ACORDA THERAPEUTICS INC
Form 10-Q
November 09, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 000-50513

ACORDA THERAPEUTICS, INC.
(Exact name of registrant as specified in its charter)

Delaware	13-3831168
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
420 Saw Mill River Road, Ardsley, New York	10502
(Address of principal executive offices)	(Zip Code)

(914) 347-4300
(Registrant's telephone number, including area code)

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

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

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.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller Reporting Company o

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2015
Common Stock, $0.001 par value per share	43,155,369 shares

ACORDA THERAPEUTICS, INC.
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This Quarterly Report on Form 10-Q contains forward-looking statements relating to future events and our future performance within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Stockholders are cautioned that such statements involve risks and uncertainties, including: The ability to realize the benefits anticipated from the Civitas Therapeutics, Inc. transaction and to successfully integrate Civitas's operations into our operations; our ability to successfully market and sell Ampyra in the U.S.; third party payers (including governmental agencies) may not reimburse for the use of Ampyra or our other products at acceptable rates or at all and may impose restrictive prior authorization requirements that limit or block prescriptions; the risk of unfavorable results from future studies of Ampyra or from our other research and development programs, including CVT-301, Plumiaz, or any other acquired or in-licensed programs; we may not be able to complete development of, obtain regulatory approval for, or successfully market CVT-301, Plumiaz, or any other products under development; we may need to raise additional funds to finance our expanded operations and may not be able to do so on acceptable terms; the occurrence of adverse safety events with our products; delays in obtaining or failure to obtain regulatory approval of or to successfully market Fampyra outside of the U.S. and our dependence on our collaboration partner Biogen in connection therewith; competition; failure to protect our intellectual property, to defend against the intellectual property claims of others or to obtain third party intellectual property licenses needed for the commercialization of our products; and failure to comply with regulatory requirements could result in adverse action by regulatory agencies. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry and markets in which we operate and management's beliefs and assumptions. All statements, other than statements of historical facts, included in this report regarding our strategy, future operations, future financial position, future revenues, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would," and similar expressions are intended to identify forward-looking statem although not all forward-looking statements contain these identifying words. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make, and investors should not place undue reliance on these statements. In addition to the risks and uncertainties described above, we have included important factors in the cautionary statements in this report and in our Annual Report on Form 10-K for the year ended December 31, 2014, particularly in the "Risk Factors" section (as updated by the disclosures in our subsequent quarterly reports), that we believe could cause actual results or events to differ materially from the forward-looking statements that we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments that we may make. Forward-looking statements in this report are made only as of the date hereof, and we do not assume any obligation to publicly update any forward-looking statements as a result of developments occurring after the date of this report.

We and our subsidiaries own several registered trademarks in the U.S. and in other countries. These registered trademarks include, in the U.S., the marks "Acorda Therapeutics," our stylized Acorda Therapeutics logo, "Ampyra," "Zanaflex," "Zanaflex Capsules," "Qutenza" and "ARCUS." Also, our mark "Fampyra" is a registered mark in the European Community Trademark Office and we have registrations or pending applications for this mark in other jurisdictions. Our trademark portfolio also includes several registered trademarks and pending trademark applications (e.g., "Plumiaz") in the U.S. and worldwide for potential product names or for disease awareness activities. Third party trademarks, trade names, and service marks used in this report are the property of their respective owners.

PART I

Item 1. Financial Statements

ACORDA THERAPEUTICS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)	September 30, 2015	December 31, 2014
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 89,837	$ 182,170
Restricted cash	1,139	1,205
Short-term investments	233,593	125,448
Trade accounts receivable, net of allowances of $911 and $771, as of September 30, 2015 and December 31, 2014, respectively	31,755	32,211
Prepaid expenses	13,876	15,523
Finished goods inventory held by the Company	46,838	26,256
Finished goods inventory held by others	—	581
Deferred tax asset	4,967	18,420
Other current assets	7,563	7,324
Total current assets	429,568	409,138
Property and equipment, net of accumulated depreciation	42,415	46,090
Goodwill	183,636	182,952
Intangible assets, net of accumulated amortization	431,279	432,822
Non-current portion of deferred cost of license revenue	3,064	3,540
Restricted cash	4,809	—
Other assets	5,507	6,137
Total assets	$ 1,100,278	$ 1,080,679
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 14,005	$ 17,751
Accrued expenses and other current liabilities	68,472	56,118
Deferred product revenue—Zanaflex	—	29,420
Current portion of deferred license revenue	9,057	9,057
Current portion of revenue interest liability	561	893
Current portion of convertible notes payable	1,144	1,144
Total current liabilities	93,239	114,383
Convertible senior notes (due 2021)	293,492	287,699

