then the

Company's Certificate of Incorporation shall control such provisions and supersede the provisions of this Warrant.

*[Balance of Page Intentionally Left Blank]*



“COMPANY”

Dated as of the Issue Date indicated above

SUPERNUS PHARMACEUTICALS, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
(Print)  
Title: Chairman of the Board, President or Vice President

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
(Print)  
Title: Chief Financial Officer, Secretary, Assistant Treasurer or Assistant Secretary

“HOLDER”

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
(Print)  
Title: \_\_\_\_\_

*Amended and Restated Warrant (Term A)*

**APPENDIX 1**

**NOTICE OF EXERCISE**

1. Holder elects to purchase \_\_\_\_\_ shares of the Common/Series \_\_\_\_\_ Preferred [strike one] Stock of SUPERNUS PHARMACEUTICALS, INC. pursuant to the terms of the attached Warrant, and tenders payment of the purchase price of the shares in full.

[or]

1. Holder elects to convert the attached Warrant into Shares/cash [strike one] in the manner specified in the Warrant. This conversion is exercised for \_\_\_\_\_ of the Shares covered by the Warrant.

[Strike paragraph that does not apply.]

2. Please issue a certificate or certificates representing the shares in the name specified below:

\_\_\_\_\_  
Holders Name

\_\_\_\_\_

\_\_\_\_\_  
(Address)

3. By its execution below and for the benefit of the Company, Holder hereby restates each of the representations and warranties in Article 4 of the Warrant as the date hereof.

HOLDER:

\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

(Date): \_\_\_\_\_

**APPENDIX 2**

**ASSIGNMENT**

For value received, \_\_\_\_\_ hereby sells, assigns and transfers unto

Name:  
Address:  
  
Tax ID:

that certain Amended and Restated Warrant to Purchase Stock issued by SUPERNUS PHARMACEUTICALS, INC. (the "Company"), on \_\_\_\_\_ (the "Warrant") together with all rights, title and interest therein.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Date: \_\_\_\_\_

By its execution below, and for the benefit of the Company, \_\_\_\_\_ makes each of the representations and warranties set forth in Article 4 of the Warrant and agrees to all other provisions of the Warrant as of the date hereof.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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**SECURED PROMISSORY NOTE - 1**  
**(Term B Loan)**

\$4,000,000

Dated: December 30, 2011

FOR VALUE RECEIVED, the undersigned, SUPERNUS PHARMACEUTICALS, INC., a Delaware corporation with offices located at 1550 East Gude Drive, Rockville, Maryland 20850 ("**Borrower**") HEREBY PROMISES TO PAY to the order of OXFORD FINANCE LLC (successor in interest to Oxford Finance Corporation) ("**Lender**") the principal amount of FOUR MILLION DOLLARS (\$4,000,000) or such lesser amount as shall equal the outstanding principal balance of the Term B Loan made to Borrower by Lender, plus interest on the aggregate unpaid principal amount of Term B Loan, at the rates and in accordance with the terms of the Loan and Security Agreement dated January 26, 2011, by and among Borrower, Lender, Oxford Finance LLC (successor in interest to Oxford Finance Corporation), as Collateral Agent and as a Lender, and the Lenders from time to time party thereto (as amended, restated, supplemented or otherwise modified from time to time, including by that certain First Amendment to Loan and Security Agreement dated as of December 30, 2011, the "**Loan Agreement**"). If not sooner paid, the entire principal amount and all accrued and unpaid interest hereunder shall be due and payable on the Maturity Date as set forth in the Loan Agreement. Any capitalized term not otherwise defined herein shall have the meaning attributed to such term in the Loan Agreement.

Borrower agrees to pay any initial partial monthly interest payment from the date the Term B Loan is made to Borrower under this Secured Promissory Note (this "**Note**") to the first Payment Date ("**Interim Interest**") on the first Payment Date.

Principal, interest and all other amounts due with respect to the Term B Loan, are payable in lawful money of the United States of America to Lender as set forth in the Loan Agreement and this Note. The principal amount of this Note and the interest rate applicable thereto, and all payments made with respect thereto, shall be recorded by Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Note.

The Loan Agreement, among other things, (a) provides for the making of a secured Term B Loan by Lender to Borrower, and (b) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events.

This Note may not be prepaid except as set forth in Section 2.2 (c) and Section 2.2(d) of the Loan Agreement.

This Note and the obligation of Borrower to repay the unpaid principal amount of the Term B Loan, interest on the Term B Loan and all other amounts due Lender under the Loan Agreement is secured under the Loan Agreement.

Presentment for payment, demand, notice of protest and all other demands and notices of any kind in connection with the execution, delivery, performance and enforcement of this Note are hereby waived.

Borrower shall pay all reasonable fees and expenses, including, without limitation, reasonable attorneys' fees and costs, incurred by Lender in the enforcement or attempt to enforce any of Borrower's obligations hereunder not performed when due.

This Note shall be governed by, and construed and interpreted in accordance with, the internal laws of the State of New York.

Note Register; Ownership of Note. The ownership of an interest in this Note shall be registered on a record of ownership maintained by Lender or its agent. Notwithstanding anything else in this Note to the contrary, the right to the principal of, and stated interest on, this Note may be transferred only if the transfer is registered on such record of ownership and the transferee is identified as the owner of an interest in the obligation. Borrower shall be entitled to treat the registered holder of this Note (as recorded on such record of ownership) as the owner in fact thereof for all purposes and shall not be bound to recognize any equitable or other claim to or interest in this Note on the part of any other person or entity.

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IN WITNESS WHEREOF, Borrower has caused this Note to be duly executed by one of its officers thereunto duly authorized on the date hereof.

**BORROWER:**

**SUPERNUS PHARMACEUTICALS, INC.**

By /s/ Jack Khattar

Name: Jack Khattar

Title: President & CEO

*Oxford Finance LLC  
Term B Loan Note-1*

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**LOAN INTEREST RATE AND PAYMENTS OF PRINCIPAL**

<b>Date</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Scheduled Payment Amount</b>	<b>Notation By</b>

**SECURED PROMISSORY NOTE - 2**  
**(Term B Loan)**

\$4,000,000

Dated: December 30, 2011

FOR VALUE RECEIVED, the undersigned, SUPERNUS PHARMACEUTICALS, INC., a Delaware corporation with offices located at 1550 East Gude Drive, Rockville, Maryland 20850 ("**Borrower**") HEREBY PROMISES TO PAY to the order of OXFORD FINANCE LLC (successor in interest to Oxford Finance Corporation) ("**Lender**") the principal amount of FOUR MILLION DOLLARS (\$4,000,000) or such lesser amount as shall equal the outstanding principal balance of the Term B Loan made to Borrower by Lender, plus interest on the aggregate unpaid principal amount of Term B Loan, at the rates and in accordance with the terms of the Loan and Security Agreement dated January 26, 2011, by and among Borrower, Lender, Oxford Finance LLC (successor in interest to Oxford Finance Corporation), as Collateral Agent and as a Lender, and the Lenders from time to time party thereto (as amended, restated, supplemented or otherwise modified from time to time, including by that certain First Amendment to Loan and Security Agreement dated as of December 30, 2011, the "**Loan Agreement**"). If not sooner paid, the entire principal amount and all accrued and unpaid interest hereunder shall be due and payable on the Maturity Date as set forth in the Loan Agreement. Any capitalized term not otherwise defined herein shall have the meaning attributed to such term in the Loan Agreement.

Borrower agrees to pay any initial partial monthly interest payment from the date the Term B Loan is made to Borrower under this Secured Promissory Note (this "**Note**") to the first Payment Date ("**Interim Interest**") on the first Payment Date.

Principal, interest and all other amounts due with respect to the Term B Loan, are payable in lawful money of the United States of America to Lender as set forth in the Loan Agreement and this Note. The principal amount of this Note and the interest rate applicable thereto, and all payments made with respect thereto, shall be recorded by Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Note.

The Loan Agreement, among other things, (a) provides for the making of a secured Term B Loan by Lender to Borrower, and (b) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events.

This Note may not be prepaid except as set forth in Section 2.2 (c) and Section 2.2(d) of the Loan Agreement.

This Note and the obligation of Borrower to repay the unpaid principal amount of the Term B Loan, interest on the Term B Loan and all other amounts due Lender under the Loan Agreement is secured under the Loan Agreement.

Presentment for payment, demand, notice of protest and all other demands and notices of any kind in connection with the execution, delivery, performance and enforcement of this Note are hereby waived.

Borrower shall pay all reasonable fees and expenses, including, without limitation, reasonable attorneys' fees and costs, incurred by Lender in the enforcement or attempt to enforce any of Borrower's obligations hereunder not performed when due.

This Note shall be governed by, and construed and interpreted in accordance with, the internal laws of the State of New York.

Note Register; Ownership of Note. The ownership of an interest in this Note shall be registered on a record of ownership maintained by Lender or its agent. Notwithstanding anything else in this Note to the contrary, the right to the principal of, and stated interest on, this Note may be transferred only if the transfer is registered on such record of ownership and the transferee is identified as the owner of an interest in the obligation. Borrower shall be entitled to treat the registered holder of this Note (as recorded on such record of ownership) as the owner in fact thereof for all purposes and shall not be bound to recognize any equitable or other claim to or interest in this Note on the part of any other person or entity.

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IN WITNESS WHEREOF, Borrower has caused this Note to be duly executed by one of its officers thereunto duly authorized on the date hereof.

**BORROWER:**

**SUPERNUS PHARMACEUTICALS, INC.**

By /s/ Jack Khattar  
Name: Jack Khattar  
Title: President & CEO

*Oxford Finance LLC  
Term B Loan Note-2*

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**LOAN INTEREST RATE AND PAYMENTS OF PRINCIPAL**

<b>Date</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Scheduled Payment Amount</b>	<b>Notation By</b>



**SECURED PROMISSORY NOTE**  
**(Term B Loan)**

\$7,000,000

Dated: December 30, 2011

FOR VALUE RECEIVED, the undersigned, SUPERNUS PHARMACEUTICALS, INC., a Delaware corporation with offices located at 1550 East Gude Drive, Rockville, Maryland 20850 ("**Borrower**") HEREBY PROMISES TO PAY to the order of COMPASS HORIZON FUNDING COMPANY LLC ("**Lender**") the principal amount of SEVEN MILLION DOLLARS (\$7,000,000) or such lesser amount as shall equal the outstanding principal balance of the Term B Loan made to Borrower by Lender, plus interest on the aggregate unpaid principal amount of Term B Loan, at the rates and in accordance with the terms of the Loan and Security Agreement dated January 26, 2011, by and among Borrower, Lender, Oxford Finance LLC (successor in interest to Oxford Finance Corporation), as Collateral Agent and as a Lender, and the Lenders from time to time party thereto (as amended, restated, supplemented or otherwise modified from time to time, including by that certain First Amendment to Loan and Security Agreement dated as of December 30, 2011, the "**Loan Agreement**"). If not sooner paid, the entire principal amount and all accrued and unpaid interest hereunder shall be due and payable on the Maturity Date as set forth in the Loan Agreement. Any capitalized term not otherwise defined herein shall have the meaning attributed to such term in the Loan Agreement.

Borrower agrees to pay any initial partial monthly interest payment from the date the Term B Loan is made to Borrower under this Secured Promissory Note (this "**Note**") to the first Payment Date ("**Interim Interest**") on the first Payment Date.

Principal, interest and all other amounts due with respect to the Term B Loan, are payable in lawful money of the United States of America to Lender as set forth in the Loan Agreement and this Note. The principal amount of this Note and the interest rate applicable thereto, and all payments made with respect thereto, shall be recorded by Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Note.

The Loan Agreement, among other things, (a) provides for the making of a secured Term B Loan by Lender to Borrower, and (b) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events.

This Note may not be prepaid except as set forth in Section 2.2 (c) and Section 2.2(d) of the Loan Agreement.

This Note and the obligation of Borrower to repay the unpaid principal amount of the Term B Loan, interest on the Term B Loan and all other amounts due Lender under the Loan Agreement is secured under the Loan Agreement.

Presentment for payment, demand, notice of protest and all other demands and notices of any kind in connection with the execution, delivery, performance and enforcement of this Note are hereby waived.

Borrower shall pay all reasonable fees and expenses, including, without limitation, reasonable attorneys' fees and costs, incurred by Lender in the enforcement or attempt to enforce any of Borrower's obligations hereunder not performed when due.

This Note shall be governed by, and construed and interpreted in accordance with, the internal laws of the State of New York.

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IN WITNESS WHEREOF, Borrower has caused this Note to be duly executed by one of its officers thereunto duly authorized on the date hereof.

**BORROWER:**

**SUPERNUS PHARMACEUTICALS, INC.**

By           /s/ Jack Khattar          

Name: Jack Khattar

Title: President & CEO

*Compass Horizon Funding Company LLC  
Term B Loan Note*

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**LOAN INTEREST RATE AND PAYMENTS OF PRINCIPAL**

<b>Date</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Scheduled Payment Amount</b>	<b>Notation By</b>

THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AND PURSUANT TO THE PROVISIONS OF ARTICLE 5 BELOW, MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAW OR, IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS EXEMPT FROM REGISTRATION.

#### WARRANT TO PURCHASE STOCK

Company: SUPERNUS PHARMACEUTICALS, INC., a Delaware corporation  
 Number of Shares: , Subject to adjustment (including pursuant to Sections 1.7 and 1.8 hereof)  
 Class of Stock: Series A Convertible Preferred Stock (the "Class")  
 Warrant Price: \$1.50  
 Issue Date:  
 Expiration Date: The 10th anniversary after the Issue Date  
 Credit Facility: This Warrant is issued in connection with the Loan and Security Agreement among Company, Oxford Finance LLC (successor in interest to Oxford Finance Corporation), as Collateral Agent and the Lenders a party thereto from time to time, dated as of January 26, 2011, as the same may be amended, restated, modified or supplemented from time to time, including by that certain First Amendment to Loan and Security Agreement dated as of December 30, 2011 (the "Loan Agreement").

THIS WARRANT CERTIFIES THAT, for good and valuable consideration, including without limitation the mutual promises contained in the Loan Agreement (together with any registered holder from time to time of this Warrant or any holder of the shares issuable or issued upon exercise of this Warrant, "Holder") is entitled to purchase the number of fully paid and nonassessable shares of the class of securities (the "Shares") of the Company at the Warrant Price, all as set forth above and as adjusted pursuant to Article 2 of this Warrant, subject to the provisions and upon the terms and conditions set forth in this Warrant.

#### ARTICLE 1. EXERCISE.

1.1 Method of Exercise. Holder may exercise this Warrant by delivering the original of this Warrant together with a duly executed Notice of Exercise in substantially the form attached as Appendix 1 to the principal office of the Company. Unless Holder is exercising the conversion right set forth in Article 1.2, Holder shall also deliver to the Company a check, wire transfer (to an account designated by the Company), or other form of payment acceptable to the Company for the aggregate Warrant Price for the Shares being purchased.

1.2 Conversion Right. In lieu of exercising this Warrant as specified in Article 1.1, Holder may from time to time convert this Warrant, in whole or in part, by surrendering this Warrant for that number of shares of the Class equal to the quotient obtained by dividing (x) the product of (i) the number of Shares underlying that portion of the Warrant to be surrendered, multiplied by (ii) the positive difference, if any, between the exercise price of such Warrant and

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the fair market value (as defined below), by (y) the fair market value. The fair market value of the Shares shall be determined pursuant to Article 1.3.

1.3 Fair Market Value. If the Company's common stock is traded in a public market, the fair market value of each Share shall be the average closing price of the Company's common stock for the ten (10) trading days ending on the trading date immediately prior to the date Holder delivers its Notice of Exercise to the Company. Solely in the instance where the Warrant is exercised immediately prior to the effectiveness of the Company's initial public offering, the fair market value of each Share shall be the "price to public" per share price specified in the final prospectus relating to such offering. If the Company's common stock is not traded in a public market, the Board of Directors of the Company shall determine fair market value in its reasonable good faith judgment based on the Company's 409A independent valuations dated no more than 30 days prior to the proposed date of exercise.

1.4 Delivery of Certificate and New Warrant. Promptly after Holder exercises or converts this Warrant and, if applicable, the Company receives payment of the aggregate Warrant Price, the Company shall deliver to Holder certificates for the Shares acquired and, if this Warrant has not been fully exercised or converted and has not expired, a new warrant of like tenor representing the Shares not so acquired.

1.5 Replacement of Warrants. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of loss, theft or destruction, on delivery of an indemnity agreement reasonably satisfactory in form and amount to the Company or, in the case of mutilation on surrender and cancellation of this Warrant, the Company shall execute and deliver, in lieu of this Warrant, a new warrant of like tenor.

1.6 Treatment of Warrant Upon Acquisition of Company.

1.6.1 "Acquisition". For the purpose of this Warrant, "Acquisition" means any sale, license, or other disposition of all or substantially all of the assets of the Company, or any reorganization, consolidation, or merger of the Company where the holders of the Company's securities before the transaction beneficially own less than 50% of the outstanding voting securities of the surviving entity after the transaction.

1.6.2 Treatment of Warrant at Acquisition. Treatment of Warrant Upon Acquisition. Upon the consummation of any Acquisition, the Underlying Shares shall have the rights, preferences, powers, privileges, qualifications and restrictions set forth in the Company's Certificate of Incorporation as in effect on the date of such Acquisition attributed to (i) the Company's common stock if the Shares are common stock or (ii) the Company's Series A Convertible Preferred Stock if the Shares are Series A Convertible Preferred Stock.

1.7 Treatment of Warrant Upon a Deemed Liquidation Event.

1.7.1 "Deemed Liquidation Event". For the purpose of this Warrant, "Deemed Liquidation Event" has the meaning given such term in the Company's Certificate of Incorporation as in effect on the date of such Deemed Liquidation Event.

1.7.2 Treatment of Warrant at Deemed Liquidation Event. Upon the occurrence of any Deemed Liquidation Event, the Underlying Shares shall have the rights, preferences, powers, privileges, qualifications and restrictions set forth in the Company's

Certificate of Incorporation as in effect on the date of such Deemed Liquidation Event attributed to (i) the Company's common stock if the Shares are common stock or (ii) the Company's Series A Convertible Preferred Stock if the Shares are Series A Convertible Preferred Stock.

1.8 Adjustment in Class of Stock and Warrant Price. If the Company consummates a public offering of its equity securities after the Issue Date (the "IPO"), the unexercised portion of this Warrant, if any, shall automatically convert into a Warrant exercisable for Common Stock at the lesser of (i) the price per share of Company's common stock issued in the IPO, or (ii) \$1.50 per share. The Shares for which this Warrant is exercisable, if at all, shall bear the same rights, preferences, and privileges of such Common Stock (and not less than the rights, preferences and privileges provided the holders of the Company's Series A Preferred stock). Company shall provide Holder no less than twenty (20) days' written notice prior to any IPO. Any adjustment to the Class of Stock and/or Warrant Price to be made as a result of an automatic conversion pursuant to this Section 1.8 shall be in addition to any adjustment(s) to be made in accordance with Article 2 hereof.

ARTICLE 2. ADJUSTMENTS TO THE SHARES.

2.1 Stock Dividends, Splits, Etc. If the Company declares or pays a dividend on the outstanding shares of the Class or the underlying common stock in the event the Class is converted to common stock (the "Underlying Shares") payable in additional shares of the Class or other securities, then upon exercise or conversion of this Warrant, for each Share acquired, Holder shall receive, without cost to Holder, the total number and kind of securities to which Holder would have been entitled had Holder owned the Shares of record as of the date the dividend occurred. If the Company subdivides the outstanding shares of the Class or the Underlying Shares by reclassification or otherwise into a greater number of shares or takes any other action which increases the amount of the Underlying Shares, the number of Shares purchasable hereunder shall be proportionately increased and the Warrant Price shall be proportionately decreased. If the outstanding shares of the Class or the Underlying Shares are combined or consolidated, by reclassification or otherwise, into a lesser number of shares, the Warrant Price shall be proportionately increased and the number of Shares shall be proportionately decreased.

2.2 Reclassification, Exchange, Combinations or Substitution. Upon any reclassification, exchange, substitution, or other event that results in a change of the number and/or class of the securities issuable upon exercise or conversion of this Warrant, Holder shall be entitled to receive, upon exercise or conversion of this Warrant, the number and kind of securities and property that Holder would have received for the Shares if this Warrant had been exercised immediately before such reclassification, exchange, substitution, or other event. Such an event shall include any automatic conversion of the outstanding or issuable securities of the Company of the same class or series as the Shares to common stock pursuant to the terms of the Company's Certificate of Incorporation upon the closing of a registered public offering of the Company's common stock. The Company or its successor shall promptly issue to Holder an amendment to this Warrant setting forth the number and kind of such new securities or other property issuable upon exercise or conversion of this Warrant as a result of such reclassification, exchange, substitution or other event that results in a change of the number and/or class of securities issuable upon exercise or conversion of this Warrant. The amendment to this Warrant shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article 2 including, without limitation, adjustments to the Warrant Price and to the number of securities or property issuable upon

exercise of the new Warrant. The provisions of this Article 2.2 shall similarly apply to successive reclassifications, exchanges, substitutions, or other events.