Acquired contingent consideration	60,000	52,600
Non-current portion of deferred license revenue	43,777	50,570
Non-current portion of convertible notes payable	1,091	2,184
Deferred tax liability	24,568	23,885
Other non-current liabilities	9,223	9,103
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.001 par value. Authorized 80,000,000 shares at September 30, 2015 and December 31, 2014; issued and outstanding 42,889,088 and 41,883,843 shares, including those held in treasury, as of September 30, 2015 and December 31, 2014, respectively	43	42
Treasury stock at cost (12,420 shares at September 30, 2015 and December 31, 2014)	(329)	(329)
Additional paid-in capital	793,774	761,026
Accumulated deficit	(218,557)	(220,410)
Accumulated other comprehensive loss	(43)	(74)
Total stockholders' equity	574,888	540,255
Total liabilities and stockholders' equity	$ 1,100,278	$ 1,080,679

See accompanying Unaudited Notes to Consolidated Financial Statements

ACORDA THERAPEUTICS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(unaudited)

(In thousands, except per share data)	Three-month period ended September 30, 2015	Three-month period ended September 30, 2014	Nine-month period ended September 30, 2015	Nine-month period ended September 30, 2014
Revenues:				
Net product revenues	$ 141,330	$ 98,481	$ 342,394	$ 262,662
Royalty revenues	4,605	5,216	12,571	14,153
License revenue	2,264	2,264	6,793	6,793
Total net revenues	148,199	105,961	361,758	283,608
Costs and expenses:				
Cost of sales	24,741	20,575	65,896	55,004
Cost of license revenue	159	159	476	476
Research and development	43,356	16,578	105,221	47,548
Selling, general and administrative	51,056	47,820	152,645	145,357
Changes in fair value of acquired contingent consideration	3,200	—	7,400	—
Total operating expenses	122,512	85,132	331,638	248,385
Operating income	25,687	20,829	30,120	35,223
Other expense (net):				
Interest and amortization of debt discount expense	(4,037)	(4,597)	(12,098)	(5,116)
Interest income	120	257	281	596
Other (expense) income	(59)	—	411	—
Total other expense (net)	(3,976)	(4,340)	(11,406)	(4,520)
Income before taxes	21,711	16,489	18,714	30,703
Provision for income taxes	(17,770)	(4,536)	(16,861)	(13,361)
Net income	$ 3,941	$ 11,953	$ 1,853	$ 17,342
Net income per share—basic	$ 0.09	$ 0.29	$ 0.04	$ 0.42
Net income per share—diluted	$ 0.09	$ 0.28	$ 0.04	$ 0.41
	42,174	41,094	42,097	41,022

Weighted average common shares outstanding used in computing net income per share—basic				
Weighted average common shares outstanding used in computing net income per share—diluted	43,432	42,365	43,434	42,346

See accompanying Unaudited Notes to Consolidated Financial Statements

ACORDA THERAPEUTICS, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income

(unaudited)

(In thousands)	Three-month period ended September 30, 2015	Three-month period ended September 30, 2014	Nine-month period ended September 30, 2015	Nine-month period ended September 30, 2014
Net income	$ 3,941	$ 11,953	$ 1,853	$ 17,342
Other comprehensive income:				
Unrealized gains on available for sale securities, net of tax	17	69	31	129
Other comprehensive income, net of tax	17	69	31	129
Comprehensive income	$ 3,958	$ 12,022	$ 1,884	$ 17,471