2.3 Adjustments for Diluting Issuances. The Warrant Price and the number of Shares issuable upon exercise of this Warrant or, if the Shares are preferred stock, the number of shares of common stock issuable upon conversion of the Shares, shall be subject to adjustment, from time to time in the manner set forth in the Company's Certificate of Incorporation as if the Shares were issued and outstanding on and as of the date of any such required adjustment. The provisions set forth for the Shares in the Company's Certificate of Incorporation relating to the above in effect as of the Issue Date may not be amended, modified or waived, without the prior written consent of Holder unless such amendment, modification or waiver affects the rights associated with the Shares in the same manner as such amendment, modification or waiver affects the rights associated with all other shares of the same series and class as the Shares granted to the Holder.

2.4 No Impairment. The Company shall not, by amendment of its Certificate of Incorporation or through a reorganization, transfer of assets, consolidation, merger, dissolution, issue, or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed under this Warrant by the Company, but shall at all times in good faith assist in carrying out of all the provisions of this Article 2 and in taking all such action as may be necessary or appropriate to protect Holder's rights under this Article against impairment; provided, however, that notwithstanding the foregoing, nothing in this Article 2.4 shall restrict or impair the Company's right to effect changes to the rights, preferences, and privileges associated with the Shares with the requisite consent of the stockholders as may be required to amend the Certificate of Incorporation from time to time so long as such amendment affects the rights, preferences, and privileges granted to Holder associated with the Shares in the same manner as the other holders of outstanding shares of the Class.

2.5 Fractional Shares. No fractional Shares shall be issuable upon exercise or conversion of this Warrant and the number of Shares to be issued shall be rounded down to the nearest whole Share. If a fractional share interest arises upon any exercise or conversion of the Warrant, the Company shall eliminate such fractional share interest by paying Holder the amount computed by multiplying the fractional interest by the fair market value of a full Share.

2.6 Certificate as to Adjustments. Upon each adjustment of the Warrant Price, Class and/or number of Shares or Underlying Shares, the Company shall promptly notify Holder in writing, and, at the Company's expense, promptly compute such adjustment, and furnish Holder with a certificate of its Chief Financial Officer setting forth such adjustment and the facts upon which such adjustment is based. The Company shall, upon written request, furnish Holder a certificate setting forth the Warrant Price, Class and number of Shares or Underlying Shares in effect upon the date thereof and the series of adjustments leading to such Warrant Price, Class or Underlying Shares and number of Shares.

### ARTICLE 3. REPRESENTATIONS AND COVENANTS OF THE COMPANY.

3.1 Representations and Warranties. The Company represents and warrants and covenants to the Holder as follows:

(a) The initial Warrant Price referenced on the first page of this Warrant is not greater than the price per share at which the Shares were last issued.

(b) All Shares including, but not limited to, Underlying Shares, which may be issued upon the exercise or conversion of this Warrant shall at all times during the term hereof and prior to exercise or conversion in full hereof be duly reserved out of the Company's authorized and unissued capital stock for issuance upon exercise or conversion hereof and shall, upon issuance, be duly authorized, validly issued, fully paid and non-assessable, and free of any liens and encumbrances except for restrictions on transfer provided for herein or under applicable federal and state securities laws.

(c) The Company's capitalization table attached hereto as Schedule 1 is true and complete as of the Issue Date.

3.2 Notice of Certain Events. If the Company proposes at any time (a) to declare any dividend or distribution upon the outstanding shares of the Class, whether in cash, property, stock, or other securities and whether or not a regular cash dividend; (b) to offer for subscription or sale any additional shares of any class or series of the Company's stock; (c) to effect any reclassification, reorganization or recapitalization of the shares of the Class; or (d) to effect an Acquisition or to liquidate, dissolve or wind up; then, in each such event the Company shall provide written notice thereof to Holder at the same time and in the same manner as the Company gives notice thereof to the holders of the outstanding shares of the Class. Company will also provide information requested by Holder reasonably necessary to enable the Holder to comply with the Holder's accounting or reporting requirements.

3.3 Registration Under Securities Act of 1933, as amended. The Company agrees that the Shares or, if the Shares are convertible into common stock of the Company, such common stock, shall have certain incidental, or "Piggyback," registration rights pursuant to and as set forth in the Company's Investor Rights Agreement or similar agreement. The provisions set forth in the Company's Investor Right Agreement or similar agreement relating to the above in effect as of the Issue Date may not be amended, modified or waived without the prior written consent of Holder unless such amendment, modification or waiver affects the rights associated with the Shares in the same manner as such amendment, modification, or waiver affects the rights associated with all other shares of the same series and class as the Shares granted to the Holder.

3.4 No Shareholder Rights. Without limitation of any provision of this Warrant, Holder agrees that it will not have any rights as a shareholder of the Company until the exercise or conversion of this Warrant.

ARTICLE 4. REPRESENTATIONS, WARRANTIES OF THE HOLDER. The Holder represents and warrants to the Company as follows:

4.1 Purchase for Own Account. This Warrant and the securities to be acquired upon exercise of this Warrant by Holder will be acquired for investment for Holder's account, not as a nominee or agent, and not with a view to the public resale or distribution in violation of applicable securities laws. Holder also represents that it has not been formed for the specific purpose of acquiring this Warrant or the Shares.

4.2 Disclosure of Information. Holder has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the acquisition of this Warrant and its underlying securities. Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of this Warrant and its underlying securities



and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to Holder or to which Holder has access.

4.3 Investment Experience. Holder understands that the purchase of this Warrant and its underlying securities involves substantial risk. Holder has experience as an investor in securities of companies in the development stage and acknowledges that Holder can bear the economic risk of such Holder's investment in this Warrant and its underlying securities and has such knowledge and experience in financial or business matters that Holder is capable of evaluating the merits and risks of its investment in this Warrant and its underlying securities and/or has a preexisting personal or business relationship with the Company and certain of its officers, directors or controlling persons of a nature and duration that enables Holder to be aware of the character, business acumen and financial circumstances of such persons.

4.4 Accredited Investor Status. Holder is an "accredited investor" within the meaning of Regulation D promulgated under the Act.

4.5 The Act. Holder understands that this Warrant and the Shares issuable upon exercise or conversion hereof have not been registered under the Act in reliance upon one or more exemptions therefrom, which exemptions depend upon, among other things, the bona fide nature of the Holder's investment intent as expressed herein. Holder understands that this Warrant and the Shares issued upon any exercise or conversion hereof must be held indefinitely unless subsequently registered under the Act and qualified under applicable state securities laws, or unless an exemption from such registration and qualification requirements is otherwise available.

ARTICLE 5. MISCELLANEOUS.

5.1 Term. This Warrant is exercisable in whole or in part at any time and from time to time on or before the Expiration Date.

5.2 Legends. This Warrant and the Shares shall be imprinted with a legend in substantially the following form:

THIS WARRANT AND THE SHARES ISSUABLE HEREUNDER HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR THE SECURITIES LAWS OF ANY STATE AND, EXCEPT AND PURSUANT TO THE PROVISIONS OF ARTICLE 5 OF THE WARRANT TO PURCHASE STOCK, MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL REGISTERED UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAW OR, IN THE OPINION OF LEGAL COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER OF THESE SECURITIES, SUCH OFFER, SALE OR TRANSFER, PLEDGE OR HYPOTHECATION IS EXEMPT FROM REGISTRATION.

5.3 Compliance with Securities Laws on Transfer. This Warrant and/or the Shares issuable upon exercise or conversion of this Warrant may not be transferred or assigned in whole or in part without compliance with applicable federal and state securities laws by the transferor and the transferee (including, without limitation, the delivery of investment representation letters and legal opinions reasonably satisfactory to the Company, as reasonably

requested by the Company). The Company shall not require Holder to provide an opinion of counsel if the transfer is to any "affiliate" (as such term is defined in Regulation D promulgated under the Act) of Holder, provided that any such transferee is an "accredited investor" as defined in Regulation D promulgated under the Act. Additionally, the Company shall also not require an opinion of counsel if there is no material question as to the availability of current information as referenced in Rule 144(c), Holder represents that it has complied with Rule 144(d) and (e) in reasonable detail, the selling broker represents that it has complied with Rule 144(f), and the Company is provided with a copy of Holder's notice of proposed sale.

5.4 Transfer Procedure. After receipt by Holder of the executed Warrant, \_\_\_\_\_ may transfer all or part of this Warrant to one or more of \_\_\_\_\_ affiliates (each, an "Affiliate"), by execution of an Assignment substantially in the form of Appendix 2. Subject to the provisions of Article 5.3 and upon providing Company with written notice, \_\_\_\_\_, any such \_\_\_\_\_ Affiliate and any subsequent Holder may transfer all or part of this Warrant or the Shares issuable upon exercise of this Warrant (or the Shares issuable directly or indirectly, upon conversion of the Shares, if any) to any transferee, provided, however, in connection with any such transfer, the \_\_\_\_\_ Affiliate(s) or any subsequent Holder will give the Company notice of the portion of the Warrant being transferred with the name, address and taxpayer identification number of the transferee and Holder will surrender this Warrant to the Company for reissuance to the transferee(s) (and Holder if applicable). The foregoing provisions of this Article 5.4 shall not apply to a public sale of any Shares issued on exercise or conversion of this Warrant in reliance on the provisions of Rule 144 promulgated under the Act.

5.5 Notices. All notices and other communications from the Company to the Holder, or vice versa, shall be deemed delivered and effective when given personally or mailed by first-class registered or certified mail, postage prepaid (or on the first business day after transmission by facsimile), at such address as may have been furnished to the Company or Holder, as the case may be, in writing by the Company or such holder from time to time. All notices to Holder shall be addressed as follows until the Company receives notice of a change of address in connection with a transfer or otherwise:

Attn:  
Telephone:  
Facsimile:

Notice to the Company shall be addressed as follows until the Holder receives notice of a change in address:

SUPERNUS PHARMACEUTICALS, INC.  
1550 East Gude Drive  
Rockville, Maryland 20850  
Attn: Greg Patrick  
Facsimile: (301) 424-1364

5.6 Waiver. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

5.7 Attorneys' Fees. In the event of any dispute between the parties concerning the terms and provisions of this Warrant, the party prevailing in such dispute shall be entitled to collect from the other party all costs incurred in such dispute, including reasonable attorneys' fees.

5.8 Automatic Conversion upon Expiration. In the event that, upon the Expiration Date, the fair market value of one Share (or other security issuable upon the exercise hereof) as determined in accordance with Article 1.3 above is greater than the Warrant Price in effect on such date, then this Warrant shall automatically be deemed on and as of such date to be converted pursuant to Article 1.2 above as to all Shares (or such other securities) for which it shall not previously have been exercised or converted, and the Company shall promptly deliver a certificate representing the Shares (or such other securities) issued upon such conversion to Holder.

5.9 Counterparts. This Warrant may be executed in counterparts, all of which together shall constitute one and the same agreement.

5.10 Governing Law. This Warrant shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to its principles regarding conflicts of law.

5.11 Market Stand-Off Agreement. Holder agrees that, if requested in writing by the underwriters for the initial underwritten public offering of securities of the Company, Holder shall agree not to sell publicly any Underlying Shares or any other shares of common stock (other than Underlying Shares or other shares of common stock being registered in such offering), without the consent of such underwriters, for a period not to exceed 180 days following the effective date of the registration statement relating to such offering; provided, however, that all persons entitled to registration rights with respect to shares of the Company's common stock who are not parties to the Company's Investor Rights Agreement dated December 22, 2005 (the "IRA"), all other persons selling shares of common stock in such offering, all persons holding in excess of 1% of the capital stock of the Company on a fully diluted basis and all executive officers and directors of the Company shall also have agreed not to sell publicly their common stock under the circumstances and pursuant to the terms set forth in Section 15(g) of the IRA; and provided, further, however, that any such lock-up agreement shall provide that if the managing underwriter releases any shares from the lock-up with respect to such offering prior the scheduled expiration date of such lock-up, the managing underwriter shall contemporaneously release a pro rata portion of the Underlying Shares from such lock-up.

5.12 Conflicts with Certificate of Incorporation. Except with respect to Section 2.4 hereof, in the event that any provisions of this Warrant conflict with the Company's Certificate of Incorporation in any manner related to the subject matter hereof, then the Company's Certificate of Incorporation shall control such provisions and supersede the provisions of this Warrant.

*[Balance of Page Intentionally Left Blank]*

“COMPANY”

Dated as of the Issue Date indicated above

SUPERNUS PHARMACEUTICALS, INC.

By: \_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_  
(Print)

Name: \_\_\_\_\_  
(Print)

Title: Chairman of the Board, President or Vice President

Title: Chief Financial Officer, Secretary, Assistant Treasurer or Assistant Secretary

“HOLDER”

By: \_\_\_\_\_

Name: \_\_\_\_\_  
(Print)

Title: \_\_\_\_\_

*Warrant (Term B)*

**APPENDIX 1**

**NOTICE OF EXERCISE**

1. Holder elects to purchase \_\_\_\_\_ shares of the Common/Series \_\_\_\_\_ Preferred [strike one] Stock of SUPERNUS PHARMACEUTICALS, INC. pursuant to the terms of the attached Warrant, and tenders payment of the purchase price of the shares in full.

[or]

1. Holder elects to convert the attached Warrant into Shares/cash [strike one] in the manner specified in the Warrant. This conversion is exercised for \_\_\_\_\_ of the Shares covered by the Warrant.

[Strike paragraph that does not apply.]

2. Please issue a certificate or certificates representing the shares in the name specified below:

\_\_\_\_\_  
Holders Name

\_\_\_\_\_

\_\_\_\_\_  
(Address)

3. By its execution below and for the benefit of the Company, Holder hereby restates each of the representations and warranties in Article 4 of the Warrant as the date hereof.

HOLDER:

\_\_\_\_\_

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

(Date): \_\_\_\_\_

**APPENDIX 2**

**ASSIGNMENT**

For value received, \_\_\_\_\_ hereby sells, assigns and transfers unto

Name:  
Address:

Tax ID:

that certain Warrant to Purchase Stock issued by SUPERNUS PHARMACEUTICALS, INC. (the "Company"), on \_\_\_\_\_ (the "Warrant") together with all rights, title and interest therein.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Date: \_\_\_\_\_

By its execution below, and for the benefit of the Company, \_\_\_\_\_ makes each of the representations and warranties set forth in Article 4 of the Warrant and agrees to all other provisions of the Warrant as of the date hereof.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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**FIRST AMENDMENT  
TO  
LOAN AND SECURITY AGREEMENT**

THIS **FIRST AMENDMENT** to Loan and Security Agreement (this "**Amendment**") is entered into as of December 30, 2011, by and between **OXFORD FINANCE LLC** (successor in interest to Oxford Finance Corporation; "**Oxford**"), as collateral agent (in such capacity, the "**Collateral Agent**"), the Lenders listed on Schedule 1.1 of the Loan Agreement (defined below) or otherwise a party thereto from time to time including Oxford in its capacity as a Lender (each a "**Lender**" and collectively, the "**Lenders**"), and **SUPERNUS PHARMACEUTICALS, INC.**, a Delaware corporation with offices located at 1550 East Gude Drive, Rockville, Maryland 20850 ("**Borrower**").

**RECITALS**

- A.** Lenders and Borrower have entered into that certain Loan and Security Agreement dated as of January 26, 2011 as the same may from time to time be amended, modified, supplemented or restated, including by that certain Consent to Sale of Assets and Waiver (the "**Consent**") dated December 14, 2011 (the "**Loan Agreement**").
- B.** Lenders have extended credit to Borrower for the purposes permitted in the Loan Agreement.
- C.** Oxford Finance LLC is successor in interest to Oxford Finance Corporation in its capacity as Collateral Agent and a Lender under the Loan Agreement.
- D.** Horizon Credit II LLC is successor in interest to Compass Horizon Funding Company LLC in its capacity as a Lender in respect of the Term A Loans under the Loan Agreement.
- E.** Borrower has requested that Lenders and Collateral Agent (i) increase the amount of the Term B Loan thereunder; (ii) extend the availability of the Term B Loan thereunder and (iii) make certain revisions to the Loan Agreement as more fully set forth herein.
- F.** Lenders and Collateral Agent have agreed to so amend certain provisions of the Loan Agreement, but only to the extent, in accordance with the terms, subject to the conditions and in reliance upon the representations and warranties set forth below.

**AGREEMENT**

**NOW, THEREFORE**, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which hereby is acknowledged, and intending to be legally bound, the parties hereto agree as follows:

- 1. Definitions.** Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Loan Agreement.
- 2. Amendments to Loan Agreement.**

**2.1** All references in the Loan Documents, as they relate to Term A Loans, to "COMPASS HORIZON FUNDING COMPANY LLC" shall mean and refer to "HORIZON CREDIT II LLC (successor in interest to Compass Horizon Funding Company LLC)."

**2.2** All references in the Loan Documents to "OXFORD FINANCE CORPORATION" shall mean and refer to "OXFORD FINANCE LLC (successor in interest to Oxford Finance Corporation)".

**2.3 Section 2.2 (Term Loans).** Section 2.2(a)(ii) of the Loan Agreement hereby is amended by deleting the phrase “Ten Million Dollars (\$10,000,000)” as it appears therein and replacing it with the phrase “Fifteen Million Dollars (\$15,000,000)”.

**2.4 Section 3.2 (Conditions Precedent to all Credit Extensions).** Section 3.2(c) of the Loan Agreement hereby is amended and restated in its entirety to read as follows:

“(c) Intentionally Omitted.”

**2.5 Section 6.11 (Creation/Acquisition of Subsidiaries).** The last sentence of Section 6.11 of the Loan Agreement hereby is amended and restated in its entirety to read as follows:

“Without limiting the foregoing, upon the occurrence of an Event of Default, Borrower shall assign to Collateral Agent, for the benefit of the Lenders in accordance with their Pro Rata Share, and Lenders, the Shares in and assets of Supernus Europe.”

**2.6 Section 10 (Notices).** Selected addresses in Section 10 of the Loan Agreement are hereby amended and restated in their entirety to read as follows:

If to Borrower:	Supernus Pharmaceuticals, Inc. 1550 East Gude Drive Rockville, Maryland 20850 Attn: Greg Patrick Fax: (301) 424-1364
with a copy to:	Saul Ewing, LLP 1919 Pennsylvania Avenue, NW, Suite 550 Washington, DC 20006 Attn: Mark I Gruhin Fax: (202) 295-6719
If to Collateral Agent:	Oxford Finance LLC 133 North Fairfax Street Alexandria, Virginia 22314 Attention: General Counsel Fax: (703) 519-5225
If to Horizon:	c/o Compass Horizon Funding Company LLC 312 Farmington Avenue Farmington, Connecticut 06032 Attention: Legal Department Fax: (860) 676-8655

**2.7 Section 12.1 (Successors and Assigns).** Section 12.1 of the Loan Agreement hereby is amended and restated in its entirety to read as follows:

“**12.1 Successors and Assigns.** Subject to Section 6.04 of the Shire Agreement, as applicable, this Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not transfer, pledge or assign this Agreement or any rights or obligations under it without Collateral Agent’s and each Lender’s prior written consent (which may be granted or withheld in Collateral Agent’s and each Lender’s discretion, subject to Section 12.6). The Lenders have the right, without the consent of or notice to Borrower, to sell, transfer,

assign, pledge, negotiate, or grant participation in (any such sale, transfer, assignment, negotiation, or grant of a participation, a “Lender Transfer”) all or any part of, or any interest in, the Lenders’ obligations, rights, and benefits under this Agreement and the other Loan Documents; provided, however, that any such Lender Transfer (other than a transfer, pledge, sale or assignment to an Eligible Assignee) of its obligations, rights, and benefits under this Agreement and the other Loan Documents shall require the prior written consent of the Required Lenders (such approved assignee, an “Approved Lender”). Borrower and Collateral Agent shall be entitled to continue to deal solely and directly with such Lender in connection with the interests so assigned until Collateral Agent shall have received and accepted an effective assignment agreement in form satisfactory to Collateral Agent executed, delivered and fully completed by the applicable parties thereto, and shall have received such other information regarding such Eligible Assignee or Approved Lender as Collateral Agent reasonably shall require. Notwithstanding anything to the contrary contained herein, so long as no Event of Default has occurred and is continuing, no Lender Transfer (other than a Lender Transfer (i) in respect of the Warrants or (ii) in connection with (x) assignments by a Lender due to a forced divestiture at the request of any regulatory agency (provided that, in the event of any such forced divestiture, Shire shall have the right, but not the obligation, to satisfy in full all Obligations owing the Lenders); or (y) a Lender’s own financing or securitization transactions and upon the occurrence of a default, Event of Default or similar occurrence with respect to such financing or securitization transaction) shall be permitted to any Person if such person is an Affiliate or Subsidiary of Borrower, a direct competitor of Borrower or a vulture hedge fund, each as determined by Collateral Agent in its reasonable discretion after consultation with Borrower, without Borrower’s consent.”