See accompanying Unaudited Notes to Consolidated Financial Statements

ACORDA THERAPEUTICS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited)

(In thousands)	Nine-month period ended September 30, 2015	Nine-month period ended September 30, 2014
Cash flows from operating activities:		
Net income	$ 1,853	$ 17,342
Adjustments to reconcile net income to net cash provided by operating activities:		
Recognition of deferred product revenue - Zanaflex	(22,186)	—
Share-based compensation expense	24,748	20,644
Amortization of net premiums and discounts on investments	2,372	3,099
Amortization of debt discount and debt issuance costs	6,383	2,226
Amortization of revenue interest issuance cost	15	19
Depreciation and amortization expense	11,153	5,375
Change in acquired contingent consideration obligation	7,400	—
Gain on put/call liability	—	(147)
Deferred tax provision	16,861	13,441
Changes in assets and liabilities:		
Decrease in accounts receivable	455	5,992
Decrease (increase) in prepaid expenses and other current assets	1,408	(2,515)
Increase in inventory held by the Company	(20,582)	(1,111)
Decrease in inventory held by others	581	67
Decrease in non-current portion of deferred cost of license revenue	476	476
Decrease in other assets	25	25
(Decrease) increase in accounts payable, accrued expenses, other current liabilities	(2,158)	5,732
(Decrease) increase in revenue interest liability interest payable	(124)	25
Decrease in non-current portion of deferred license revenue	(6,793)	(6,793)
Increase in other non-current liabilities	—	27
Decrease in deferred product revenue—Zanaflex	(988)	(2,575)
(Increase) decrease in restricted cash	(4,743)	83
Net cash provided by operating activities	16,156	61,432
Cash flows from investing activities:		
Purchases of property and equipment	(5,025)	(2,330)
Purchases of intangible assets	(781)	(1,577)

Purchases of investments	(359,968)	(580,381)
Proceeds from maturities of investments	249,500	183,500
Net cash used in investing activities	(116,274)	(400,788)
Cash flows from financing activities:		
Proceeds from issuance of convertible senior notes	—	345,000
Debt issuance costs	—	(7,516)
Proceeds from issuance of common stock and option exercises	8,000	7,628
Repayments of revenue interest liability	(215)	(452)
Net cash provided by financing activities	7,785	344,660
Net (decrease) increase in cash and cash equivalents	(92,333)	5,304
Cash and cash equivalents at beginning of period	182,170	48,037
Cash and cash equivalents at end of period	$ 89,837	$ 53,341
Supplemental disclosure:		
Cash paid for interest	4,279	1,153
Cash paid for taxes	2,152	1,829

See accompanying Unaudited Notes to Consolidated Financial Statements

ACORDA THERAPEUTICS, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(unaudited)

(1) Organization and Business Activities

Acorda Therapeutics, Inc. (“Acorda” or the “Company”) is a biopharmaceutical company dedicated to the identification, development and commercialization of novel therapies that restore function and improve the lives of people with neurological disorders.

Management is responsible for the accompanying unaudited interim consolidated financial statements and the related information included in the notes to the consolidated financial statements. In the opinion of management, the unaudited interim consolidated financial statements reflect all adjustments, including normal recurring adjustments necessary for the fair presentation of the Company’s financial position and results of operations and cash flows for the periods presented. Results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year.

These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company as of and for the year ended December 31, 2014 included in the Company’s Annual Report on Form 10-K for such year, as filed with the Securities and Exchange Commission (the SEC).

(2) Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and include the results of operations of the Company and its majority owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The consolidated financial statements include certain amounts that are based on management’s best estimates and judgments. Estimates are used in determining such items as provisions for rebates and incentives, chargebacks, returns and other sales allowances, depreciable/amortizable lives, asset impairments, excess inventory, valuation allowance on deferred taxes, purchase price allocations and amounts recorded for contingencies and accruals. Because of the uncertainties inherent in such estimates, actual results may differ from these estimates. Management periodically evaluates estimates used in the preparation of the consolidated financial statements for reasonableness.

The use of forecasted financial information is inherent in many of our accounting estimates, including but not limited to, determining the estimated fair value of goodwill, intangible assets and contingent consideration, matching intangible amortization to underlying benefits (e.g. sales and cash inflows), establishing and evaluating inventory reserves, and evaluating the need for valuation allowances for deferred tax assets. Such forecasted financial information is comprised of numerous assumptions regarding our future revenues, cash flows, and operational results. Management believes that its financial forecasts are reasonable and appropriate based upon current facts and circumstances. Because of the inherent nature of forecasts, however, actual results may differ from these forecasts. Management regularly reviews the information related to these forecasts and adjusts the carrying amounts

of the applicable assets and liabilities prospectively when actual results differ from previous estimates.

Investments

Short-term investments consist of US Treasury bonds. The Company classifies marketable securities available to fund current operations as short-term investments in current assets on its consolidated balance sheets. Marketable securities are classified as long-term investments in long-term assets on the consolidated balance sheets if the Company has the ability and intent to hold them and such holding period is longer than one year. The Company classifies its short-term investments as available-for-sale. Available-for-sale securities are recorded at the fair value of the investments based on quoted market prices.

Unrealized holding gains and losses on available-for-sale securities, which are determined to be temporary, are excluded from earnings and are reported as a separate component of accumulated other comprehensive loss.

Premiums and discounts on investments are amortized over the life of the related available-for-sale security as an adjustment to yield using the effective-interest method. Dividend and interest income are recognized when earned. Amortized premiums and discounts, dividend and interest income and realized gains and losses are included in interest income.

Accumulated Other Comprehensive Loss

The Company's accumulated other comprehensive loss is comprised of unrealized gains and losses on available for sale securities and is recorded and presented net of income tax.

Revenue Recognition

Ampyra

Ampyra is available only through a network of specialty pharmacy providers that provide the medication to patients by mail; Kaiser Permanente, which distributes Ampyra to patients through a closed network of on-site pharmacies; and ASD Specialty Healthcare, Inc. (an AmerisourceBergen affiliate), which distributes Ampyra to the U.S. Bureau of Prisons, the U.S. Department of Defense, the U.S. Department of Veterans Affairs, or VA, and other federal agencies. Ampyra is not available in retail pharmacies. The Company does not recognize revenue from product sales until there is persuasive evidence of an arrangement, delivery has occurred, the price is fixed and determinable, the buyer is obligated to pay the Company, the obligation to pay is not contingent on resale of the product, the buyer has economic substance apart from the Company, the Company has no obligation to bring about the sale of the product, and collectability is reasonably assured. The Company recognizes product sales of Ampyra following receipt of product by a network of specialty pharmacy providers, Kaiser Permanente, and ASD Specialty Healthcare, Inc. The specialty pharmacy providers, Kaiser Permanente, and ASD Specialty Healthcare, Inc. are contractually obligated to hold no more than an agreed number of days of inventory, ranging from 10 to 30 calendar days.

The Company's net revenues represent total revenues less allowances for customer credits, including estimated discounts, rebates, and chargebacks. These allowances are recorded for cash consideration given by a vendor to a customer that is presumed to be a reduction of the selling prices of the vendor's products or services and, therefore, are characterized as a reduction of revenue. At the time product is shipped to specialty pharmacies, Kaiser Permanente and ASD Specialty Healthcare, Inc., an adjustment is recorded for estimated discounts, rebates and chargebacks. These allowances are established by management as its best estimate based on available information and will be adjusted to reflect known changes in the factors that impact such allowances. Allowances for discounts, rebates and chargebacks are established based on the contractual terms with customers, historical trends, communications with customers and the levels of inventory remaining in the distribution channel, as well as expectations about the market for the product and anticipated introduction of competitive products. Product shipping and handling costs are included in cost of sales. The Company does not accept returns of Ampyra with the exception of product damages that occur during shipping.