**2.8 Section 14.1 (Definitions).** The following defined terms in Section 14.1 of the Loan Agreement hereby are added or amended and restated as follows:

“**Amortization Date**” is, (i) with respect to Term A Loan, March 1, 2012, and (ii) with respect to Term B Loan, the eighth (8<sup>th</sup>) Payment Date following the Funding Date of Term B Loan.

“**Eligible Assignee**” means (i) a Lender, (ii) an Affiliate of a Lender, (iii) an Approved Fund and (iv) any commercial bank, savings and loan association or savings bank or any other entity which is an “accredited investor” (as defined in Regulation D under the Securities Act of 1933, as amended) and which extends credit or buys loans as one of its businesses, including insurance companies, mutual funds, lease financing companies and commercial finance companies, in each case, which either (A) has a rating of BBB or higher from Standard & Poor’s Rating Group and a rating of Baa2 or higher from Moody’s Investors Service, Inc. at the date that it becomes a Lender or (B) has total assets in excess of Five Billion Dollars (\$5,000,000,000), and in each case of clauses (i) through (iv), which, through its applicable lending office, is capable of lending to Borrower without the imposition of any withholding or similar taxes; provided that notwithstanding the foregoing, “Eligible Assignee” shall not include, unless an Event of Default has occurred and is continuing, (i) Borrower or any of Borrower’s Affiliates or Subsidiaries; (ii) a direct competitor of Borrower or a vulture hedge fund, each as determined by Collateral Agent in its reasonable discretion after consultation with Borrower or (iii) as long as the Shire Agreement remains in full force and effect, any party prohibited from receiving such assignment pursuant to the terms and conditions of the Section 6.04 of Shire Agreement, as applicable. Notwithstanding the foregoing, (x) in connection with assignments by a Lender due to a forced divestiture at the request of any regulatory agency, the restrictions set forth herein shall not apply and Eligible Assignee shall mean any Person or party and (provided that, in the event of any such forced divestiture, Shire shall have the right, but not the obligation, to satisfy in full all Obligations owing the Lenders). (y) in connection with a Lender’s own financing or securitization transactions, the restrictions set forth herein shall not apply and Eligible Assignee shall mean any Person or party providing such financing or formed to undertake such securitization transaction and any transferee of such Person or party upon the occurrence of a default, event of default or similar occurrence with respect to such financing or securitization transaction; provided that no such sale, transfer, pledge or assignment under this clause (y) shall release such Lender from any of its obligations



hereunder or substitute any such Person or party for such Lender as a party hereto until Collateral Agent shall have received and accepted an effective assignment agreement from such Person or party in form satisfactory to Collateral Agent executed, delivered and fully completed by the applicable parties thereto, and shall have received such other information regarding such Eligible Assignee as Collateral Agent reasonably shall require.

**“First Amendment Date”** means December 30, 2011.

**“Key Person”** means each of Borrower’s (i) President and Chief Executive Officer, who is Jack Khattar as of the Effective Date and the First Amendment Date, (ii) Vice President and Chief Financial Officer, who is Greg Patrick as of the First Amendment Date, (iii) Vice President, Business Development, who is Woody Bryan as of the Effective Date and the First Amendment Date, and (iv) Vice President, Pharmaceutical Sciences, who is Padmanabh Bhatt as of the Effective Date and the First Amendment Date.

**“Pro Rata Share”** means, with respect to any individual Term Loan, as of any date of determination, with respect to each Lender, a percentage (expressed as a decimal, rounded to the ninth decimal place) determined by dividing the outstanding principal amount of such Term Loan held by such Lender divided by the aggregate outstanding principal amount of such Term Loan.

**“Qualified Financing”** means an initial public offering of Borrower’s equity securities which yields net proceeds of at least Fifty Million Dollars (\$50,000,000).

**“Required Lenders”** means (i) for so long as all of the Persons that are Lenders on the Effective Date (each an **“Original Lender”**) have not assigned or transferred any of their interests in their respective Term Loan, Lenders holding one hundred percent (100%) of the aggregate outstanding principal balance of the Term Loan, or (ii) at any time from and after any Original Lender has assigned or transferred any interest in its Term Loan, Lenders holding, sixty-six percent (66%) or more of the aggregate outstanding principal balance of the Term Loan, *plus*, in respect of this clause (ii), (A) each Original Lender that has not assigned or transferred any portion of its respective Term Loan, (B) each assignee of an Original Lender provided such assignee was assigned or transferred and continues to hold one hundred percent (100%) of the assigning Original Lender’s interest in the Term Loan and (C) any Person or party providing financing to an Original Lender or formed to undertake a securitization transaction with respect to an Original Lender and any transferee of such Person or party upon the occurrence of a default, event of default or similar occurrence with respect to such financing or securitization transaction (in each case in respect of clauses (A), (B) and (C) of this clause (ii), whether or not such Lender is included within the Lenders holding sixty-six percent (66%) of the Terms Loans). For purposes of this definition only, a Lender shall be deemed to include itself, and any Lender that is an Affiliate or Approved Fund of such Lender.

**“Second Draw Period”** means the period commencing on the First Amendment Date and ending on the earlier of (i) December 31, 2011 and (ii) the occurrence of an Event of Default.

**“Shares”** means one hundred percent (100%) of the issued and outstanding capital stock, membership units or other securities owned or held of record by Borrower in any Subsidiary; provided that, in the event Borrower demonstrates to Collateral Agent’s reasonable satisfaction, that a pledge of more than sixty five percent (65%) of the Shares of a Subsidiary of Borrower which is not an entity organized under the laws of the United States or any territory thereof, creates a present and existing adverse tax consequence to Borrower under the U.S. Internal Revenue Code, “Shares” shall mean sixty-five percent (65%) of the issued and outstanding capital stock, membership units or other securities owned or held of record by Borrower in such Subsidiary.

**“Warrants”** are those certain Warrants to Purchase Stock and/or Amended and Restated Warrants to Purchase Stock dated as of the Effective Date, or any date thereafter, issued by

Borrower in favor of each Lender.

**2.9 Section 14.1 (Definitions).** The following defined terms in Section 14.1 of the Loan Agreement hereby are deleted:

“Parent Pledge”

**2.10 Section 14.1 (Definitions).** Subsection (g) of the definition of “Permitted Indebtedness” in Section 14.1 of the Loan Agreement hereby is amended and restated as follows:

“(g) Intentionally Omitted.”

**2.11** Notwithstanding anything contained in Section 7.5 of the Loan Agreement to the contrary, Collateral Agent and Lenders hereby irrevocably consent to Borrower’s performance of its obligations pursuant to Section 5.8 of the Unit Purchase Agreement (as such term is defined in the Consent) and, if and to the extent the New Servicing Agreement (as such term is defined in the Consent) is executed pursuant to the terms of Section 7.2 of the Unit Purchase Agreement, Borrower’s performance of its obligations pursuant to the negative covenants of Borrower pursuant to the New Servicing Agreement (as set forth in Sections 5(a), 5(b) and 5(d) of Exhibit A to the Unit Purchase Agreement).

**2.12** Schedule 1.1 attached to the Loan Agreement hereby is deleted and replaced with Schedule 1.1 attached hereto.

### **3. Limitation of Amendments.**

**3.1** The amendments set forth in **Section 2**, above, are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right or remedy which Collateral Agent or any Lender may now have or may have in the future under or in connection with any Loan Document.

**3.2** This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Documents, except as herein amended, hereby are ratified and confirmed and shall remain in full force and effect.

**4. Representations and Warranties.** To induce Collateral Agent and Lenders to enter into this Amendment, Borrower hereby represents and warrants to Collateral Agent and Lenders as follows:

**4.1** Immediately after giving effect to this Amendment (a) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date), and (b), no Event of Default has occurred and is continuing;

**4.2** Borrower has the power and authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;

**4.3** The organizational documents of Borrower delivered to Collateral Agent on or about the date hereof remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;

**4.4** The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized;

**4.5** The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not and will not

contravene (a) any law or regulation binding on or affecting Borrower, (b) any contractual restriction with a Person binding on Borrower, (c) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Borrower, or (d) the organizational documents of Borrower;

**4.6** The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not require any order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on Borrower, except as already has been obtained or made; and

**4.7** This Amendment has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.

**5. Counterparts.** This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

**6. Effectiveness.** This Amendment shall be deemed effective, and the conditions of Section 3.3 of the Loan Agreement shall be deemed to be satisfied with respect to this Amendment, upon (i) the due execution and delivery to Collateral Agent of (a) this Amendment by each party hereto; (b) a Loan Payment/Advance Request Form, substantially in the form of Exhibit A attached hereto; and (c) a Compliance Certificate substantially in the form of Exhibit B attached hereto; (ii) the due execution and delivery to each Lender of (a) Warrants dated as of the First Amendment Date and (b) Note(s) dated as of the First Amendment Date substantially in the form of Exhibit C attached hereto, in form and substance satisfactory to such Lender; (iii) the due execution and delivery to Collateral Agent of a Secretary's Certificate in respect of this Amendment, in form and substance reasonably satisfactory to Collateral Agent and (iv) Borrower's payment of all Lenders' Expenses incurred through the date of this Amendment.

*[Balance of Page Intentionally Left Blank]*

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

**BORROWER:**

**SUPERNUS PHARMACEUTICALS, INC.**

By: /s/ Jack Khattar  
Name: Jack Khattar  
Title: President & CEO

**LENDERS AND COLLATERAL AGENT:**

**OXFORD FINANCE LLC (successor in interest to Oxford Finance Corporation), as Collateral Agent and as a Lender**

By: /s/ John G. Henderson  
Name: John G. Henderson  
Title: Vice President & General Counsel

**HORIZON CREDIT II LLC (as successor in interest to Compass Horizon Funding Company LLC), as a Lender**

By: /s/ Robert D. Pomeroy, Jr.  
Name: Robert D. Pomeroy, Jr.  
Title: Chief Executive Officer

**COMPASS HORIZON FUNDING COMPANY LLC, as a Lender**

By: Horizon Technology Finance Corporation, its sole member

By: /s/ Robert D. Pomeroy, Jr.  
Name: Robert D. Pomeroy, Jr.  
Title: Chief Executive Officer

*[Signature Page to First Amendment to Loan and Security Agreement]*

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**UNIT PURCHASE AGREEMENT**

**dated as of December 14, 2011**

**by and between**

**SUPERNUS PHARMACEUTICALS, INC.,**

**and**

**ROYALTY OPPORTUNITIES S.ar.I**

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EXECUTION VERSION

**UNIT PURCHASE AGREEMENT**

This Unit Purchase Agreement, dated as of December 14, 2011, is by and between SUPERNUS PHARMACEUTICALS, INC., a Delaware corporation ("Seller") and ROYALTY OPPORTUNITIES S.à.r.l, a Luxembourg société à responsabilité limitée ("Purchaser").

**BACKGROUND**

A. Seller, as the Class A Member of TCD ROYALTY SUB LLC, a Delaware limited liability company ("Royalty Sub"), is the holder of 100 units of limited liability company membership interest in Royalty Sub, which constitute all of the issued and outstanding economic ownership interests of Royalty Sub (the "Units").

B. Seller and OrbiMed Advisors LLC, a Delaware limited liability company and the investment manager of Purchaser, are parties to a Confidential Disclosure Agreement dated August 22, 2011 (the "NDA").

C. Seller desires to sell and transfer to Purchaser, and Purchaser desires to purchase from Seller, all of the Units on the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual agreements set forth herein and of other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto covenant and agree as follows:

**ARTICLE I**

**RULES OF CONSTRUCTION AND DEFINED TERMS**

Section 1.1 **Rules of Construction and Defined Terms.**

(a) Defined Terms. The following terms, as used herein and in the New Servicing Agreement, shall have the following respective meanings:

"Affiliate" means, with respect to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person or is a director, officer or manager of such Person. For purposes of this definition, "control" of a Person means the possession, directly or indirectly, of the power (a) to vote 10% or more of the Voting Securities (on a fully diluted basis) of such Person or (b) to direct or cause the direction of the management and policies of such Person, whether through the ownership, directly or indirectly, of Voting Securities, by contract or otherwise, and the terms "controlled" and "controlling" have meanings correlative to the foregoing.

"Aggregate Purchaser Investment" means, as of any date of determination, an amount computed as the sum of (x) the Purchase Price, plus (y) the aggregate purchase price actually paid by Purchaser or any of its Affiliates to acquire, from an owner and holder thereof, a beneficial interest in one or more of the Notes then Outstanding, in one or more transactions prior to such date, if any, plus (z) the aggregate Redemption Price actually paid by Purchaser or

any of its Affiliates to redeem any and all of the Notes then Outstanding pursuant to the provisions of Sections 3.10 and 3.11 of the Indenture, if any.

“Applicable Law” means, with respect to any Person, any law (statutory, common or otherwise), constitution, treaty, convention, ordinance, equitable principle, code, rule, regulation, order or other similar authority enacted, adopted, promulgated or applied by any Governmental Authority, each as amended and now in effect, applicable to such Person or any of its properties or assets.

“Business Day” means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by Applicable Law to remain closed.

“Capital Securities” means, with respect to any Person, any and all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of such Person’s capital, whether now outstanding or issued after the Closing Date, including common shares, ordinary shares, preferred shares, membership interests or share capital in a limited liability company or other Person, limited or general partnership interests in a partnership, beneficial interests in trusts or any other equivalent of such equity ownership or participation interest in such Person, and any options, warrants, convertible securities, exchangeable securities, subscription rights, conversion rights, exchange rights or other rights to acquire such shares or interests, including rights to allocations and distributions, dividends, redemption payments and liquidation payments.

“Change of Control” means, with respect to the Seller (or any parent entity of the Seller), any transaction of merger, consolidation or amalgamation with, or, in the case of clause (b) below, a sale of all or substantially all of the assets of the Seller (or such parent entity) to, any other Person (a) if the Seller (or such parent entity) is the continuing or surviving entity or (b) if the Seller (or such parent entity) is not the continuing or surviving entity but the continuing or surviving entity shall have assumed all of the obligations of the Seller under the Transaction Documents, License Agreements, Residual License Agreements, Purchase and Sale Agreement, Servicing Agreement (if not then earlier terminated pursuant to Section 7.2) and New Servicing Agreement (if any) to which the Seller is a party immediately prior to such transaction.

“Closing” shall have the meaning set forth in Section 2.4.

“Closing Date” shall have the meaning set forth in Section 2.4.

“Code” means the Internal Revenue Code of 1986 and the regulations thereunder, as amended.

“CollaGenex” means CollaGenex Pharmaceuticals, Inc., a Delaware corporation.

“CollaGenex Field” means prescription products containing as the active ingredient doxycycline and indicated for the treatment of periodontitis, acne, rosacea and/or dry eye.

“CollaGenex License Agreement” means that certain Development and Licensing Agreement dated as of June 10, 2002 between the Seller and CollaGenex, as amended by an

Amendment dated May 4, 2004 between the Seller and CollaGenex, a Second Amendment dated as of February 28, 2007 by and between the Seller and CollaGenex and a Third Amendment dated as of February 28, 2008 by and between the Seller and CollaGenex, and as supplemented by that certain letter agreement dated December 18, 2006 executed by CollaGenex and accepted and acknowledged by the Seller and that certain Consent Agreement dated February 28, 2008 executed by CollaGenex and the Seller, each as further amended or supplemented.

“CollaGenex Licensed Patents” means Licensed Patents (as defined in the CollaGenex License Agreement), including U.S. Patent 7,749,532, and any other continuation applications in the Data Room.

“CollaGenex Licensed Products” means Licensed Product (as defined in the CollaGenex License Agreement).

“CollaGenex Residual License Agreement” means that certain CollaGenex Residual License Agreement dated as of April 15, 2008 between the Seller and Royalty Sub, as amended or supplemented.

“Collection Account” has the meaning set forth in the Indenture.

“Contemplated Transactions” means all of the transactions contemplated by this Agreement, including (a) the sale of the Units by Seller to Purchaser and Purchaser’s delivery of the Purchase Price therefor, (b) the execution, delivery and performance of all of the documents, instruments and agreements to be executed, delivered and performed in connection herewith, and (c) the performance by the parties hereto of their respective covenants and obligations under this Agreement.

“Counterparties” means, collectively, Galderma and Endo and their respective Affiliates.

“Counterparty” means each of Galderma and Endo and its Affiliates.

“Data Room” means Seller’s electronic data room established in connection with the Contemplated Transactions to which Purchaser and its representatives have been granted access since October 27, 2011 and prior to the Effective Time.

“Dollar” or the sign “\$” means lawful money of the United States.

“Effective Time” shall have the meaning set forth in Section 2.4.

“Endo” means Endo Pharmaceuticals, Inc., a Delaware corporation.

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Field” means the Indevus Field or the CollaGenex Field, as the case may be.

“GAAP” means generally accepted accounting principles in effect in the U.S. from time to time.

“Galderma” means Galderma Laboratories, Inc., a Delaware corporation.

“Generic Formulation” means any product that is “AB rated” to the Licensed Products as defined by United States Food and Drug Administration regulations.

“Governmental Authority” means the government of the United States, any other nation or any political subdivision thereof, whether state or local, and any agency, authority (including supranational authority), instrumentality, regulatory body, court, central bank or other Person exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person or (b) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” when used as a verb has a corresponding meaning.

“Indebtedness” means, with respect to any Person at any date of determination (without duplication), (a) all indebtedness of such Person for borrowed money or other similar monetary obligations, (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) all obligations of such Person as an account party in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto), (d) all the obligations of such Person to pay the deferred and unpaid purchase price of property or services, which purchase price is due more than 90 days after the date of purchasing such property or service or taking delivery and title thereto or the completion of such services, and payment deferrals arranged primarily as a method of raising funds to acquire such property or service, (e) all monetary obligations of such Person and its Subsidiaries under any leasing or similar arrangement that have been (or, in accordance with GAAP, should be) classified as capitalized leases, (f) all Guarantees of such Person in respect of any of the foregoing, (g) all monetary obligations of such Person with respect to any interest rate hedge, cap, floor, swap, option or other interest rate hedge agreement, (h) all Indebtedness (as defined in clauses (a) through (g) of this definition) of other Persons secured by a lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person, and (i) all Indebtedness (as defined in clauses (a) through (g) of this definition) of other Persons Guaranteed by such Person.

“Indenture” means that certain indenture, dated as of April 15, 2008, between Royalty Sub and the Trustee, as amended or supplemented.

“Independent Member” means BSCS2008-2, Inc. or its successor as holder of the Class B membership interest in Royalty Sub.

“Indevus” means Indevus Pharmaceuticals, Inc., a Delaware corporation.

“Indevus Field” means all pharmaceutical uses of trospium chloride, the chemical compound whose specific chemical name is 3-alpha-benziloyloxynortropane-8-sprio-1'-pyrrolidinium chloride, or any other trospium salt, alone or in combination with other active ingredients.

“Indevus License Agreement” means that certain Development and License Agreement dated as of March 11, 2003 between the Seller and Indevus, as supplemented by that certain Consent and Agreement dated March 7, 2008 executed by Indevus and the Seller, as amended or further supplemented.

“Indevus Licensed Patents” means Licensed Patents (as defined in the Indevus License Agreement).

“Indevus Licensed Products” means Licensed Product(s) (as defined in the Indevus License Agreement).

“Indevus Residual License Agreement” means that certain Indevus Residual License Agreement dated as of April 15, 2008 between the Seller and Royalty Sub, as amended or supplemented.

“Knowledge” means the actual knowledge on the Closing Date of (a) Jack A. Khattar, President, Chief Executive Officer and Director of the Seller and Manager of the Royalty Sub, (b) Peter Buzy, Senior Vice President and Chief Financial Officer of the Seller, and (c) Padmanabh P. Bhatt, Ph.D., Vice President—Pharmaceutical Sciences of the Seller.

“License Agreements” means each of the Indevus License Agreement and the CollaGenex License Agreement.

“Licensed IP” means the SLI Intellectual Property and the SLI Technology.

“Licensed Patents” means the CollaGenex Licensed Patents and the Indevus Licensed Patents.

“Licensed Products” means the Indevus Licensed Products and the CollaGenex Licensed Products and, for the avoidance of doubt, includes the Products.

“Lien” means any security interest, mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or otherwise), charge against or interest in property or other priority or preferential arrangement of any kind or nature whatsoever, in each case to secure payment of a debt or performance of an obligation, including any conditional sale, any sale with recourse against the Royalty Sub or any agreement to give any security interest.