Zanaflex

The Company applies the revenue recognition guidance in Accounting Standards Codification (ASC) 605-15-25, which among other criteria requires that future returns can be reasonably estimated in order to recognize

revenue. Prior to the three-month period ended September 30, 2015, the Company accounted for Zanaflex tablet and capsule (Zanaflex products) shipments using a deferred revenue recognition model (sell-through). Under the deferred revenue recognition model, the Company did not recognize revenue upon product shipment. For product shipments, the Company invoiced the wholesaler, recorded deferred revenue at gross invoice sales price, and classified the cost basis of the product held by the wholesaler as a separate component of inventory. The Company recognized revenue when prescribed to the end-user, on a first-in first-out (FIFO) basis. The Company's revenue to be recognized was based on the estimated prescription demand, based on pharmacy sales for its products using third-party information, including third-party market research data. The Company's sales and revenue recognition reflected the Company's estimate of actual product prescribed to the end-user. Beginning in the third quarter of 2015, the Company is recognizing sales for Zanaflex products when the product is shipped to its wholesale distributors (sell-in), as the Company believes there is now sufficient history to reasonably estimate expected returns. For the three-month period ended September 30, 2015, the Company recognized a one-time increase in net revenue of $22.2 million, representing previously deferred product sales as of June 30, 2015, net of an allowance for estimated returns.

The Company's net revenues represent total revenues less allowances for customer credits, including estimated discounts, rebates, chargebacks and returns. These allowances are recorded for cash consideration given by a vendor to a customer that is presumed to be a reduction of the selling prices of the vendor's products or services and, therefore, are characterized as a reduction of revenue. At the time product is shipped to the wholesale distributors, an allowance is recorded for estimated discounts, rebates, chargebacks and returns. These allowances are established by management as its best estimate based on available information and will be adjusted to reflect known changes in the factors that impact such allowances. Allowances for discounts, rebates, chargebacks and returns are established based on the contractual terms with customers, historical trends, communications with customers and the levels of inventory remaining in the distribution channel, as well as expectations about the market for the product and anticipated introduction of competitive products. Product shipping and handling costs are included in cost of sales.

Qutenza

Qutenza is distributed in the United States by Besse Medical, Inc., a specialty distributor that furnishes the medication to physician offices; and by ASD Specialty Healthcare, Inc., a specialty distributor that furnishes the medication to hospitals and clinics. The Company does not recognize revenue from product sales until there is persuasive evidence of an arrangement, delivery has occurred, the price is fixed and determinable, the buyer is obligated to pay the Company, the obligation to pay is not contingent on resale of the product, the buyer has economic substance apart from the Company, the Company has no obligation to bring about the sale of the product, and the amount of returns can be reasonably estimated and collectability is reasonably assured. This means that, for Qutenza, the Company recognizes product sales following receipt of product by its specialty distributors.

The Company's net revenues represent total revenues less allowances for customer credits, including estimated rebates, chargebacks, and returns. These allowances are recorded for cash consideration given by a vendor to a customer that is presumed to be a reduction of the selling prices of the vendor's products or services and, therefore, are characterized as a reduction of revenue. At the time product is shipped, an adjustment is recorded for estimated rebates, chargebacks, and returns. These allowances are established by management as its best estimate based on available information and will be adjusted to reflect known changes in the factors that impact such allowances. Allowances for rebates, chargebacks, and returns are established based on the contractual terms with customers, historical trends, as well as expectations about the market for the product and anticipated introduction of competitive products. Product shipping and handling costs are included in cost of sales.

Milestones and royalties

In order to determine the revenue recognition for contingent milestones, the Company evaluates the contingent milestones using the criteria as provided by the Financial Accounting Standards Boards (FASB) guidance on the milestone method of revenue recognition. At the inception of a collaboration agreement, the Company evaluates if payments are substantive. The criteria requires that (i) the Company determines if the milestone is commensurate with either its performance to achieve the milestone or the enhancement of value resulting from the Company's activities to achieve the milestone, (ii) the milestone be related to past performance, and (iii) the milestone be reasonable relative to all deliverable and payment terms of the collaboration arrangement. If these criteria are met then the contingent milestones can be considered as substantive milestones and will be recognized as revenue in the period that the milestone is achieved. Royalties are recognized as earned in accordance with the terms of various research and collaboration agreements.