“Loan and Security Agreement” means the Loan and Security Agreement, dated as of January 26, 2011, by and among Seller, as Borrower, Oxford Finance LLC, as Collateral Agent and Lender, and the other Lenders thereto, together with all exhibits and schedules thereto, as amended or supplemented.

“Loss” means any loss, cost, charge, expense, interest, fee, payment, demand, liability, claim, action, proceeding, penalty, fine, damages, judgment, order or other sanction, other than Taxes.

“Manager” means Jack A. Khattar, in his capacity as manager of Royalty Sub, and any successor thereto, having been appointed in accordance with this Agreement.

“Material Adverse Effect” means any result, occurrence, fact, change, event or effect that has, or would reasonably be expected to have, a material adverse effect, in any respect, on (a) the legality, validity or enforceability of any of the Transaction Documents or the License Agreements, (b) the right or ability of Seller (or any permitted assignee) to perform any of its obligations under any of the Transaction Documents, the Note Documents or the License Agreements or to consummate the transactions contemplated hereunder or thereunder, or (c) the value of the Royalty Sub’s Assets, the value of the License Agreements or the value of the Residual License Agreements; in each case, except to the extent such result, occurrence, fact, change, event or effect results from: (1) changes in general, local, domestic, foreign or international economic conditions, to the extent that such result, occurrence, fact, change, event or effect does not adversely affect Seller, its Affiliates or the Counterparties in a disproportionate manner; (2) changes affecting generally the industries or markets in which Seller, its Affiliates or the Counterparties operate, to the extent that such result, occurrence, fact, change, event or effect does not adversely affect Seller, its Affiliates or the Counterparties in a disproportionate manner; (3) acts of war, sabotage or terrorism, military actions or the escalation thereof; or (4) changes in GAAP.

“Milestone Payment” shall have the meaning set forth in Section 2.2(b).

“New Servicing Agreement” has the meaning set forth in Section 7.2.

“Noteholder” has the meaning set forth in the Purchase and Sale Agreement.

“Note Documents” means the Purchase and Sale Agreement and the other Transaction Documents (as defined in the Purchase and Sale Agreement), in each case, as amended or supplemented.

“Notes” has the meaning set forth in the Purchase and Sale Agreement.

“Notices” means notices, demands, certificates, requests, directions, instructions and communications.

“Outstanding” means (a) with respect to the Notes of any class at any time, all Notes of such class theretofore authenticated and delivered by the Trustee except (i) any such Notes cancelled by, or delivered for cancellation to, the Trustee, (ii) any such Notes, or portions thereof, for the payment of principal of and accrued and unpaid interest on which moneys have been distributed to Noteholders by the Trustee and any such Notes, or portions thereof, for the payment or redemption of which moneys in the necessary amount have been deposited in the Redemption Account for such Notes; provided, that, if such Notes are to be redeemed prior to the maturity thereof in accordance with the requirements of Section 3.10 of the Indenture, written notice of such Redemption shall have been given and not rescinded as provided in Section 3.11

of the Indenture, or provision satisfactory to the Trustee shall have been made for giving such written notice, and, if Redemption does not occur, then this clause (ii) ceases to apply as of the Payment Date that was supposed to be the date of Redemption, and (iii) any such Notes in exchange or substitution for which other Notes, as the case may be, have been authenticated and delivered, or which have been paid pursuant to the terms of the Indenture (unless proof satisfactory to the Trustee is presented that any of such Notes is held by a Person in whose hands such Note is a legal, valid and binding obligation of the Royalty Sub), and (b) when used with respect to any other evidence of indebtedness, at any time, any principal amount thereof then unpaid and outstanding (whether or not due or payable). Capitalized terms used but not defined in this paragraph shall have the respective meanings given them in the Indenture.

“Permitted Lien” means (a) any lien for Taxes, assessments and governmental charges or levies not yet due and payable or which are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP have been set aside on the books of the relevant Person, (b) any Lien created in favor of the Trustee pursuant to the Note Documents, and (c) any other Lien expressly permitted under the Note Documents.

“Person” means any natural person, firm, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, Governmental Authority or any other legal entity, including public bodies, whether acting in an individual, fiduciary or other capacity.

“Pledge and Security Agreement” means that certain pledge and security agreement, dated as of April 15, 2008, made by the Seller to the Trustee, as amended or supplemented.

“Pledge to Trustee” the pledge and first priority security interest in all of the Seller’s right, title and interest in, to and under the Units and certain other assets and properties of Seller granted to the Trustee pursuant to the Pledge and Security Agreement.

“Proceeds” means, as of any date of determination, an amount computed as the sum of (x) the gross amount of any proceeds actually received by Purchaser or any of its Affiliates as of such date from any transaction that liquidates, refinances or otherwise monetizes the equity interests in Royalty Sub or the Notes, less any (i) transfer Taxes actually incurred as a result of consummating any such transaction, and (ii) amounts actually incurred as a commission or broker’s fee as a result of the closing of any such transaction, plus (x) any Royalty Payments actually received by Purchaser or any of its Affiliates as of such date, plus (y) any interest or principal payments actually received by Purchaser or any of its Affiliates in respect of any Notes owned and held by Purchaser or any of its Affiliates, if any, as of such date.

“Products” means Sanctura® XR, a once daily oral formulation of tiroprium chloride indicated for the treatment of an overactive bladder, and Oracea®, a once-daily oral formulation of doxycycline indicated for the treatment of inflammatory lesions (papules and pustules) or rosacea in adult patients.

“Purchase and Sale Agreement” means that certain purchase and sale agreement dated as of April 15, 2008 between Seller (as “Parent”) and Royalty Sub (as “Issuer”) pursuant to which



Seller sold to Royalty Sub, and Royalty Sub purchased from Seller, the Royalty Sub's Assets, as amended or supplemented.

"Replacement Royalty Payments" means, in the event that either License Agreement terminates and Seller, using commercially reasonable efforts, is able to commercialize the relevant Licensed Products either by itself or in an arrangement with one or more third Persons in further licensing of the related Licensed IP (or any portion thereof), as such rights may revert back to the Seller under and subject to the terms and conditions of the relevant License Agreement, in the Indevus Field or the CollaGenex Field, as the case may be, in the Territory, any royalties net of customary deductions, that may arise from such use of the Licensed IP (or any portion thereof) to develop, have developed, make, have made, use, have used, market, have marketed, commercialize, have commercialized, offer for sale, sell, have sold, import and have imported the relevant Licensed Products in the Indevus Field or the CollaGenex Field, as the case may be, payable by Seller or any other Person to Royalty Sub pursuant to the Residual License Agreements. Notwithstanding the foregoing, if a License Agreement terminates and Seller commercializes the relevant Licensed Product by itself, either directly or through any contract sales force, then Replacement Royalty Payments shall only be an amount equivalent to the royalty that would have been payable to the relevant Counterparty, net of all deductions and adjustments, if such License Agreement (as of the date of such termination) were still in effect and such commercialization was effected by such Counterparty.

"Residual License" has the meaning set forth in Section 2.2 of each Residual License Agreement.

"Residual License Agreements" means the Indevus Residual License Agreement and the CollaGenex Residual License Agreement.

"Royalty Payments" means (i) all royalties, milestone payments or licensing fees paid, owed, accrued or otherwise required to be paid by Counterparties to the Seller or the Royalty Sub, as the case may be, pursuant to, and subject to the terms and conditions of, the License Agreements, (ii) any amounts payable to or retained by the Seller under the License Agreements in respect of third party infringement (after taking into account and first deducting costs and expenses of the Seller and Counterparties in prosecuting such infringement), (iii) any amounts required to be reimbursed or refunded to Royalty Sub following the offset described in Section 9.3.6 of the Indevus License Agreement for any application against royalties by Indevus of the fees and expenses described in Section 9.3.6 of the Indevus License Agreement, and (iv) any additional royalty payments paid to the Seller or the Royalty Sub, as the case may be, in connection with any amendment, restatement, supplement, modification, waiver or replacement of the License Agreements.

"Royalty Sub" means TCD Royalty Sub LLC, a Delaware limited liability company.

"Royalty Sub Operating Agreement" means the limited liability company agreement of the Royalty Sub, dated as of April 15, 2008, as amended or supplemented.

“Royalty Sub Organizational Documents” means the certificate of formation of the Royalty Sub dated as of February 19, 2008, as amended, and the Royalty Sub Operating Agreement.

“Royalty Sub’s Assets” means the “Purchased Assets”, as defined in the Purchase and Sale Agreement.

“Securities Act” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“Seller” means Supernus Pharmaceuticals, Inc., a Delaware corporation (as successor-in-interest to Shire Laboratories Inc., a Delaware corporation).

“Seller Organizational Documents” means the amended and restated certificate of incorporation of the Seller dated February 3, 2006 and the by-laws of the Seller dated as of March 30, 2005, in each case, as amended or supplemented.

“Servicer” means the Seller, acting in its capacity as servicer pursuant to the Servicing Agreement (or any other Person appointed by the Royalty Sub to succeed the Seller as such or any successor thereto).

“Seller Shortfall” means the amount, if any, payable by the Seller to the applicable Counterparty pursuant to the License Agreements that is due and payable but that has not been paid by the Seller.

“Seller Shortfall Payment” means any payment made by Royalty Sub, its Affiliates (other than any Affiliate of Seller) or, so long as the Notes remain Outstanding, the Trustee, in respect of any Seller Shortfall.

“Services” means the services to be performed by the Servicer pursuant to the Servicing Agreement.

“Servicing Agreement” means the servicing agreement dated as of April 15, 2008 between Royalty Sub and the Seller, as amended or supplemented.

“Shire APA” means the Asset Purchase and Contribution Agreement, dated as of December 22, 2005, among Seller, Shire Laboratories Inc. and Shire PLC, together with all exhibits and schedules thereto, as amended or supplemented.

“SLI Intellectual Property” has the meaning set forth in the Indevus License Agreement.

“SLI Technology” has the meaning set forth in the CollaGenex License Agreement.

“Subject Counterparty” means CollaGenex, with respect to the CollaGenex Residual License Agreement, and Indevus, with respect to the Indevus Residual License Agreement.

“Subject Field” means the CollaGenex Field, with respect to the CollaGenex Residual License Agreement, and the Indevus Field, with respect to the Indevus Residual License Agreement.

“Subject Licensed Patents” means the CollaGenex Licensed Patents, with respect to the CollaGenex Residual License Agreement, and the Indevus Licensed Patents, with respect to the Indevus Residual License Agreement.

“Subsidiary” means, with respect to any Person, any other Person of which more than 50% of the outstanding Voting Securities of such other Person (irrespective of whether at the time Capital Securities of any other class or classes of such other Person shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more other Subsidiaries of such Person or by one or more other Subsidiaries of such Person.

“Taxes” means (i) any and all taxes, fees, levies, duties, tariffs, imposts and other charges of any kind (together with any and all interest, penalties, loss, damage, liability, expense, additions to tax and additional amounts or costs incurred or imposed with respect thereto) now or hereafter imposed, levied, collected, withheld or otherwise assessed by the U.S. or by any state, local, foreign or other Governmental Authority (or any subdivision or agency thereof) or other taxing authority, including taxes or other charges on or with respect to income, franchise, windfall or other profits, gross receipts, property, sales, use, capital stock, payroll, employment, social security, workers’ compensation, unemployment compensation or net worth and similar charges and taxes or other charges in the nature of excise, deduction, withholding, ad valorem, stamp, transfer, value added, taxes on goods and services, escheat, gains taxes, license, registration and documentation fees, customs duties, tariffs and similar charges, (ii) liability for such a tax that is imposed by reason of U.S. Treasury Regulation Section 1.1502-6 or similar provision of law and (iii) liability for the payment of any amounts as a result of any express or implied obligation to indemnify any other Person with respect to the payment of any amounts described in clause (i) or clause (ii).

“Territory” means worldwide.

“Transaction Documents” means the Unit Purchase Agreement, together with all exhibits and schedules thereto, the Consent to Sale and Waiver and the Joinder Agreement.

“Trustee” means U.S. Bank National Association, a national banking association, as initial trustee of the Notes under the Indenture, and any successor appointed in accordance with the terms of the Indenture.

“Upfront Payment” shall have the meaning set forth in Section 2.2(a).

“U.S.” or “United States” means the United States of America, its 50 states, each territory thereof and the District of Columbia.

“U.S. Treasury” means the U.S. Department of the Treasury.

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“Voting Securities” means, with respect to any Person, Capital Securities of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

(b) Rules of Construction. Unless the context otherwise requires, in this Agreement:

- (i) A term has the meaning assigned to it and an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP.
- (ii) Words of the masculine, feminine or neuter gender shall mean and include the correlative words of other genders, and words in the singular shall include the plural, and vice versa.
- (iii) The terms “include”, “including” and similar terms shall be construed as if followed by the phrase “without limitation”.
- (iv) References to an agreement or other document include references to such agreement or document as amended, restated, reformed, supplemented or otherwise modified in accordance with the terms thereof and include any Annexes, Exhibits and Schedules attached thereto, and the provisions thereof apply to successive events and transactions.
- (v) References to any statute or other legislative provision shall include any statutory or legislative modification or re-enactment thereof, or any substitution therefor.
- (vi) References to any Person shall be construed to include such Person’s successors and permitted assigns.
- (vii) The word “will” shall be construed to have the same meaning and effect as the word “shall”.
- (viii) The words “hereof”, “herein”, “hereunder” and similar terms when used in this Agreement or any Transaction Document (or other document) shall refer to this Agreement or such Transaction Document (or other document) as a whole and not to any particular provision hereof or thereof, and Article, Section, Annex, Schedule and Exhibit references herein and therein are references to Articles and Sections of, and Annexes, Schedules and Exhibits to, the relevant Transaction Document (or other document) unless otherwise specified.
- (ix) In the computation of a period of time from a specified date to a later specified date, the word “from” means “from and including” and each of the words “to” and “until” means “to but excluding”.
- (x) References to the Notes include the terms and conditions in the relevant Note Document (or other document) applicable to the Notes, and any reference to any amount of money due or payable by reference to the Notes shall include any sum



covenanted to be paid by the Royalty Sub under the relevant Note Document (or other document) in respect of the Notes.

(xi) References to any action, remedy or method of judicial proceeding for the enforcement of the rights of creditors or of security shall be deemed to include, in respect of any jurisdiction other than the State of Delaware, references to such action, remedy or method of judicial proceeding for the enforcement of the rights of creditors or of security available or appropriate in such jurisdiction as shall most nearly approximate such action, remedy or method of judicial proceeding described or referred to in the relevant Transaction Document (or other document).

(xii) Where any payment is to be made, any funds are to be applied or any calculation is to be made under any Transaction Document (or other document) on a day that is not a Business Day, unless any Transaction Document (or other document) otherwise provides, such payment shall be made, such funds shall be applied and such calculation shall be made on the next succeeding Business Day, and payments shall be adjusted accordingly, including interest unless otherwise specified.

ARTICLE II  
SALE AND PURCHASE OF UNITS

Section 2.1 Agreement to Sell and Purchase Units. On the terms and subject to the conditions set forth herein, for the consideration specified in Section 2.2, at the Effective Time, Seller shall sell, transfer, convey and assign to Purchaser, and Purchaser shall purchase from Seller, all of the Units. **Purchaser expressly acknowledges that it is purchasing and acquiring the Units subject to the Pledge to Trustee.**

Section 2.2 Purchase Price. The purchase price for the Units (the "Purchase Price") shall be Thirty Million Dollars (\$30,000,000), and shall be paid to the Seller by wire transfer in accordance with instructions delivered to Purchaser by Seller prior to or at the Closing, as follows:

(a) Twenty Seven Million Dollars (\$27,000,000) on the Closing Date (the "Upfront Payment"); and

(b) Three Million Dollars (\$3,000,000) (the "Milestone Payment") within ten (10) Business Days after the satisfaction of either:

(i) as of any date of determination, (x) Purchaser having actually received as of such date aggregate Royalty Payments equal to at least Thirty Five Million One Hundred Thousand Dollars (\$35,100,000), (y) Purchaser not having entered into any transaction that liquidates, refinances or otherwise monetizes the equity interests in Royalty Sub or the Notes as of such date, and (z) no Generic Formulation having entered the market in the Territory as of such date; or

(ii) as of any date of determination, Purchaser having actually received as of such date aggregate Proceeds in excess of the Aggregate Purchaser Investment from any

transaction that liquidates, refinances or otherwise monetizes the equity interests in Royalty Sub or the Notes.

Section 2.3 Retained Obligations of Seller. **Seller expressly acknowledges and agrees that it remains bound by and will comply with all obligations under the Purchase and Sale Agreement, the Residual License Agreements, the Servicing Agreement and the other Note Documents and License Agreements to which it is a party following the Effective Time and so long as any of the Notes are Outstanding, subject in each case to the covenants set forth in Section 5.1.**

Section 2.4 Closing; Effective Time. The closing of the transactions contemplated by this Agreement (the “Closing”) shall take place on the date of this Agreement (the “Closing Date”), at the offices of Saul Ewing LLP, 1919 Pennsylvania Avenue, N.W., Suite 550, Washington, D.C. 20006-3434. The effective time of the Closing on the Closing Date is referred to in this Agreement as the “Effective Time”.

ARTICLE III  
REPRESENTATIONS AND WARRANTIES OF SELLER

To induce Purchaser to enter into and perform its obligations under this Agreement, Seller hereby represents and warrants to the Purchaser except as set forth in the disclosure schedule (with specific reference to the section or subsection of this Agreement to which the information stated in such disclosure schedule relates) delivered by Seller to Purchaser simultaneously with the execution and delivery of this Agreement (the “Disclosure Schedule”), the following as of the Closing Date (or such earlier date expressly specified herein):

Section 3.1 Organization of Seller. Seller is a corporation duly organized, is validly existing and is in good standing under the laws of the State of Delaware; it has all licenses, permits, franchises and governmental authorizations necessary to carry on its business as now being conducted except where the failure to have the same does not have or would not be reasonably expected to result in a Material Adverse Effect; it is duly licensed or qualified to do business in good standing in each jurisdiction in which such qualification is required by Applicable Law, except where such failure to qualify does not have or would not be reasonably expected to result in a Material Adverse Effect; it has the full power, right and authority to own the property it purports to own and to carry on its business as presently conducted, and to execute, deliver and perform all of its covenants, agreements and obligations under this Agreement, each other instrument to be delivered by it pursuant to this Agreement and each other Transaction Document to which it is a party, and the consummation of the transactions contemplated hereby and thereby have been duly and validly authorized by it; each of the Transaction Documents to which it is a party (including this Agreement) has been duly executed and delivered by it and constitutes its valid and binding agreement, enforceable against it in accordance with its respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors’ rights generally and by general principles of equity; and all requisite action has been taken by it to make this Agreement and each of the other Transaction Documents to which it is a party valid and binding upon it.

Section 3.2 Organization of Royalty Sub; Management; Tax Status. Royalty Sub is a limited liability company duly organized, is validly existing and is in good standing under the laws of the State of Delaware; it has all licenses, permits, franchises and governmental authorizations necessary to carry on its business as now being conducted; it is duly licensed or qualified to do business in good standing in each jurisdiction in which such qualification is required by Applicable Law, except where such failure to qualify does not have or would not be reasonably expected to result in a Material Adverse Effect; it has the full power, right and authority to own the property it purports to own, and to carry on its business as presently conducted and as proposed to be conducted. The Manager of Royalty Sub is Jack A. Khattar, and no successor thereto has been appointed in the capacity as manager of Royalty Sub. The consummation of the Contemplated Transactions has no effect in any way on Royalty Sub's right to remove or replace the Manager pursuant to Section 6.4 of the Royalty Sub Operating Agreement. Royalty Sub is and has always been classified as an entity disregarded from its owners for U.S. federal income tax purposes.

Section 3.3 Capitalization of Royalty Sub; Ownership of Units; Indebtedness.

(a) The Units constitute all of the issued and outstanding economic membership interest in Royalty Sub, and have been duly authorized and validly issued. The Units are held of record, and beneficially owned, exclusively by the Seller, free and clear of any Liens other than the Pledge to Trustee.

(b) Other than the Pledge and Security Agreement, Seller is neither a party to any contract, agreement or undertaking that could require Seller to sell, transfer or otherwise dispose of any Units other than this Agreement, nor is it a party to any contract, agreement or undertaking that could require Seller to pledge any Units. Seller is not a party to any other contract, agreement or undertaking with respect to any economic membership interest in Royalty Sub.

(c) Royalty Sub has not incurred, created, issued, assumed, guaranteed or otherwise become liable for or with respect to, or become responsible for, the payment or performance of, contingently or otherwise, Indebtedness other than Indebtedness in respect of the Notes, and no steps are being taken by Seller or Royalty Sub to cause Royalty Sub to incur, create, issue, assume, guarantee or otherwise become liable for or with respect to, or become responsible for, the payment or performance of, contingently or otherwise, Indebtedness other than Indebtedness in respect of the Notes.

(d) As of the Closing Date, the outstanding principal amount of the Notes in the aggregate is \$74,453,490.22, and the trustee of the Notes is U.S. Bank National Association.

(e) Neither Royalty Sub nor, to Seller's Knowledge, the Manager, has received any written Notice of resignation, or the intention to resign, as trustee of all or any classes of Notes from the Trustee, and Seller has no Knowledge that any such Notice is pending. Royalty Sub has not consented, or received any instrument or written request to consent, to the removal of the Trustee as to all or any of the classes of Notes. Neither Royalty Sub nor, to Seller's Knowledge, the Manager, has received any written Notice from any Noteholder indicating any intention to remove the Trustee as to all or any of the classes of Notes. To Seller's Knowledge, neither Royalty Sub nor the Manager has taken any steps in accordance with Section 7.1 of the Indenture

to remove the Trustee as to all or any classes of Notes.

(f) With respect to each class of Notes, no terms, conditions, rights or preferences (or limitations on any such rights or preferences) relating to such Notes have been amended, modified, altered or supplemented, in accordance with Article IX of the Indenture or otherwise, since the date on which such Notes were issued, and Seller has no Knowledge that any such amendment, modification, alteration or supplementation is pending. To Seller's Knowledge, neither the Trustee nor any Noteholder has indicated any intention to amend, modify, alter or supplement any of the terms, conditions, rights or preferences (or limitations on any such rights or preferences) relating to any class of Notes. To Seller's Knowledge, no amendment, modification, alteration or supplementation of any of the other Note Documents is pending, and neither the Trustee nor any Noteholder has indicated any intention to amend, modify, alter or supplement any of the other Note Documents.

(g) The consummation of the Contemplated Transactions has no effect in any way on Royalty Sub's right to redeem the Notes prior to maturity thereof in accordance with the requirements of Section 3.10 of the Indenture and the procedures of Section 3.11 of the Indenture.

Section 3.4 Limitations on Independent Member's Interest. The Independent Member has no interest in the profits, losses or capital of Royalty Sub, has no right whatsoever to receive distributions or to share in the profits or losses of Royalty Sub, and except as expressly provided in the Royalty Sub Organizational Documents, has no right to vote on, consent to or approve any action of Royalty Sub or the Manager.

Section 3.5 Royalty Sub Has No Subsidiaries. Royalty Sub has no Subsidiaries, and does not own, of record or beneficially, any Capital Securities of any other Person.

Section 3.6 Right to Sell the Units. The Seller has full right, power and authority to sell, transfer, convey and assign the Units to the Purchaser, subject to the Pledge to Trustee. Upon the sale, transfer, conveyance and assignment by Seller of the Units to Purchaser, Purchaser will acquire and shall have record and beneficial ownership of the Units free and clear of all Liens other than the Pledge to Trustee.

Section 3.7 Governmental Authorization. The execution and delivery by Seller of the Transaction Documents, the validity and enforceability of the Transaction Documents, the performance by Seller of its obligations hereunder and thereunder and the consummation of any of the Contemplated Transactions do not require any consent, approval, license, order, authorization, registration, declaration or filing with, by or of any Governmental Authority, any Notice to any Governmental Authority or any other action by any Governmental Authority.

Section 3.8 Third Party Consents. Except as disclosed in the deliverables referenced in Section 6.1(a) and Section 6.2(b) of this Agreement, the execution and delivery by Seller of the Transaction Documents, the validity and enforceability of the Transaction Documents, the performance by Seller of its obligations hereunder and thereunder and the



consummation of any of the Contemplated Transactions, including the right of Purchaser to own the Units or any action to be taken by Royalty Sub in furtherance of its ownership of the Royalty Sub's Assets, do not require any consent, approval, license, order, authorization, registration, declaration or filing with, by or of any Person (other than a Governmental Authority), any Notice to any Person (other than a Governmental Authority) or, except as expressly described in Sections 7.1, 7.2 and 7.3 solely with respect to the transactions contemplated thereunder, any other action by any Person (other than a Governmental Authority).

Section 3.9 No Conflicts. Except as disclosed in the deliverables referenced in Section 6.1(a) and Section 6.2(b) of this Agreement, none of the execution and delivery of any of the Transaction Documents by Seller or Royalty Sub, the performance or consummation of this Agreement or the other Transaction Documents or the transactions contemplated hereby and thereby by Seller or Royalty Sub does or will: (i) conflict with, result in a breach or violation of, constitute a default under, accelerate the performance under (with due notice or lapse of time or both), result in a required prepayment under or result in or require the creation of any Lien upon any of Seller's or Royalty Sub's properties or assets (including the Royalty Sub's Assets) under any term or provision of (A) any Applicable Law, judgment or decree to which Seller, Royalty Sub or any of their respective properties or assets (including the Royalty Sub's Assets) is subject or bound, (B) the Seller Organizational Documents, (C) the Royalty Sub Organizational Documents, (D) either of the License Agreements, (E) any of the Note Documents, (F) the Shire APA, (G) the Loan and Security Agreement, or (H) any other agreement, contract or instrument, including any indenture, credit agreement, lease or license, or any deed or other instrument of conveyance, to which Seller, Royalty Sub or any of their respective properties or assets (including the Royalty Sub's Assets) is subject or bound; or (ii) relieve any Counterparty of any of its obligations under the License Agreements or enable any Counterparty to terminate or suspend any License Agreement or any of its obligations thereunder.

Section 3.10 Ownership of Royalty Sub's Assets. Royalty Sub is the exclusive owner of the entire right, title (legal and equitable) and interest in, to and under the Royalty Sub's Assets, subject to the Liens pursuant to the Indenture. Except as required under the Indenture, neither Seller nor Royalty Sub has pledged, sold, transferred, conveyed, assigned, contributed, delivered or granted, directly or indirectly, the Royalty Sub's Assets to any other Person, or agreed to do.

Section 3.11 Broker's Fees. Neither Seller nor Royalty Sub has taken any action that would entitle any Person other than Morgan Stanley & Co. Incorporated (whose fees shall be paid by Seller) to any commission or broker's fee in connection with the transactions contemplated by the Transaction Documents.

Section 3.12 No Impairment. Other than the creation of the Liens on the Royalty Sub's Assets pursuant to the Indenture, neither Seller nor Royalty Sub has taken any action to impair Royalty Sub's rights in the Royalty Sub's Assets.

Section 3.13 Taxes. Each of Seller and Royalty Sub has filed (or caused to be filed) all tax returns and reports required by Applicable Law to have been filed by it and has paid all Taxes required to be paid by it, except any such Taxes that are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with

GAAP have been set aside on its books, and it has never filed any tax return or report under any name other than its exact legal name. Neither Seller nor Royalty Sub has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency. Royalty Sub is not a party to any Tax allocation or sharing agreement.

Section 3.14 Compliance with Applicable Laws. Each of Seller and its Subsidiaries (including Royalty Sub) is in compliance with the requirements of all Applicable Laws, a breach of any of which, individually or in the aggregate, would be reasonably expected to have a Material Adverse Effect.

Section 3.15 Licenses. Each of Seller and its Subsidiaries (including Royalty Sub) has obtained all licenses, permits, franchises and other governmental authorizations necessary for the ownership of its respective properties or to the conduct of its respective business that, if not obtained, would be reasonably expected to have a Material Adverse Effect.

Section 3.16 Orders. With respect to each of Seller and its Subsidiaries (including Royalty Sub), there is no order, judgment, decree, injunction, stipulation or consent order of or with any Governmental Authority to which it is subject, and neither the Seller nor any of its Subsidiaries is in violation of any of the foregoing, that, in each case under this Section 3.16, individually or in the aggregate, is reasonably expected to have a Material Adverse Effect.

Section 3.17 Litigation. There is no action, claim, demand, suit, citation, summon, subpoena, arbitration, proceeding or regulatory or governmental inquiry or investigation of any nature, civil, criminal, regulatory or otherwise, at law or in equity, pending or, to its Knowledge, threatened, by any Governmental Authority or any other Person against Seller or any of its Subsidiaries (including Royalty Sub), in each case, (i) relating to or affecting the Licensed IP or the Royalty Sub's Assets or (ii) that would prevent or seek to prevent the consummation of any of the transactions contemplated by this Agreement or any other Transaction Document, including the right of Purchaser to own the Units or any action to be taken by Royalty Sub in furtherance of its ownership of the Royalty Sub's Assets.

Section 3.18 No Breach of Agreement. With respect to each of Seller and its Subsidiaries (including Royalty Sub), neither it nor any of its Subsidiaries is in breach or default under or in violation of either License Agreement, any of the Note Documents, the Loan and Security Agreement, the Shire APA or any other agreement, including any indenture, credit agreement, lease or license, or any deed or other instrument of conveyance to which it or its property is subject, or subject to or in violation of any statute, order or regulation of any Governmental Authority having jurisdiction over it, that, in each case under this Section 3.18 (other than in respect of breaches, defaults or violations of either License Agreement), has or would be reasonably expected to have a Material Adverse Effect.

Section 3.19 License Agreements. (i) Each of the License Agreements is in full force and effect, (ii) the License Agreements are valid and legally binding and enforceable against the Seller and, to the Knowledge of the Seller, all other parties thereto, in accordance with its terms, (iii) there are no waivers or, to the Seller's Knowledge, any pending request therefor, by any Counterparty in respect of the License Agreements, (iv) the Seller is not in breach or default under or violation of any provision of either License Agreement (including

with respect to the execution, delivery and performance of this Agreement and the other Transaction Documents) and, to Seller's Knowledge, no other party to either License Agreement is in breach or default thereunder or in violation thereof, (v) the Seller has not granted any consent or waiver under, or agreed to any modification to, the License Agreements and has not released the applicable Counterparty, in whole or in part, from any of its obligations under the License Agreements that would be reasonably likely to have a Material Adverse Effect, (vi) neither Seller nor any of its Affiliates has received any Notice from any Counterparty challenging the validity, enforceability or interpretation of either License Agreement or any obligation to pay Royalty Payments or any other payments thereunder, (vii) Seller has not notified any Counterparty of any claims for indemnification under either License Agreement, and neither Seller nor any of its Affiliates has received any Notice from any Counterparty of any claims for indemnification under either License Agreement, and (viii) neither the Seller nor Royalty Sub has filed or caused to be filed a United States Return of Partnership Income Form (Form 1065) with respect to any relationship pursuant to either License Agreement or any other written or oral arrangement related to such License Agreement or received a Schedule K-1 with respect thereto.

Section 3.20 No Termination of License Agreement. (i) No Counterparty has given any written Notice of termination of or the intention to terminate either License Agreement to the Seller or any of its Affiliates, (ii) the Seller has no Knowledge of any intention of any Counterparty to terminate either License Agreement, (iii) neither Seller nor any of Seller's Affiliates has given any Notice of termination of or the intention to terminate either License Agreement, and (iv) to the Seller's Knowledge, no event has occurred that would give rise to a right of any Counterparty or the Seller to terminate either License Agreement, whether as of the Closing Date or because of events or occurrences existing on or before the Closing Date, including with respect to the execution, delivery and performance by the Seller of this Agreement and the other Transaction Documents.

Section 3.21 Licensed IP. The Seller is the exclusive owner of all right, title and interest in, to and under, or has licensed or obtained rights to, the Licensed IP free and clear of all Liens and other than pursuant to the License Agreements, no third Person has any license, claim or other right or interest in or to the Licensed IP; and the Licensed IP constitutes all of the intellectual property owned or licensed by the Seller or any of its Affiliates necessary for the sale of the Licensed Products in the Indevus Field or the CollaGenex Field, as the case may be. Sanctura® XR is a Licensed Product under the Indevus License Agreement and Oracea® is a Licensed Product under the CollaGenex License Agreement. SLI Know-How (as defined in the Indevus License Agreement) is being used by Indevus in connection with the manufacture and sale of Sanctura® XR; SLI Know-How (as defined in the CollaGenex License Agreement) is being used by CollaGenex in connection with the manufacture and sale of Oracea®. The date of first commercial sale of Sanctura XR® is January 2, 2008. There are no unpaid maintenance or renewal fees payable by Seller or any of its Affiliates, or by any Counterparty, that are currently overdue in respect of any of the Licensed Patents, and none of the Licensed Patents have lapsed, expired, been abandoned or been cancelled. To the Knowledge of the Seller, each of Seller's rights in the Licensed IP is valid and enforceable.

Section 3.22 No Infringement of Third Person's IP. To the Knowledge of the Seller, the manufacture, use, sale, offer for sale or importation of the Licensed Products do not in

any way infringe, directly or indirectly, literally or under the doctrine of equivalents, upon any third Person's patents or patent applications or constitute a misappropriation or other violation of a third Person's trade secrets or other intellectual property rights; no claims have been made or, to the Knowledge of Seller, threatened, and neither the Seller nor any of its Affiliates has received any Notice in writing, and Seller otherwise has no Knowledge of any facts, which have, or reasonably should have, led the Seller to suspect that the manufacture, use, sale, offer for sale or importation of such Licensed Products does infringe (directly or indirectly, literally or under the doctrine of equivalents), misappropriate or otherwise violate any patent, patent application, trade secret or other intellectual property right of any third Person.

Section 3.23 No Infringement By Third Person. To the Seller's Knowledge, there is no third Person currently infringing, misappropriating or otherwise violating, in any respect, any of the Licensed IP or any claims pending in the U.S. patent applications existing as of the date hereof. Neither Seller nor any of its Affiliates has received any notification under the provisions of the Federal Food, Drug and Cosmetics Act, as amended, indicating that a third Person has filed an abbreviated new drug application or application under Section 505(b)(2) of such Act. Seller has not received any paragraph IV certifications by a third Person related to their application, whether formally or informally, to the FDA seeking approval of a Generic Formulation.

Section 3.24 No Assignment of Counterparty Rights Under License Agreements; Sublicenses. The Seller has not consented to any assignment by either Counterparty of such Counterparty's rights or obligations under the License Agreements and, to the Knowledge of the Seller, except for any sublicenses, no such Counterparty has assigned any of its rights or obligations under the License Agreements to any Person. To the Knowledge of the Seller, (i) other than sublicenses with Allergan, Inc., Rottapharm (Madaus) and MediGene AG, there are no sublicenses entered into by either Counterparty in respect of such Counterparty's licenses under its respective License Agreement; (ii) Galderma has reacquired all of MediGene AG's rights under the CollaGenex License Agreement and the CollaGenex Residual License Agreement; (iii) Galderma acquired all rights to the CollaGenex License Agreement and the CollaGenex Residual License Agreement pursuant to its acquisition of CollaGenex; and (iv) Endo acquired all rights to the Indevus License Agreement and the Indevus Residual License Agreement pursuant to its acquisition of Indevus.

Section 3.25 Data Room; Other Agreements. Correct and complete copies of each of the License Agreements, the Note Documents, the Royalty Sub Organizational Documents, the Seller Organizational Documents, the Loan and Security Agreement and the Shire APA have been provided by the Seller in the Data Room not less than two (2) Business Days prior to the Closing Date and have not been removed at or prior to the Effective Time, each of which has not been amended, supplemented or modified in any way, except as set forth in such copies thereof. Except for the License Agreements, the Note Documents, the Loan and Security Agreement and the Shire APA: (i) neither the Seller nor any of its Affiliates (including the Royalty Sub) is party to any agreement with any Person in respect of the Licensed Products or the Licensed IP in the Indevus Field or the CollaGenex Field, as the case may be, and (ii) neither the Seller nor any of its Affiliates (including the Royalty Sub) has any royalty or other payment obligations in respect of the Licensed Products or the Licensed IP in the Indevus Field or the CollaGenex Field, as the case may be.

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Section 3.26 No Material Liabilities. Other than the Pledge to Trustee and Royalty Sub's obligations under the Notes, there are no material liabilities of Seller or its Affiliates (including Royalty Sub) relating to or affecting the Units or Royalty Sub's Assets of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise.

Section 3.27 Full Disclosure. No representation or warranty made by Seller in this Agreement contains an untrue statement of a material fact or omits to state a material fact necessary to make such statement, in light of the circumstances in which it was made or omitted, not misleading.

#### ARTICLE IV REPRESENTATIONS AND WARRANTIES OF PURCHASER

Purchaser hereby represents and warrants to Seller as of the date hereof as follows:

Section 4.1 Organization. Purchaser is a Luxembourg private limited liability company (société à responsabilité limitée), duly incorporated and validly existing under the laws of the Grand Duchy of Luxembourg and has all powers and all licenses, permits, franchises, authorizations, consents and approvals of all Governmental Authorities required to carry on its business as now being conducted except where the failure to have the same does not have or would not be reasonably expected to result in a Material Adverse Effect.

Section 4.2 Purchaser Authorization. Purchaser has all necessary power and authority to enter into, execute and deliver the Transaction Documents and to perform all of the obligations to be performed by it hereunder and thereunder and to consummate the transactions contemplated hereunder and thereunder. The Transaction Documents have been duly authorized, executed and delivered by Purchaser, and each Transaction Document constitutes the legal, valid and binding obligation of Purchaser, enforceable against Purchaser in accordance with its respective terms, subject, as to enforcement of remedies, to bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally or general equitable principles.

Section 4.3 Governmental and Third Party Authorizations. The execution and delivery by Purchaser of the Transaction Documents, the validity and enforceability of the Transaction Documents and the performance by Purchaser of its obligations hereunder and thereunder and the consummation of any of the transactions contemplated hereunder and thereunder do not require any consent, approval, license, order, authorization or declaration from, Notice to, action or registration by or filing with any Governmental Authority or any other Person (other than a Governmental Authority), except for the deliverables referenced in Section 6.1(a) and Section 6.2(b) of this Agreement.

Section 4.4 No Litigation. There is no (a) action, suit, arbitration proceeding, claim, demand, citation, summons, subpoena, investigation or other proceeding (whether civil, criminal, administrative, regulatory, investigative or informal) pending or, to the knowledge of Purchaser, threatened, by or against Purchaser, at law or in equity, or (b) inquiry or investigation (whether civil, criminal, administrative, regulatory, investigative or informal) by or before a

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Governmental Authority pending or, to the knowledge of Purchaser, threatened against Purchaser, that, in each case, if adversely determined, challenges, or may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the transactions contemplated by any of the Transaction Documents.

Section 4.5 No Conflicts. None of the execution and delivery of any of the Transaction Documents, the performance of the obligations contemplated hereby and thereby or consummation of the transactions contemplated hereby and thereby does or will contravene, conflict with, result in a breach or violation of, constitute a default (with or without notice or lapse of time, or both) under, require prepayment under, or accelerate the performance provided by, in any respect, (i) any Applicable Law, judgment or decree to which Purchaser or any of its assets or properties may be subject or bound, (ii) any term or provision of any contract, agreement, indenture, lease, license, deed, commitment or instrument to which Purchaser is a party or by which Purchaser or any of its assets or properties is subject or bound or (iii) any term or provision of any of the organizational documents of Purchaser.

Section 4.6 No Broker's Fees. Purchaser has not taken any action that would entitle any Person to any commission or broker's fee in connection with the transactions contemplated by the Transaction Documents.

Section 4.7 Access to Information. Purchaser acknowledges that it has, as of the Closing Date, (a) reviewed the License Agreements and such other documents and information relating to the Products and Royalty Sub's Assets, a list of which documents and information is attached hereto as Exhibit 4.7, and (b) had the opportunity to ask such questions of, and to receive answers from, representatives of Seller and certain Counterparties concerning the License Agreements and Royalty Sub's Assets, in each case, as it deemed necessary to make an informed decision to purchase, acquire and accept the Units in accordance with the terms of this Agreement. Purchaser has such knowledge, sophistication and experience in financial and business matters that it is capable of evaluating the risks and merits of purchasing, acquiring and accepting the Units in accordance with the terms of this Agreement.

Section 4.8 Investment Intent. Purchaser understands that the Units are "restricted securities" and have not been registered under the Securities Act or any applicable state securities law and is acquiring the Units as principal for its own account and not with a view to, or for distributing or reselling the Units or any part thereof in violation of the Securities Act or any applicable state securities laws. Purchaser is acquiring the Units hereunder in the ordinary course of its business. Purchaser does not presently have any agreement, plan or understanding, directly or indirectly, with any Person to distribute or effect any distribution of any of the Units (or any securities which are derivatives thereof) to or through any person or entity. Purchaser is not a registered broker-dealer under Section 15 of the Exchange Act or an entity engaged in a business that would require it to be so registered as a broker dealer.

Section 4.9 Purchaser Status. Purchaser was, at the time Purchaser was offered the Units, and is, an "accredited investor" as defined in Rule 501(a) under the Securities Act.