In-Process Research and Development

The cost of in-process research and development (IPR&D) acquired directly in a transaction other than a business combination is capitalized if the projects have an alternative future use; otherwise they are expensed. The fair values

of IPR&D projects acquired in business combinations are capitalized. Several methods may be used to determine the estimated fair value of the IPR&D acquired in a business combination. The Company utilizes the "income method", and uses estimated future net cash flows that are derived from projected sales revenues and estimated costs. These projections are based on factors such as relevant market size, patent protection, historical pricing and expected industry trends. The estimated future net cash flows are then discounted to the present value using an appropriate discount rate. These assets are treated as indefinite-lived intangible assets until completion or abandonment of the projects, at which time the assets are amortized over the remaining useful life or written off, as appropriate. IPR&D intangible assets which are determined to have had a drop in their fair value are adjusted downward and an expense recognized in the statement of operations. These assets are tested at least annually or sooner when a triggering event occurs that could indicate a potential impairment.

Contingent Consideration

The Company records contingent consideration as part of its business acquisitions. Contingent consideration is recognized at fair value as of the date of acquisition and recorded as a liability on the consolidated balance sheet. The contingent consideration is re-valued on a quarterly basis using a probability weighted discounted cash-flow approach until fulfillment or expiration of the contingency. Changes in the fair value of the contingent consideration are recognized in the statement of operations.

Goodwill

Goodwill represents the amount of consideration paid in excess of the fair value of net assets acquired as a result of the Company's business acquisitions accounted for using the acquisition method of accounting. Goodwill is not amortized and is subject to impairment testing on an annual basis or when a triggering event occurs that may indicate the carrying value of the goodwill is impaired.

Collaborations

The Company recognizes collaboration revenues and expenses by analyzing each element of the agreement to determine if it shall be accounted for as a separate element or single unit of accounting. If an element shall be treated separately for revenue recognition purposes, the revenue recognition principles most appropriate for that element are applied to determine when revenue shall be recognized. If an element shall not be treated separately for revenue recognition purposes, the revenue recognition principles most appropriate for the bundled group of elements are applied to determine when revenue shall be recognized. Payments received in excess of revenues recognized are recorded as deferred revenue until such time as the revenue recognition criteria have been met.

Concentration of Credit Risk

The Company's principal direct customers as of September 30, 2015 were a network of specialty pharmacies, Kaiser Permanente, and ASD Specialty Healthcare, Inc. for Ampyra, wholesale pharmaceutical distributors for Zanaflex Capsules and Zanaflex tablets, and two specialty distributors for Qutenza. The Company periodically assesses the financial strength of these customers and establishes allowances for anticipated losses, if necessary. Four customers individually accounted for more than 10% of the Company's product revenue for the nine-month periods ended September 30, 2015 and 2014. Three and four customers individually accounted for more than 10% of the Company's accounts receivable as of September 30, 2015 and December 31, 2014, respectively. The Company's net product revenues are generated in the United States.

Segment and Geographic Information

The Company is managed and operated as one business which is focused on the identification, development and commercialization of novel therapies to improve the lives of people with neurological disorders. The entire business is managed by a single management team that reports to the Chief Executive Officer. The Company does not operate separate lines of business with respect to any of its products or product candidates and the Company does not prepare discrete financial information with respect to separate products or product candidates or by location. Accordingly, the Company views its business as one reportable operating segment. Net product revenues reported to date are derived from sales of Ampyra, Zanaflex and Qutenza in the United States.