Section 4.10 Funds Available. Purchaser has sufficient funds on hand or

binding and enforceable commitments to provide it with sufficient funds to satisfy its obligations, in each case, to pay the Purchase Price, and Purchaser has no knowledge and does not reasonably believe, and has not been provided with oral or written notice, that any of its investors are not required or do not intend, for any reason, to satisfy their obligations under such commitments. **Purchaser acknowledges and agrees that its obligations under this Agreement are not contingent on obtaining financing.** As of the Closing Date, Royalty Opportunities has Six Hundred Million Dollars (\$600,000,000) under Management and has specifically reserved Three Million Dollars (\$3,000,000) for the payment of the Milestone Payment.

Section 4.1.1 Full Disclosure. No representation or warranty made by Purchaser in this Agreement contains an untrue statement of material fact or omits to state a material fact necessary to make such statement, in light of the circumstances in which it was made or omitted, not misleading.

#### ARTICLE V COVENANTS

Section 5.1 Seller's Obligations, Covenants and Agreements under Note Documents, License Agreements, Loan and Security Agreement and Shire APA.

(a) So long as the Notes are Outstanding, Seller shall remain bound by and in compliance with all obligations under the Purchase and Sale Agreement and, without limiting the generality of the foregoing, shall observe and perform each of its affirmative and negative covenants to Royalty Sub set forth in Sections 6.1 and 6.2 thereof.

(b) With respect to each Residual License Agreement, so long as the Notes are Outstanding and until the Expiration Date (as defined in such Residual License Agreement) or the earlier termination of such Residual License Agreement in accordance with its terms, Seller shall remain bound by and in compliance with all obligations under the Residual License Agreements and, without limiting the generality of the foregoing, shall observe and perform each of its covenants and agreements set forth in Articles II, III, IV, V and VI thereof.

(c) So long as the Notes are Outstanding and until the termination of the Servicing Agreement in accordance with its terms or pursuant to Section 7.2, Seller shall remain bound by and in compliance with all obligations under the Servicing Agreement and, without limiting the generality of the foregoing, shall observe and perform each of its covenants and agreements set forth in Article III thereof.

(d) So long as the Notes are Outstanding, Seller shall remain bound by and in compliance with all obligations under the other Note Documents to which it is a party and, without limiting the generality of the foregoing, shall observe and perform each of its covenants and agreements set forth therein.

(e) With respect to each License Agreement, so long as the Notes are Outstanding and until the earlier of the expiration of the licenses set forth therein and the termination of such License Agreement in accordance with its terms, Seller shall remain bound by and in compliance with all obligations under such License Agreement and, without limiting the generality of the

foregoing, shall observe and perform each of its covenants and agreements set forth therein.

(f) So long as the Notes are Outstanding and until the earlier of (i) the consummation of the transactions described in Section 7.3(b) and (ii) the execution and delivery of the New Servicing Agreement by all parties thereto, Seller shall remain in compliance with all obligations under the Loan and Security Agreement in accordance with its terms and, without limiting the generality of the foregoing, shall observe and perform each of its covenants and agreements set forth therein in accordance with its terms.

(g) So long as the Notes are Outstanding and until the earlier of (i) the consummation of the transactions described in Section 7.3(b) and (ii) the execution and delivery of the New Servicing Agreement by all parties thereto, Seller shall remain in compliance with all obligations under the Shire APA in accordance with its terms and, without limiting the generality of the foregoing, shall observe and perform each of its covenants and agreements set forth therein in accordance with its terms.

Section 5.2 Tax Returns. Seller shall timely file or cause to be filed all Tax returns required to be filed with respect to Royalty Sub for the period ending on the Effective Time (the "Stub Filings"). All such Tax returns shall be prepared in a manner consistent with prior practice. Seller shall provide Purchaser with copies of such completed Tax returns at least twenty (20) days prior to the due date for filing thereof, along with supporting workpapers, for Purchaser's review and approval. Purchaser and Seller shall attempt in good faith to resolve any disagreements regarding such Tax returns prior to the due date for filing. Following the Closing, Purchaser shall cause to be timely filed all Tax returns required to be filed by Royalty Sub with respect to periods commencing on or after the Effective Time and pay or cause to be paid all Taxes shown due thereon.

Section 5.3 Confidentiality; Public Announcements.

(a) Purchaser agrees to be bound, as of the Effective Time, by the provisions of the NDA, and Seller and Purchaser acknowledge and agree that their respective obligations under the NDA survive the Closing.

(b) Seller and Purchaser acknowledge that after execution and delivery of this Agreement, a party to this Agreement may only make a public disclosure regarding the Contemplated Transactions if (i) such disclosure is required by Applicable Law or (ii) both Seller and Purchaser mutually agree to make any such public disclosure. Seller and Purchaser agree that, subsequent to any public disclosure made pursuant to this Section 5.3(b), either party hereto may thereafter disclose any information contained in such public disclosure at any time without the consent of the other party hereto. Notwithstanding the foregoing, Seller and Purchaser acknowledge and agree that Purchaser may, subject to compliance with all Applicable Laws, make disclosures regarding the Contemplated Transactions, including information covered under the NDA, to Purchaser's Affiliates and its or its Affiliates' officers, directors, managers (including investment managers), employees, members, partners, equity holders, investors (or potential investors), advisors, lenders, counsel or accountants, in each case, on a need-to-know basis and who are informed of the confidential nature of such information and, subsequent to the

initial public offering of the Seller's securities, if any, informed that they are not permitted to trade in the securities of Seller while such information is not available to the general public.

Section 5.4 Advance Notice of Date that Notes Cease to be Outstanding. Purchaser shall use commercially reasonable efforts to deliver to Seller at least thirty (30) days', but not more than sixty (60) days', prior written notice of the date that the Notes shall cease to be Outstanding, together with account details of Purchaser for the payment of Royalty Payments and Replacement Royalty Payments, if any.

Section 5.5 Replacement Royalty Payments. In the event that either License Agreement terminates and Seller, using commercially reasonable efforts, is able to commercialize the relevant Licensed Products either by itself or in an arrangement with one or more third Persons in further licensing of the related Licensed IP (or any portion thereof), as such rights may revert back to the Seller under and subject to the terms and conditions of the relevant License Agreement, in the Indevus Field or the CollaGenex Field, as the case may be, in the Territory, Seller shall, at all times while any of the Notes are Outstanding, make all Replacement Royalty Payments by wire transfer of U.S. Dollars to the Collection Account and, from and after such time as the Notes cease to be Outstanding, make all Replacement Royalty Payments by wire transfer of U.S. Dollars directly to an account of Royalty Sub, the details of which Purchaser shall provide to Seller in writing; provided, however, that with respect to any License Royalties (as defined in Section 3.2 of the Residual License Agreements), Seller shall (a) deliver payment and notice directions to each third Person licensee or sublicensee in order to direct and otherwise provide for, beginning immediately from the effective time of the Parent Sublicense (as defined in Section 2.3 of the Residual License Agreements), such licensee or sublicensee to pay or cause to be paid all Replacement Royalty Payments by wire transfer of U.S. Dollars to the Collection Account and, from and after such time as the Notes cease to be Outstanding, directly to an account of Royalty Sub, the details of which Purchaser shall provide to Seller in writing, and deliver all Notices and reports that relate to such Replacement Royalty Payments and the calculation thereof directly to Purchaser (on Royalty Sub's behalf) in accordance with the notice information set forth in Section 6.1(f) or as Purchaser otherwise directs Seller in writing. Notwithstanding the terms of such payment and notice direction, (x) if any such licensee or sublicensee makes any payment of License Royalties to Seller or any of its Affiliates, then Seller, promptly, and in any event no later than five (5) Business Days following the receipt by Seller or such Affiliate of such payment, shall remit such payment to the Collection Account and, from and after such time as the Notes cease to be Outstanding, directly to an account of Royalty Sub, the details of which Purchaser shall provide to Seller in writing, and (y) if any such licensee or sublicensee delivers any reports or Notices to Seller or any of its Affiliates, promptly, and in any event no later than five (5) Business Days following the receipt by Seller or such Affiliate of such report or Notice, deliver such report or Notice to Purchaser (on Royalty Sub's behalf) in accordance with the notice information set forth in Section 6.1(f) or as Purchaser otherwise directs Seller in writing. All payments of License Royalties made to Seller (or any of its Affiliates) shall be held by Seller (or such Affiliate) in trust for the benefit of the Trustee until remitted to the Collection Account or in trust for the benefit of Royalty Sub until remitted to Royalty Sub, as the case may be, and Seller or any of its Affiliates shall have no right, title or interest whatsoever in such amounts and shall not create or suffer to exist any Lien thereon.



Section 5.6 Purchase Price Allocation. Purchaser and Seller hereby agree to treat for U.S. federal income tax purposes the purchase of the Units as a purchase of the Royalty Sub Assets. Purchaser and Seller hereby further agree that for U.S. federal income tax purposes, Purchaser shall be treated as the tax owner of the Royalty Sub Assets and the Licensed IP. Neither Purchaser nor Seller shall take any position for U.S. federal income tax purposes (whether in audits, Tax returns or otherwise) that is inconsistent with such positions unless required to do so by Applicable Law. Purchaser shall prepare an allocation of the Purchase Price (as computed for U.S. federal income tax purposes, including capitalized costs) among the Royalty Sub Assets reasonably in accordance with relative fair market values, which allocation shall be reviewed by Seller. Purchaser shall deliver such allocation to Seller within sixty (60) days after the Closing Date, and such allocation shall be final unless, within thirty (30) days after receiving such allocation Seller notifies Purchaser that it does not agree with such allocation. If Purchaser and Seller cannot agree on the final Purchase Price allocation, they shall select a mutually agreeable Person to determine such final Purchase Price allocation. Purchaser and Seller shall report, act and file Tax returns in all respects and for all purposes consistent with the final Purchase Price allocation. Neither Purchaser nor Seller shall take any position (whether in audits, Tax returns or otherwise) that is inconsistent with such allocation unless required to do so by Applicable Law.

Section 5.7 Reserve For Milestone Payment. At all times prior to the payment of the Milestone Payment, Royalty Opportunities shall specifically reserve Three Million Dollars (\$3,000,000) for the payment of the Milestone Payment.

Section 5.8 Licensed IP and License Agreements. So long as the Notes are Outstanding and until the earlier of (a) the consummation of the transactions described in Section 7.3(b) and (b) the execution and delivery of the New Servicing Agreement by all parties thereto, Seller shall not, and shall cause its Affiliates not to, sell, assign, mortgage, pledge, grant a security interest in or upon, encumber or otherwise subject to any Lien any of the Licensed IP, the License Agreements or any of Seller's rights, benefits, interests or title thereto, therein or thereunder.

## ARTICLE VI CLOSING DELIVERABLES

Section 6.1 Seller's Closing Deliverables. At or prior to the Closing, Seller shall deliver or cause to be delivered to Purchaser:

(a) Evidence of Transfer of Record and Beneficial Ownership Interest in Units. Evidence reasonably acceptable to Purchaser that record and beneficial ownership in and to the Units, and in and to any certificate evidencing the Units, is transferred to Purchaser effective at the Effective Time, subject to the Pledge to Trustee.

(b) Resignation of Royalty Sub's Manager. The written resignation of Jack A. Khattar in his capacity as Manager of Royalty Sub, in form and substance reasonably satisfactory to Purchaser, effective at the Effective Time and duly executed by such Person.

(c) Termination of Management Agreement. Evidence of the termination of

the Management Agreement, dated April 15, 2008, among Royalty Sub, Jack A. Khattar and David A. Theil, in form and substance reasonably satisfactory to Purchaser, effective at the Effective Time.

(d) Books and Records. The books and records of Royalty Sub, including: (i) all of the books and records described in Section 8.1 of the Royalty Sub Operating Agreement; and (ii) two (2) copies on CD ROM of all of the documents posted to the Data Room not less than two (2) Business Days prior to the Closing Date and not removed at or prior to the Effective Time (the “CD ROMs”).

(e) Certificate. An executive officer of Seller shall sign and deliver to Purchaser a certificate dated the Closing Date (i) attaching copies of resolutions of the board of directors of Seller authorizing and approving (A) the Contemplated Transactions and (B) the execution, delivery and performance of this Agreement and all documents and instruments contemplated hereby to be executed by Seller, certified by such officer as true and complete and that such resolutions have not been modified, amended or rescinded and remain in full force and effect at the Effective Time; (ii) setting forth the incumbency of the officer or officers of Seller who have executed and delivered the Transaction Documents, including therein a signature specimen of each such officer; (iii) attaching copies, certified by such officer as true and complete, of long-form good standing certificates of the Secretary of State of the State of Delaware, dated within five (5) Business Days of the Closing Date, stating that each of Seller and Royalty Sub is in good standing under the laws of the State of Delaware; and (iv) accompanying the CD ROMs, which shall include, among other documents, the duly executed copies, certified by such officer as true and complete, of each of the Pledge and Security Agreement, License Agreements, Residual License Agreements, Purchase and Sale Agreement, Servicing Agreement, Loan and Security Agreement and Shire APA.

(f) Notice and Instruction to Counterparties. Evidence, in form and substance reasonably satisfactory to Purchaser, of the delivery to each Counterparty of (i) written notice that, effective as of the Closing Date, Seller has sold, transferred, conveyed and assigned all of its ownership interest in Royalty Sub to Purchaser (which such Counterparty shall keep confidential pursuant to the confidentiality obligations contained in the applicable License Agreement), and (ii) written instruction to, beginning immediately on the Closing Date, send all Notices and reports sent or required to be sent to Seller pursuant to the applicable License Agreement, including the quarterly reports produced by such Counterparty with respect to Royalty Payments and the calculation thereof, to:

TCD Royalty Sub LLC  
c/o Royalty Opportunities S.à.r.l  
65 Boulevard Grande-duchesse Charlotte  
L-1331 Luxembourg  
Grand-duché de Luxembourg  
Attn.: Board of Directors

with a copy to:

OrbiMed Advisors, LLC  
767 Third Avenue, 30<sup>th</sup> Floor  
New York, NY 10017

Attn.: Tadd Wessel  
Facsimile: (866) 859-4210

(g) Legal Opinion. The corporate legal opinion of Saul Ewing LLP, counsel to Seller and Royalty Sub, in respect of the Contemplated Transactions, in the form attached hereto as Exhibit B.

(h) Consent to Sale and Waiver. The consent and waiver of the lenders and collateral agent under the Loan and Security Agreement to, among other things, permit the transfer of the Units, the Licensed IP, all of Seller's rights and obligations under the License Agreements and all of Seller's right, title and interest thereto, therein and thereunder, and to waive their rights to add Royalty Sub as a co-borrower and/or guarantor under the Loan and Security Agreement, in the form attached hereto as Exhibit C (the "Consent to Sale and Waiver").

(i) Disclosure Schedule. The Disclosure Schedule, in the manner set forth in the introductory paragraph in Article III.

(j) Other Documents. Any and all other documents, instruments or agreements contemplated by this Agreement or as are reasonably necessary or appropriate to fully consummate the Contemplated Transactions, in each case, in form and substance reasonably satisfactory to Purchaser, duly executed and dated as of the Closing Date.

Section 6.2 Purchaser's Closing Deliverables. At or prior to the Closing, Purchaser shall deliver or cause to be delivered to Seller:

(a) Purchase Price. The Upfront Payment, in the manner set forth in Section 2.2.

(b) Pledge and Security Agreement. The joinder agreement, pursuant to which Purchaser agrees to be bound, as of the Effective Time, by the provisions of the Pledge and Security Agreement as expressly required under Section 6.2(a)(y) of the Purchase and Sale Agreement, in the form attached hereto as Exhibit D (the "Joinder Agreement").

(c) Certificate of Reserve for Milestone Payment. Evidence that Purchaser has specifically reserved Three Million Dollars (\$3,000,000) for the payment of the Milestone Payment, in form and substance reasonably satisfactory to Seller.

(d) Other Documents. Any and all other documents, instruments or agreements contemplated by this Agreement or as are reasonably necessary or appropriate to fully consummate the Contemplated Transactions, in each case, in form and substance reasonably satisfactory to Seller, duly executed and dated as of the Closing Date.

ARTICLE VII  
ACTIONS TO BE TAKEN UPON THE DATE THAT THE NOTES CEASE TO BE  
OUTSTANDING

Section 7.1 Purchaser's Election. Effective upon the date that the Notes

cease to be Outstanding, Purchaser shall elect, and shall use commercially reasonable efforts to provide at least ninety (90) days prior written notice of its election, to either request Seller to obtain a waiver from Shire PLC, in form and substance reasonably satisfactory to Purchaser, from the application of Sections 6.03 and 6.04 to the transactions contemplated in Section 7.3 below and from the requirements thereof in respect of Purchaser (or its designee), the Licensed IP and the License Agreements in furtherance of such transactions (the “Shire Waiver”) and, subject to the receipt thereof, consummate the transactions described in Section 7.3 below or, alternatively, to give effect to Section 7.2 below, provided that Purchaser shall be deemed to have elected to request Seller to obtain the Shire Waiver and, subject to the receipt thereof, consummate the transactions described in Section 7.3 below and not to give effect to Section 7.2 below if: (a) Purchaser fails to provide such prior written notice at least thirty (30) days prior to the date that the Notes cease to be Outstanding; (b) the Servicing Agreement terminates upon a Servicer Termination Event (as defined in the Servicing Agreement), other than the sale, transfer, conveyance and assignment of the Units to Purchaser pursuant to this Agreement, and the Servicer is replaced pursuant to the terms of the Servicing Agreement, prior to the date that the Notes cease to be Outstanding; or (c) the Servicing Agreement terminates pursuant to the written agreement of Royalty Sub to the resignation or removal of the Servicer (as consented to in writing by the Trustee), and a successor Servicer accepts in writing the obligations under the Servicing Agreement in accordance with the terms and conditions of the Servicing Agreement, prior to the date that the Notes cease to be Outstanding.

Section 7.2 New Servicing Agreement. If Purchaser elects, in accordance with Section 7.1 above or Section 7.3(c) below, as applicable, to give effect to this Section 7.2, then effective as of the time that the Notes cease to be Outstanding:

- (a) The Servicing Agreement shall immediately terminate (and Purchaser shall cause Royalty Sub to take all such actions as may be required so as to cause the Servicing Agreement to immediately terminate); and
- (b) Purchaser shall, and shall cause Royalty Sub to, execute, deliver and enter into a new servicing agreement (the “New Servicing Agreement”) with Seller with the principal terms and conditions set forth in Exhibit A attached hereto, and Seller shall execute, deliver and enter into the New Servicing Agreement with Purchaser and Royalty Sub (and take all such actions as may be required so as to prevent any disruption of services between the termination of the Servicing Agreement and the effectiveness of the New Servicing Agreement).
- (c) In the event of any inconsistency between any provision contained in this Agreement and any provision contained in the New Servicing Agreement, the provisions contained in this Agreement shall govern and control, provided that, the indemnification provisions set forth in Article VIII hereof shall not be applicable to any claims related to or arising out of a breach of the New Servicing Agreement and the indemnification provisions set forth in Section 8 of the New Servicing Agreement shall not be applicable to any claims related to or arising out of a breach of this Agreement.

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Section 7.3 Assignment and Transfer of Licensed IP and License Agreements.

- (a) If Purchaser elects (or is deemed to have elected), in accordance with Section 7.1 above, to request Seller to obtain the Shire Waiver, then Seller shall use its commercially reasonable efforts to obtain the Shire Waiver and, notwithstanding the terms of Section 5.11 of the Servicing Agreement, Seller shall continue to perform its obligations, and Royalty Sub shall continue to have the rights and remedies, set forth in the Servicing Agreement until the later of (i) the termination of the Servicing Agreement in accordance with its terms and (ii) the consummation of the transactions described in Section 7.3(b) below.
- (b) Effective as of the later of the time that (A) the Shire Waiver is obtained and (B) the Notes cease to be Outstanding, Seller shall assign and transfer to Purchaser or Purchaser’s designee (the “Recipient”), and the Recipient shall acquire and assume from Seller, all of the Licensed IP and all of Seller’s rights and obligations under each of the License Agreements and all of Seller’s right, title and interest thereto, therein and thereunder, in each case, free and clear of all Liens, pursuant to mutually agreeable agreements, instruments, certificates and other documents necessary or reasonably requested by Purchaser to consummate such transactions. For the avoidance of doubt, if Purchaser elects (or is deemed to have elected), in accordance with Section 7.1 above, to request Seller to obtain the Shire Waiver and to consummate the transactions described in this Section 7.3(b), there shall be no obligation on the part of Purchaser, Royalty Sub or Seller to execute, deliver and enter into the New Servicing Agreement except as expressly set forth in Section 7.3(c).
- (c) If Seller is unable to obtain the Shire Waiver within fifteen (15) days following Purchaser’s election (express or deemed) to request Seller to obtain the Shire Waiver, then Seller shall so notify Purchaser in writing and Purchaser shall have 15 days following receipt of such notice to elect to agree (or to have such designee agree) in writing to be bound by the terms of Section 6.03 and Section 6.04 of the Shire APA and consummate the transactions described in Section 7.3(b) above (notwithstanding Seller’s failure to obtain the Shire Waiver) or, alternatively, to give effect to Section 7.2 above. If Purchaser elects to agree (or have its designee agree) in writing to be bound by the terms of Section 6.03 and Section 6.04 of the Shire APA, then the Recipient shall promptly execute and deliver to Seller such agreement and effective as of the later of the time that (i) the Recipient executes and delivers such agreement and (ii) the Notes cease to be Outstanding, Seller shall assign and transfer to the Recipient, and the Recipient shall acquire and assume from Seller, all of the Licensed IP and all of Seller’s rights and obligations under each of the License Agreements and all of Seller’s right, title and interest therein, thereto and thereunder, in each case, free and clear of all Liens.
- (d) In the case of any assignment and transfer under this Section 7.3, Purchaser shall, or shall cause its designee to, reimburse Seller for the costs and expenses (including reasonable attorneys’ fees) actually and necessarily incurred in completing any such assignment and transfer.