Subsequent Events

Subsequent events are defined as those events or transactions that occur after the balance sheet date, but before the financial statements are filed with the Securities and Exchange Commission. The Company completed an evaluation of the impact of any subsequent events through the date these financial statements were issued, and determined there were no subsequent events requiring disclosure in or requiring adjustment to these financial statements.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). This new standard will replace all current U.S. GAAP guidance on this topic and eliminate all industry-specific guidance. In July 2015, the FASB decided to defer the effective date of the new revenue standard for interim and annual periods beginning after December 15, 2017 (previously December 15, 2016). The change will allow public entities to adopt the new standard as early as the original public entity effective date (i.e. annual reporting periods beginning after December 15, 2016 and interim periods therein). Early adoption prior to that date will not be permitted. ASU 2014-09 allows for either full retrospective or modified retrospective adoption. The Company is evaluating the transition method that will be elected and the potential effects of adopting the provisions of ASU No. 2014-09.

In August 2014, the FASB issued Accounting Standards Update 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (ASU 2014-15), which defines management's responsibility to assess an entity's ability to continue as a going concern, and to provide related footnote disclosures if there is substantial doubt about its ability to continue as a going concern. ASU 2014-05 is effective for annual reporting periods ending after December 15, 2016 with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update 2015-03, Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the debt liability rather than as an asset. ASU-2014-15 is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2015, with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements or results of operations.

On June 12, 2015, the FASB issued ASU 2015-10, Technical Corrections and Improvements. With regard to fair value measurement disclosures, ASU 2015-10 clarified that, for nonrecurring measurements estimated at a date during the reporting period other than the end of the reporting period, an entity should clearly indicate that the fair value information presented is not as of the period's end as well as the date or period that the measurement was taken. This change was effective immediately upon issuance of ASU 2015-10. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements or disclosures.

In July 2015, the FASB issued Accounting Standards Update 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory (ASU 2015-11), which requires the measurement of inventory at the lower of cost and net realizable value. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, and interim periods therein with early adoption permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements or results of operations.

In September 2015, the FASB issued Accounting Standards update 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments (ASU 2015-16), which requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the period in which the adjustment amount is determined. The acquirer is required to also record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition the acquirer is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as

of the acquisition date. This guidance is effective for fiscal years and interim periods beginning after December 15, 2015, and requires prospective application. Early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements or results of operations.

(3) Acquisitions

Civitas Therapeutics, Inc. Acquisition

On October 22, 2014, the Company completed the acquisition of Civitas Therapeutics, Inc., a Delaware corporation (Civitas). As a result of the acquisition, the Company acquired global rights to CVT-301, a Phase 3 treatment candidate for OFF episodes of Parkinson's disease. The acquisition of Civitas also included rights to Civitas's proprietary ARCUS

pulmonary delivery technology, which management believes has potential applications in multiple disease areas, and a subleased manufacturing facility in Chelsea, Massachusetts with commercial-scale capabilities. The approximately 90,000 square foot facility also includes office and laboratory space. Approximately 45 Civitas employees based at the Chelsea facility joined the Acorda workforce in connection with the acquisition.

The Civitas acquisition was completed under an Agreement and Plan of Merger, dated as of September 24, 2014 (the Merger Agreement), by and among Acorda, Five A Acquisition Corporation, a Delaware corporation and its wholly-owned subsidiary (Merger Sub), Civitas and Shareholder Representative Services LLC, a Colorado limited liability company, solely in its capacity as the security holders' representative (SRS). Pursuant to the terms of the Merger Agreement, Merger Sub has merged with and into Civitas, which is the surviving corporation in the Merger and which is continuing as a wholly-owned subsidiary of Acorda under the Civitas name.

Pursuant to the terms of the Merger Agreement, aggregate merger consideration was $525 million plus $4.5 million in Civitas transaction costs paid by the Company. Additionally and pursuant to the Merger Agreement, upon consummation of the merger, $39.375 million of the aggregate merger consideration was deposited into escrow to secure representation and warranty indemnification obligations of Civitas and Civitas' security holders. The escrow amount was released in the fourth quarter of 2015 in accordance with the Merger Agreement. The transaction was financed with cash on hand. The Company incurred approximately $7.2 million of its own transactions costs related to legal, valuation and other professional and consulting fees associated with the acquisition. These transaction costs have been expensed as selling, general and administrative expenses in the year ended December 31, 2014.