Section 7.4 License Agreements. As promptly as possible following the date that the Notes cease to be Outstanding:

- (a) Seller shall execute and deliver such consents, directions, documents, certificates, agreements and other instruments and writings and take such actions as may be necessary, including delivering new payment and notice directions from Seller to Counterparties,

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in order to direct and otherwise provide for Counterparties (or any Person on behalf of Counterparties) to pay or cause to be paid all Royalty Payments directly to an account of Royalty Sub, the details of which Purchaser shall provide to Seller in writing, and to deliver all Notices and reports that relate to such Royalty Payments and the calculation thereof directly to Purchaser (on Royalty Sub's behalf) in accordance with the notice information set forth in Section 6.1(f) or as Purchaser otherwise directs Seller in writing. Notwithstanding the terms of such payment and notice direction, (x) if any Counterparty (or such other Person) makes any payment of Royalty Payments to Seller or any of its Affiliates, then Seller, promptly, and in any event no later than five (5) Business Days following the receipt by Seller or such Affiliate of such payment, shall remit such payment directly to an account of Royalty Sub, the details of which Purchaser shall provide to Seller in writing, and (y) if any Counterparty (or such other Person) delivers any Notice or report to Seller or any of its Affiliates, then Seller, promptly, and in any event no later than five (5) Business Days following the receipt by Seller or such Affiliate of such Notice or report, deliver such Notice or report to Purchaser (on Royalty Sub's behalf) in accordance with the notice information set forth in Section 6.1(f) or as Purchaser otherwise directs Seller in writing. All payments of Royalty Payments made to Seller (or any of its Affiliates) shall be held by Seller (or such Affiliate) in trust for the benefit of Royalty Sub until remitted to Royalty Sub and Seller or any of its Affiliates shall have no right, title or interest whatsoever in such amounts and shall not create or suffer to exist any Lien thereon;

(b) Seller shall execute and deliver such mutually agreeable consents, directions, documents, certificates, agreements and other instruments and writings and take such mutually agreeable actions as may be desirable or reasonably requested by Purchaser; and

(c) Seller shall deliver to Purchaser (in accordance with the notice information set forth in Section 6.1(f) or as Purchaser otherwise directs in writing) or Purchaser's designee, at Purchaser's expense, all records, Notices and reports that relate to the collection or calculation of the Royalty Payments and Replacement Royalty Payments, if any, in each case which Seller possesses, prepares or receives following the date that the Notes cease to be Outstanding.

#### ARTICLE VIII INDEMNIFICATION

Section 8.1 Survival of Representations, Warranties and Covenants. For the purposes of this Agreement, the "Survival Period" shall be:

(a) With respect to each representation and warranty of the parties hereto contained in Sections 3.1, 3.2, 3.3, 3.5, 3.6, 3.10, 3.11, 4.1, 4.2, 4.6, 4.8, 4.9 and 4.10 of this Agreement, and any certificate related to such representation and warranty, indefinite;

(b) With respect to each representation and warranty of the parties hereto contained in Section 3.13 of this Agreement, and any certificate related to such representation and warranty, a period of time commencing on the Closing Date and terminating on the date that is ninety (90) days following the expiration of all relevant statutes of limitations, including any extensions thereof;

(c) With respect to each other representation and warranty of the parties hereto contained in Articles III and IV of this Agreement, and any certificate related to such representation and warranty, a period of time commencing on the Closing Date and terminating eighteen (18) months thereafter;

(d) With respect to the covenants of Seller set forth in Section 5.1, a period of time commencing on the Closing Date and terminating at such time specified therein;

(e) With respect to the other covenants of Seller set forth in Article V and the covenants of Purchaser set forth in Article V, indefinite;  
and

(f) With respect to the covenants of Seller and Purchaser set forth in Article VII, a period of time commencing at the Effective Time and terminating one year following the date that the actions by Seller and Purchaser described in Section 7.2 or the actions by Seller and Purchaser described in Section 7.3, as applicable, have been taken.

**Section 8.2** Indemnification by Seller. Subject to Section 8.1 and Section 8.4 hereof, Seller hereby indemnifies and holds each of Purchaser and Purchaser's Affiliates (including, after the Effective Time, Royalty Sub) and any and all of their respective partners, directors, managers, members, officers, employees, agents and controlling Persons (each, a "Purchaser Indemnified Party") harmless from and against, and will pay to each Purchaser Indemnified Party the amount of, any and all Losses (including attorneys' fees) awarded against or incurred or suffered by such Purchaser Indemnified Party, whether or not involving a third party claim, demand, action or proceeding, arising out of:

(a) any breach of any representation, warranty or certification made by Seller in any of the Transaction Documents or certificates or documents delivered by Seller in writing pursuant thereto;

(b) any breach of or default under any covenant or agreement by Seller pursuant to any Transaction Document;

(c) any breach or default under any covenant or agreement by Seller pursuant to any of the Note Documents or License Agreements; or

(d) any claim by any Person for fees, expenses, costs, liabilities or other amounts incurred or owed by Seller to any brokers, financial advisors or comparable other Persons based upon any agreement or understanding alleged to have been made by any such Person with Seller or any of its Affiliates (or any Person on behalf of Seller or any of its Affiliates) in connection with the Contemplated Transactions.

Any amounts due to any Purchaser Indemnified Party hereunder shall be payable by Seller to such Purchaser Indemnified Party, subject to Sections 8.1, 8.4 and 8.5.

**Notwithstanding anything to the contrary in this Agreement, no provision of this Agreement shall be deemed or may be construed to constitute a guaranty by Seller as to the amount of any Royalty Payments or any other payments or income in respect of the Royalty Sub's Assets or the Residual License Agreements, or of the value of the Royalty**

**Sub's Assets or the Residual License Agreements, or a representation or warranty by Seller with respect to the value of the Royalty Sub's Assets or the Residual License Agreements.**

Section 8.3 Indemnification by Purchaser. Subject to Section 8.1 and Section 8.4 hereof, Purchaser hereby indemnifies and holds each of Seller and its Affiliates and any and all of their respective partners, directors, managers, members, officers, employees and agents (each, a "Seller Indemnified Party") harmless from and against, and will pay to each Seller Indemnified Party the amount of, any and all Losses (including attorneys' fees) awarded against or incurred or suffered by such Seller Indemnified Party, whether or not involving a third party claim, demand, action or proceeding, arising out of (i) any breach of any representation, warranty or certification made by Purchaser in any of the Transaction Documents or certificates or documents delivered by Purchaser in writing pursuant thereto, (ii) any breach of or default under any covenant or agreement by Purchaser pursuant to any Transaction Document, or (iii) any claim by any Person for fees, expenses, costs, liabilities or other amounts incurred or owed by Purchaser to any brokers, financial advisors or comparable other Persons based upon any agreement or understanding alleged to have been made by any such Person with Purchaser or any of its Affiliates (or any Person on behalf of Purchaser or any of its Affiliates) in connection with the Contemplated Transactions. Any amounts due to any Seller Indemnified Party hereunder shall be payable by Purchaser to such Seller Indemnified Party, subject to Sections 8.1, 8.4 and 8.5.

Section 8.4 Limitations on Indemnification.

(a) Subject to Section 8.4(c) below, neither Seller nor Purchaser shall be obligated to indemnify the Seller Indemnified Parties or the Purchaser Indemnified Parties, respectively, with respect to any Losses as to which such party is otherwise entitled to assert any claim for indemnification, pursuant to Section 8.2 or Section 8.3, unless and until the aggregate amount of the Losses of the Seller Indemnified Parties or the Purchaser Indemnified Parties, as the case may be, pursuant to Section 8.2 or Section 8.3 of this Agreement exceeds One Hundred Thousand Dollars (\$100,000) in the aggregate (the "Deductible Amount"); provided, however, that thereafter the indemnifying party shall indemnify the other for any amounts in excess of, and not including, the Deductible Amount. Subject to Section 8.4(c) below, the maximum aggregate cash liability and obligation for any claims or Losses under this Agreement shall be capped at (and not exceed) Four Million Dollars (\$4,000,000).

(b) In calculating the amount of Losses suffered or incurred by the Seller Indemnified Parties or the Purchaser Indemnified Parties, as applicable, or for which indemnification is sought hereunder there shall be deducted (i) amounts actually recovered under any insurance policy or agreement with respect to such Losses and (ii) the amount of any reduction in income Taxes attributable to such Losses which directly or indirectly inures to the benefit of those parties for any Tax year as a result of any such Losses.

(c) Notwithstanding anything to the contrary in this Agreement, the limitations on indemnity set forth in Section 8.4(a) shall not apply in the case of Losses resulting from (i) any breach of the representations and warranties contained in Sections 3.1, 3.2, 3.3, 3.5, 3.6, 3.10, 3.11, 3.13, 4.1, 4.2 and 4.6 of this Agreement or (ii) fraud, willful misconduct or intentional misrepresentation in the negotiation, execution or performance of this Agreement.

(d) No party hereto shall have any obligation to indemnify any other party for Losses under this Agreement unless the indemnified party delivers written demand for indemnification in accordance with Section 8.5 before the expiration of the applicable Survival Period; provided, that the obligations of the parties hereto to indemnify any other party for Losses under this Agreement shall not terminate at the end of the applicable Survival Period with respect to any claim for indemnifiable Losses as to which the indemnified party shall have delivered such demand to the indemnifying party before the expiration of the applicable Survival Period.

Section 8.5 Procedures. If any claim, demand, action or proceeding (including any investigation by any Governmental Authority) shall be brought or alleged against an indemnified party in respect of which indemnity is to be sought against an indemnifying party pursuant to Section 8.1 or Section 8.3, such indemnified party shall, promptly after receipt of notice of the commencement of any such claim, demand, action or proceeding, notify such indemnifying party in writing of the commencement of such claim, demand, action or proceeding, enclosing a copy of all papers served, if any; provided, that subject to Section 8.4(c), the omission to so notify such indemnifying party will not relieve such indemnifying party from any liability that it may have to any indemnified party under Section 8.1 or Section 8.3 unless, and only to the extent that, such omission results in the forfeiture of, or has a material adverse effect on the exercise or prosecution of, substantive rights or defenses by such indemnifying party. In case any such action is brought against an indemnified party and it notifies such indemnifying party of the commencement thereof, such indemnifying party will be entitled, at such indemnifying party's sole cost and expense, to participate therein and, to the extent that it may wish, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to such indemnifying party), and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Article VIII for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation. In any such proceeding, an indemnified party shall have the right to retain its own counsel, but the reasonable fees and expenses of such counsel shall be at the expense of such indemnified party unless (a) the indemnifying party and such indemnified party shall have mutually agreed to the retention of such counsel, (b) such indemnifying party has assumed the defense of such proceeding and has failed within a reasonable time to retain counsel reasonably satisfactory to such indemnified party or (c) the named parties to any such proceeding (including any impleaded parties) include both such indemnifying party and such indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential conflicts of interests between them based on the advice of counsel to such indemnifying party. It is agreed that the indemnifying party shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees and expenses of more than one separate law firm (in addition to local counsel where necessary) for all such indemnified parties. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but, if settled with such consent or if there be a final judgment for the plaintiff, such indemnifying party agrees to indemnify the indemnified party from and against any Loss by reason of such settlement or judgment. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement, compromise or discharge of any claim or pending or threatened proceeding in respect of which



any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement, compromise or discharge, as the case may be, (i) includes an unconditional written release of such indemnified party, in form and substance reasonably satisfactory to the indemnified party, from all liability on claims that are the subject matter of such claim or proceeding, (ii) does not include any statement as to an admission of fault, culpability or failure to act by or on behalf of any indemnified party and (iii) does not impose any continuing material obligation or restrictions on any indemnified party.

Section 8.6 Exclusive Remedy. Except as set forth in Section 8.7, or with respect to any claim for fraud or willful misconduct in the negotiation or execution of this Agreement, following the Closing Date, the indemnification afforded by this Article VIII shall be the sole and exclusive remedy for any and all Losses sustained or incurred by either party hereto in connection with the Contemplated Transactions, including with respect to any breach of any representation, warranty or certification made by a party hereto in any of the Transaction Documents or certificates given by a party hereto in writing pursuant hereto or thereto or any breach of or default under any covenant or agreement by a party hereto pursuant to any Transaction Document, but excluding any breach of any representation, warranty, covenant or agreement by a party hereto in the New Servicing Agreement, if any, or any agreements, instruments or certificates entered into or otherwise executed and delivered by a party hereto pursuant to Section 7.3, if any.

Section 8.7 Specific Performance. In addition to any other right or remedy to which a party hereto may be entitled at law or in equity, such party shall be entitled to enforce any provisions of this Agreement by a decree of specific performance and to temporary, preliminary and permanent injunctive relief to prevent breaches or threatened breaches of any of the provisions of this Agreement, without posting any bond (except to the minimum extent required by Applicable Law) or other undertaking.

ARTICLE IX  
MISCELLANEOUS

Section 9.1 Notices. All Notices shall be in writing and shall be effective (a) upon receipt when sent through the mails, registered or certified mail, return receipt requested, postage prepaid, with such receipt to be effective the date of delivery indicated on the return receipt, (b) upon receipt when sent by an overnight courier, (c) on the date personally delivered to an authorized officer of the party to which sent, (d) on the date transmitted by legible telecopier transmission with a confirmation of receipt or (e) in the case of any report that is of a routine nature, on the date sent by first class mail or overnight courier, in all cases, with a copy emailed to the recipient at the applicable address, addressed to the recipient as follows:

If to Seller:

Supernus Pharmaceuticals, Inc.  
1550 East Gude Drive  
Rockville, MD 20850  
Attn.: Jack Khattar  
Facsimile: (301) 424-1364

with a copy (which shall not constitute notice) to:

Saul Ewing LLP  
1919 Pennsylvania Avenue, N.W., Suite 550  
Washington, DC 20006-3434  
Attn.: Mark I. Gruhin, Esquire  
Facsimile: (202) 295-6719

If to Purchaser:

Royalty Opportunities S.à.r.l  
65 Boulevard Grande-duchesse Charlotte  
L-1331 Luxembourg  
Grand-duché de Luxembourg  
Attn.: Board of Directors

with a copy to:

OrbiMed Advisors, LLC  
767 Third Avenue, 30<sup>th</sup> Floor  
New York, NY 10017  
Attn.: Tadd Wessel  
Facsimile: (866) 859-4210

and a copy (which shall not constitute notice) to:

Akin Gump Strauss Hauer & Feld LLP  
One Bryant Park  
New York, NY 10036  
Attn.: Geoffrey E. Secol, Esquire  
Facsimile: (212) 872-1002

A copy of each Notice given hereunder to any party hereto shall also be given to the other party hereto. Each party hereto may, by notice given in accordance herewith to the other party hereto, designate any further or different address to which subsequent Notices shall be sent.

Section 9.2 Choice of Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL SUBSTANTIVE LAWS OF THE STATE OF DELAWARE WITHOUT REFERENCE TO THE RULES THEREOF RELATING TO CONFLICTS OF LAW, AND THE OBLIGATIONS, RIGHTS AND REMEDIES OF THE PARTIES HEREUNDER SHALL BE DETERMINED IN ACCORDANCE WITH SUCH LAWS.

Section 9.3 Counterparts. This Agreement may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all of such counterparts shall together constitute but one and the same instrument.

Section 9.4 Amendment.

(a) The provisions of this Agreement may from time to time be amended, modified, supplemented, restated or waived, if such amendment, modification, supplement, restatement or waiver is in writing and consented to by each of the parties hereto.

(b) No failure or delay on the part of the Purchaser or the Seller in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power or right preclude any other or further exercise thereof or the exercise of any other power or right. No notice to or demand on the Purchaser or the Seller in any case shall entitle it to any notice or demand in similar or other circumstances. No waiver or approval by the Purchaser or the Seller of any term or condition of this Agreement shall, except as may otherwise be stated in such waiver or approval, be deemed to be or construed as a waiver of the same on any future occasion. No waiver or approval under this Agreement shall require any similar or dissimilar waiver or approval thereafter to be granted hereunder.

(c) The Transaction Documents, together with the NDA, contain a final and complete integration of all prior expressions by the parties hereto and thereto with respect to the subject matter hereof and thereof and shall constitute the entire agreement among the parties hereto and thereto with respect to the subject matter hereof and thereof, superseding all prior oral or written understandings.

Section 9.5 Severability of Provisions. If any one or more of the covenants, agreements, provisions or terms of this Agreement shall be for any reason whatsoever held invalid, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Agreement and shall in no way affect the validity or enforceability of the other covenants, agreements, provisions or terms of this Agreement.

Section 9.6 Binding Effect; Assignability; Survival. This Agreement shall be binding upon and inure to the benefit of the Purchaser and the Seller and their respective successors and permitted assigns. Neither the Seller nor the Purchaser may assign any of its respective rights hereunder or any interest herein without the prior written consent of the other party hereto, except as otherwise herein specifically provided; provided, however, that a Change of Control shall not by itself be deemed an assignment for purposes of this Section 9.6; provided, further, that Purchaser may assign its rights hereunder or its interest herein to an Affiliate without Seller's prior written consent so long as (i) such Affiliate shall have assumed all of the obligations of Purchaser under this Agreement and (ii) Purchaser shall remain bound by all obligations of "Purchaser" under this Agreement. This Agreement shall create and constitute the continuing obligations of the parties hereto in accordance with its terms, and shall remain in full force and effect until such time as the parties hereto shall agree.

Section 9.7 Cumulative Remedies. Except as expressly provided herein, the rights, obligations and remedies created by this Agreement are cumulative and in addition to any other rights, obligations or remedies otherwise available at law or in equity. Except as expressly provided herein, nothing herein will be considered an election of remedies. Without limiting the foregoing, each party hereto hereby authorizes the other party hereto at any time and from time

to time, to the fullest extent permitted by Applicable Law, to offset any amounts payable by such other party to, or for the account of, such party against any obligations of such party to such other party arising in connection with the Transaction Documents (including amounts payable pursuant to Article VIII) that are then due and payable.

Section 9.8      Consent to Jurisdiction.

(a) Any legal action or proceeding with respect to this Agreement may be brought in the courts of the State of Delaware or of the United States federal court sitting in the State of Delaware, and, by execution and delivery of this Agreement, each party hereto consents, for itself and in respect of its property, to the non-exclusive jurisdiction of those courts. Each party hereto irrevocably consents to service of process in the manner provided for notices in Section 9.1. Nothing in this Agreement shall affect the right of any party hereto to serve process in any other manner permitted by Applicable Law. Each party hereto irrevocably waives, to the maximum extent permitted by Applicable Law, any objection, including any objection to the laying of venue or based on the grounds of forum non conveniens, which it may now or hereafter have to the bringing of any action or proceeding in such jurisdiction in respect of this Agreement or any document related hereto. Each party hereto waives personal service of any summons, complaint or other process, which may be made by any other means permitted by Delaware law.

(b) If, for the purpose of obtaining a judgment or order in any court, it is necessary to convert a sum due hereunder from U.S. Dollars into another currency, each of the Purchaser and the Seller has agreed, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which, in accordance with normal banking procedures, such party could purchase U.S. Dollars with such other currency using currency exchange rates quoted in New York edition of *The Wall Street Journal* on the Business Day preceding the day on which final judgment is given.

Section 9.9      Table of Contents and Headings. The Table of Contents and headings of the Articles and Sections of this Agreement have been inserted for convenience of reference only, are not to be considered a part hereof and shall in no way modify or restrict any of the terms or provisions hereof.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Unit Purchase Agreement as of the day and year first written above.

**Seller:**

**SUPERNUS PHARMACEUTICALS, INC.**

By: /s/ Jack A. Khattar

Name: Jack A. Khattar

Title: President and Chief Executive Officer

*Signature Page to Unit Purchase Agreement*

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**Purchaser:**

**ROYALTY OPPORTUNITIES S.à.r.l**

By: OrbiMed Advisors LLC, its investment manager

By: /s/ Samuel D. Isaly

Name: Samuel D. Isaly

Title: Managing Partner

*Signature Page to Unit Purchase Agreement*

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AGREEMENT

1. Services to the Company and Certain Other Enterprises. Indemnitee will serve or continue to serve as a director and/or officer of the Company and/or other Enterprises for so long as Indemnitee is duly elected or appointed or until Indemnitee tenders a resignation from such position(s).

2. Definitions. As used in this Agreement:

(a) **“Change of Control”** means

(1) any “person” (as such term is used in Sections 13(d) and 14(d) of the Exchange Act), becomes the “Beneficial Owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than fifty percent (50%) of the total voting power represented by the Company’s then outstanding voting securities (excluding for this purpose any such voting securities held by the Company, or any parent or subsidiary of the Company or any employee benefit plan of the Company) pursuant to a transaction or a series of transactions which the Board does not approve;

(2) a merger or consolidation of the Company, whether or not approved by the Board, which results in the holders of voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation;

(3) the sale or disposition of all or substantially all of the Company’s assets (or consummation of any transaction having similar effect) provided that the sale or disposition is of more than two-thirds (2/3) of the assets of the Company; or

(4) the date a majority of members of the Board is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the Board before the date of such appointment or election.

(5) In any case, a Change of Control under this Section 2(a) must also meet the requirements of a change in ownership or effective control, or a sale of a substantial portion of the Company’s assets in accordance with Section 409A(a)(2)(A)(v) of the Internal Revenue Code of 1986, as amended, and the applicable provisions of Treasury Regulation § 1.409A-3.

(b) **“Corporate Status”** describes the status of a person who is or was a director, officer, employee, agent or fiduciary of the Company or of any other Enterprise.



(c) “**Disinterested Director**” means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(d) “**Enterprise**” means (i) the Company, (ii) any other corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise which is an affiliate or wholly or partially owned subsidiary of the Company and of which Indemnitee is or was serving as a director, trustee, general partner, managing member, officer, employee, agent or fiduciary and (iii) any other corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the request of the Company.

(e) “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

(f) “**Expenses**” includes all reasonable attorneys’ fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding. Expenses shall include such fees and expenses, and costs incurred in connection with any appeal resulting from any Proceeding, including without limitation the premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(g) “**Independent Counsel**” means, at any time, any law firm, or a member of a law firm, that (i) is experienced in matters of corporation law and (ii) is not, at such time, or has not been in the five years prior to such time, retained to represent: (1) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement, or of other indemnities under similar indemnification agreements), or (2) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement. The Company agrees to pay the reasonable fees and expenses of the Independent Counsel referred to above and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto and to be jointly and severally liable therefor.

(h) “**Proceeding**” includes any threatened, pending or completed action, suit, arbitration, mediation, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought by or in the right of the Company or otherwise and whether of a civil, criminal, administrative or investigative nature, including without limitation any such proceeding pending as of the date of this Agreement, in which Indemnitee was, is or will be involved as a party or otherwise by reason of the fact that Indemnitee is or was an officer or director of the Company, by reason of

any action taken by Indemnitee or of any action on Indemnitee's part while acting as director or officer of the Company, or by reason of the fact that Indemnitee is or was serving as a director, trustee, general partner, managing member, officer, employee, agent or fiduciary of any other Enterprise, in each case whether or not serving in such capacity at the time any Expense, judgment, fine or amount paid in settlement is incurred for which indemnification, reimbursement, or advancement of Expenses can be provided under this Agreement.

3. Indemnity in Third-Party Proceedings. The Company shall be liable to indemnify Indemnitee in accordance with the provisions of this Section 3 if Indemnitee is, or is threatened to be made, a party to or a participant (as a witness or otherwise) in any Proceeding, other than a Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 3, Indemnitee shall be indemnified against all Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company and, in the case of a criminal Proceeding, had no reasonable cause to believe that Indemnitee's conduct was unlawful.

4. Indemnity in Proceedings by or in the Right of the Company. The Company shall be liable to indemnify Indemnitee in accordance with the provisions of this Section 4 if Indemnitee is, or is threatened to be made, a party to or a participant (as a witness or otherwise) in any Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 4, Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such Proceeding (or any claim, issue or matter therein) if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company; provided, however that no indemnification for Expenses shall be made under this Section 4 in respect of any claim, issue or matter as to which Indemnitee shall have been finally adjudged by a court of competent jurisdiction to be liable to the Company, unless and only to the extent that any court in which the Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification.

5. Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provisions of this Agreement, to the extent that Indemnitee is a party to (or a participant in) and is successful, on the merits or otherwise, in any Proceeding, the Company shall be liable to indemnify Indemnitee against all Expenses actually and reasonably incurred by him in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall be liable to indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

6. Indemnification For Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of Indemnitee's Corporate Status, a witness in any Proceeding to which Indemnitee is not a party, the Company shall be liable to indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith.

7. Additional Indemnification

(a) Notwithstanding any limitation in Sections 3, 4, or 5, the Company shall be liable to indemnify Indemnitee to the fullest extent permitted by law if Indemnitee is a party to, or threatened to be made a party to, any Proceeding (including a Proceeding by or in the right of the Company to procure a judgment in its favor) against all Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee in connection with the Proceeding; provided, however, that no indemnity shall be made under this Section 7(a) on account of Indemnitee's conduct which has been adjudicated to constitute a breach of Indemnitee's duty of loyalty to the Company or its shareholders or to constitute an act or omission not in good faith or involving intentional misconduct or a knowing violation of the law.

(b) For purposes of Section 7(a), the meaning of the phrase "to the fullest extent permitted by law" shall include, but not be limited to:

(1) to the fullest extent permitted by the provision of the DGCL that authorizes or contemplates additional indemnification by agreement, or the corresponding provision of any amendment to or replacement of the DGCL; and

(2) to the fullest extent authorized or permitted by any amendments to or replacements of the DGCL adopted after the date of this Agreement that increase the extent to which a corporation may indemnify its officers and directors.

8. Exclusions. Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnity payment, or to advance any expenses, in connection with any claim made against Indemnitee:

(a) for which payment has actually been received by or on behalf of Indemnitee under any insurance policy or other indemnity provision, except with respect to any excess beyond the amount actually received under any insurance policy or other indemnity provision;

(b) for an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Company within the meaning of Section 16(b) of the Exchange Act or similar provisions of state statutory law or common law; provided, however, that notwithstanding any limitation on the Company's obligation to provide indemnification set forth in this Section 8(b) or elsewhere, Indemnitee shall be entitled to receive advancement of Expenses hereunder with respect to any such claim unless and until a court having jurisdiction over the claim shall have made a final judicial determination (as to which all rights of appeal therefrom have been exhausted or lapsed) that Indemnitee has violated said statute; or

(c) in connection with any Proceeding (or any part of any Proceeding) initiated by Indemnitee, including any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees or other indemnitees, unless (i) such indemnification is expressly required to be made by applicable law, (ii) the Proceeding was authorized by the Board, (iii) such indemnification is provided by the Company, in its sole discretion, pursuant to the powers vested in the Company under the DGCL, or (iv) such indemnification is required to be made pursuant to Section 13 of this Agreement.

9. Advancement of Expenses; Defense of Claim. Except as otherwise provided herein, the Company shall be obligated to advance any and all Expenses incurred by Indemnitee in connection with any Proceeding within thirty (30) days after the receipt by the Company of a statement or statements requesting such advances from time to time, whether prior to or after final disposition of any Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee and shall include or be preceded or accompanied by a written undertaking by or on behalf of Indemnitee to repay any Expenses advanced to the extent and only to the extent that it is ultimately determined that Indemnitee is not entitled to be indemnified by the Company. Any advances (i) shall be unsecured and interest free; (ii) shall be made without regard to Indemnitee's ability to repay the advances and without regard to Indemnitee's ultimate entitlement to indemnification under the other provisions of this Agreement; and (iii) shall include any and all reasonable Expenses incurred pursuing an action to enforce this right of advancement, including Expenses incurred preparing and forwarding statements to the Company to support the advances claimed. The Company will be entitled to participate reasonably in the Proceeding at its own expense.

10. Procedure for Notification and Requests for Advancement and Indemnification.

(a) Notification. To obtain advancement of Expenses and/or indemnification under this Agreement, Indemnitee shall, not later than sixty (60) days after receipt by Indemnitee of notice of the commencement of any Proceeding, except for Proceedings pending as of the date of this Agreement, submit to the Company written notification of the Proceeding; with regard to Proceedings pending as of the date of this Agreement, Indemnitee shall submit to the Company written notification not later than thirty (30) days after the date of this Agreement. The omission to notify the Company will relieve the Company of its advancement or indemnification obligations under this Agreement only to the extent the Company can establish that such omission to notify resulted in actual prejudice to it, and the omission to notify the Company will, in any event, not relieve the Company from any liability which it may have to indemnify Indemnitee otherwise than under this Agreement. The Secretary of the Company shall, promptly upon receipt of notification from Indemnitee pursuant to this Section 10(a), advise the Board in writing that Indemnitee has provided such notification.

(b) Expense Request. Subject to Section 9, to obtain advancement of Expenses under this Agreement, Indemnitee shall submit to the Company a written request therefor, together with such invoices or other supporting information as may be reasonably requested by the Company and reasonably available to Indemnitee, and, only to the extent required by applicable law which cannot be waived, an unsecured written undertaking to repay

amounts advanced. The Company shall make advance payment of Expenses to Indemnitee no later than thirty (30) days after receipt of the written request for advancement (and each subsequent request for advancement) by Indemnitee. If, at the time of receipt of any such written request for advancement of Expenses, the Company has director and officer insurance policies in effect, the Company will promptly notify the relevant insurers in accordance with the procedures and requirements of such policies. The Company shall thereafter keep such director and officer insurers informed of the status of the Proceeding or other claim, as appropriate to secure insurance coverage of Indemnitee for such claim.

(c) **Indemnification Request.** In order to obtain indemnification under this Agreement, Indemnitee shall, anytime at Indemnitee's discretion following notification by Indemnitee of the commencement of any Proceeding pursuant to Section 10(a) of this Agreement and consistent with the time period for the duration of this Agreement as set forth in Section 15 of this Agreement, submit to the Company a written request for indemnification pursuant to this Section 10(c), including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. No determination of Indemnitee's entitlement to indemnification shall be made until such written request for a determination is submitted by Indemnitee to the Company pursuant to this Section 10(c). The failure to submit a written request to the Company will relieve the Company of its indemnification obligations under this Agreement only to the extent the Company can establish that such failure to make a written request resulted in actual prejudice to it, and the failure to make a written request will not relieve the Company from any liability which it may have to indemnify Indemnitee otherwise than under this Agreement. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board in writing that Indemnitee has requested indemnification. Upon submission of a written request for indemnification by Indemnitee pursuant to this Section 10(c), Indemnitee's entitlement to indemnification shall be determined according to Section 11 of this Agreement.

11. **Procedure Upon Application for Indemnification.**

(a) Upon receipt of Indemnitee's written request for indemnification pursuant to Section 10(c), a determination with respect thereto shall be made in the specific case by one of the following four methods, which shall be at the election of the Board: (i) by a majority vote of the Disinterested Directors, even though less than a quorum, (ii) by a committee of Disinterested Directors designated by a majority vote of the Disinterested Directors, even though less than a quorum, (iii) if there are no Disinterested Directors or if the Disinterested Directors so direct, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee or (iv) by the stockholders of the Company. Notwithstanding the above, if a determination with respect to Indemnitee's right to indemnification is to be made following a Change of Control, such determination shall be made in the specific case by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee. If it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten (10) days after such determination. Indemnitee shall reasonably cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement

to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the Disinterested Directors or Independent Counsel, as the case may be, making such determination shall be advanced and borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company is liable to indemnify and hold Indemnitee harmless therefrom.

(b) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 11(a) hereof, the Independent Counsel shall be selected as provided in this Section 11(b). The Independent Counsel shall be selected by the Board and the Board shall provide written notice to the Indemnitee of the identity of the Independent Counsel so selected. Indemnitee may, within ten (10) days after such written notice of selection shall have been received, deliver to the Company a written objection to such selection; provided, however, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Section 2 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If a written objection is so made and substantiated, the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court of competent jurisdiction has determined that such objection is without merit. If, within twenty (20) days after submission by Indemnitee of a written request for indemnification pursuant to Section 10(c) hereof, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition a court of competent jurisdiction for resolution of any objection which shall have been made by the Indemnitee to the Company's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the Court or by such other person as the Court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 11(a) hereof. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 13(a) of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing). The Company shall pay all reasonable fees and expenses incident to the procedures of this Section 11(b), regardless of the manner in which such Independent Counsel was selected or appointed.

12. Presumptions and Effect of Certain Proceedings.

(a) In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a notice and a request for indemnification in accordance with Section 10 of this Agreement. Anyone seeking to overcome this presumption shall have the burden of proof and the burden of persuasion by clear and convincing evidence. Neither the failure of the Company (including by the Board) or of Independent Counsel to have made a determination prior to the commencement

of any judicial proceeding or arbitration pursuant to this Agreement that indemnification is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor an actual determination by the Company (including by the Board) or by Independent Counsel that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

(b) If the person, persons or entity empowered or selected under Section 11 of this Agreement to determine whether Indemnitee is entitled to indemnification shall not have made a determination within sixty (60) days after receipt by the Company of Indemnitee's written request for indemnification pursuant to Section 10(c) of this Agreement, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; provided, however, that such 60-day period may be extended for a reasonable time, not to exceed an additional thirty (30) days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining or evaluating of documentation and/or information relating thereto.

(c) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

(d) Reliance as Safe Harbor. For purposes of any determination of good faith, Indemnitee shall be deemed to have acted in good faith if Indemnitee's action or failure to act is based on the records or books of account of the Enterprise, including financial statements, or on information supplied to Indemnitee by the officers of the Enterprise in the course of their duties, or on the advice of legal counsel for the Enterprise or on information or records given or reports made to the Enterprise by an independent certified public accountant or by an appraiser or other expert selected by the Enterprise. The provisions of this Section 12(d) shall not be deemed to be exclusive or to limit in any way the other circumstances in which Indemnitee may be deemed or found to have met the applicable standard of conduct set forth in this Agreement.

(e) Actions of Others. The knowledge and/or actions, or failure to act, of any other director, partner, managing member, officer, agent, employee or trustee of the Enterprise shall not be imputed to Indemnitee for purposes of determining Indemnitee's right to indemnification under this Agreement.

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### 13. Remedies of Indemnitee.

(a) In the event that (i) a determination is made pursuant to Section 11 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 9 or 10(b) of this Agreement, (iii) payment of indemnification is not made pursuant to Section 5, 6, 7 or the last sentence of Section 11(a) of this Agreement within ten (10) days after receipt by the Company of a written request therefor, or (iv) payment of indemnification pursuant to Section 3 or 4 of this Agreement is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification, or (v) Indemnitee determines in its sole discretion that such action is appropriate or desirable, Indemnitee shall be entitled to seek an adjudication by a court of competent jurisdiction as to Indemnitee's entitlement to such indemnification or advancement of Expenses. Alternatively, Indemnitee, at Indemnitee's option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration.

(b) In the event that a determination shall have been made pursuant to Section 11(a) of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration, commenced pursuant to this Section 13, shall be conducted in all respects as a de novo trial, or arbitration, on the merits, and Indemnitee shall not be prejudiced by reason of that adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Section 13, in the event that the person, persons or entity empowered or selected under Section 11 of this Agreement to determine whether Indemnitee is entitled to indemnification has not made such a determination within the time period provided for under Section 12(b) of this Agreement, the Company shall stipulate and may not contest that Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or Proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful.

(c) If a determination shall have been made pursuant to Section 11(a) of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 13, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) In the event that Indemnitee is a party to a judicial proceeding or arbitration pursuant to this Section 13 concerning Indemnitee's rights under, or to recover damages for breach of, this Agreement, Indemnitee shall be entitled to recover from the Company, and shall be indemnified by the Company against, any and all Expenses actually and reasonably incurred by him in such judicial adjudication or arbitration. If it shall be determined in said judicial adjudication or arbitration that Indemnitee is entitled to receive part but not all of the indemnification or advancement of Expenses sought, Indemnitee shall be entitled to recover from the Company (who shall be liable therefor), and shall be indemnified by the Company against, any and all Expenses reasonably incurred by Indemnitee in connection with such judicial adjudication or arbitration.

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(e) The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 13 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement. The Company shall be liable to indemnify Indemnitee against any and all Expenses and, if requested by Indemnitee, shall (within ten (10) days after receipt by the Company of a written request therefor) advance such Expenses to Indemnitee that are incurred by Indemnitee in connection with any judicial adjudication or arbitration involving Indemnitee for indemnification or advancement of Expenses from the Company under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company, regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advancement of Expenses or insurance recovery, as the case may be.

14. Non-Exclusivity; Survival of Rights; Insurance.

(a) The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Company's or any other Enterprise's Certificate of Incorporation, Bylaws or similar organizational documents, any agreement, a vote of stockholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect to any action taken or omitted by such Indemnitee in Indemnitee's Corporate Status prior to such amendment, alteration or repeal. To the extent that a change in Delaware law, whether by statute or judicial decision, permits greater indemnification or advancement of Expenses than would be afforded currently under the Company's or any other Enterprise's Certificate of Incorporation, Bylaws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change. No right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

(b) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, partners, managing members, officers, employees, agents or trustees of the Company or of any other Enterprise, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, partner, managing member, officer, employee, agent or trustee under such policy or policies. If, at the time of the receipt of a notice of a claim pursuant to Section 10(a) hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of the commencement of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies.



(c) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable (or for which advancement is provided hereunder) hereunder only to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

(d) The Company's obligation hereunder to indemnify, or advance Expenses to, Indemnitee who was, is or will be serving as a director, partner, managing member, officer, employee, agent or trustee of any other Enterprise shall be reduced by any amount Indemnitee has actually received as indemnification or advancement of Expenses from such other Enterprise.

15. Duration of Agreement. This Agreement shall continue until and terminate upon the later of: (a) ten (10) years after the date that Indemnitee shall have ceased to serve as a director or officer of the Company or as a director, general partner, managing member, officer, employee, agent, fiduciary or trustee of any other Enterprise; or (b) one (1) year after the final termination (i) of any Proceeding (including any rights of appeal) then pending in respect of which Indemnitee requests indemnification or advancement of Expenses hereunder and (ii) of any judicial proceeding or arbitration pursuant to Section 13 of this Agreement (including any rights of appeal) involving Indemnitee. This Agreement shall be binding upon the Company and its successors and assigns and shall inure to the benefit of Indemnitee and Indemnitee's heirs, executors and administrators.

16. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

17. Enforcement.

(a) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to continue to serve as a director or officer of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as a director or officer of the Company.

(b) This Agreement constitutes the entire agreement between the parties hereto with respect to the subject hereof and supersedes any and all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof.



the laws of the State of Delaware, without regard to its conflict of laws rules. Except with respect to any arbitration commenced by Indemnitee pursuant to Section 13(a) of this Agreement, the Company and Indemnitee hereby irrevocably and unconditionally (i) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Chancery Court of the State of Delaware (the “**Delaware Court**”), and not in any other state or federal court in the United States of America or any court in any other country (ii) consent to submit to the exclusive jurisdiction of the Delaware Court for purposes of any action or proceeding arising out of or in connection with this Agreement, (iii) appoint, to the extent such party is not a resident of the State of Delaware, irrevocably the Corporation Trust Company as its agent in the State of Delaware as such party’s agent for acceptance of legal process in connection with any such action or proceeding against such party with the same legal force and validity as if served upon such party personally within the State of Delaware, (iv) waive any objection to the laying of venue of any such action or proceeding in the Delaware Court, and (v) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum.

23. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall for all purposes be deemed to be an original, but all of which together shall constitute one and the same Agreement. This Agreement may also be executed and delivered by facsimile signature and in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

24. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

*[Remainder of this page intentionally blank]*

IN WITNESS WHEREOF, the parties have caused this Agreement to be signed as of the day and year first above written.

**SUPERNUS PHARMACEUTICALS, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**INDEMNITEE**

\_\_\_\_\_  
Name: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

E-mail: \_\_\_\_\_

SUBSIDIARIES OF SUPERNUS PHARMACEUTICALS, INC.

Name of Subsidiary	Jurisdiction of Organization
Supernus Europe Limited	United Kingdom

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Consent of Independent Registered Public Accounting Firm

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated April 5, 2011 (except for Note 3, as to which the date is February 13, 2012), in Amendment No. 3 to the Registration Statement (Form S-1 No. 333-171375) and related Prospectus of Supemus Pharmaceuticals, Inc. for the registration of shares of its common stock.

/s/ Ernst & Young LLP

McLean, Virginia  
February 13, 2012

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