The fair value of consideration transferred as of the acquisition date of October 22, 2014 totaled approximately $529.5 million summarized as follows:

(In thousands)	
Cash paid	$524,201
Extinguishment of long-term debt	5,325
Fair value of consideration transferred	$529,526

In accordance with the acquisition method of accounting, the Company allocated the purchase price to the estimated fair values of the identifiable assets acquired and liabilities assumed, with any excess allocated to goodwill. The fair value of acquired IPR&D is classified as an indefinite lived intangible asset until the successful completion or abandonment of the associated research and development efforts. The Company accounted for the transaction as a business combination. The results of Civitas' operations have been included in the consolidated statements of operations from the date of acquisition.

Acquired contingent consideration represents the estimated fair value of certain royalty payments due under a prior acquisition agreement between Alkermes and Civitas pertaining to sales of licensed products using the ARCUS technology. The estimated fair value of the acquired contingent consideration was determined by applying a probability adjusted, discounted cash flow approach based on estimated future sales expected from CVT-301, a phase 3 candidate for the treatment of OFF episodes of Parkinson's disease and CVT-427, a pre-clinical development stage product. CVT-427 is an inhaled triptan intended to provide relief from acute migraine episodes by using the ARCUS delivery system.

Goodwill represents the amount of the purchase price paid in excess of the estimated fair value of the assets acquired and liabilities assumed. The goodwill recorded as part of the acquisition is primarily related to establishing a deferred tax liability for the IPR&D intangible assets which have no tax basis and, therefore, will not result in a future tax

deduction.

The following table presents the final allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date of October 22, 2014:

(In thousands)	
Current assets	$54,911
Property and equipment	27,913
Identifiable intangible assets:	
In-process research and development	423,000
Other non-current assets	1,002
Current liabilities	(6,154)
Contingent consideration	(50,400)
Deferred taxes	(103,317)
Other non-current liabilities	(1,065)
Fair value of acquired assets and liabilities	345,890
Goodwill	183,636
Aggregate purchase price	529,526
Amount paid to extinguish long-term debt	(5,325)
Cash Paid	$524,201

In the three-month period ended September 30, 2015, the Company completed its purchase price allocation for the Civitas acquisition which resulted in an increase of approximately $0.7 million to the provisional amount recorded for deferred tax liabilities, resulting in an increase to goodwill.

The following table presents the changes to the goodwill balance associated with the completion of the accounting for the Civitas acquisition:

(In thousands)	
Goodwill – balance at October 22, 2014	$182,952
Increase to goodwill for final adjustment to deferred taxes	684
Goodwill – balance at September 30, 2015	$183,636

Pro-Forma Financial Information Associated with the Civitas Acquisition (Unaudited)

The following table summarizes certain supplemental pro forma financial information for the three and nine-month periods ended September 30, 2015 and 2014 as if the acquisition of Civitas had occurred as of January 1, 2013. The unaudited pro forma financial information for the three and nine-month periods ended September 30, 2014 reflects (i) the impact to depreciation expense based on fair value adjustments to the property, plant and equipment acquired from Civitas; (ii) the effect to interest expense on a loan Civitas entered into at March 31, 2014; and (iii) the income tax benefit from Civitas net loss at the Company’s effective income tax rate at September 30, 2014. The unaudited pro forma financial information was prepared for comparative purposes only and is not necessarily indicative of what would have occurred had the acquisition been made at that time or of results which may occur in the future.

(In thousands)	For the Three-Month Period ended September 30, 2015 Reported	Pro Forma	For the Three-Month Period ended September 30, 2014 Reported	Pro Forma
Net revenues	$ 148,199	$ 148,199	$ 105,961	$ 105,961
Net income (loss)	3,941	3,941	11,953	(10,288)

(In thousands)	For the Nine-Month Period ended September 30, 2015 Reported	Pro Forma	For the Nine-Month Period ended September 30, 2014 Reported	Pro Forma
Net revenues	$ 361,758	$ 361,758	$ 283,608	$ 283,608
Net income (loss)	1,853	1,853	17,342	(13,733)

(4) Share-based Compensation

During the three-month periods ended September 30, 2015 and 2014, the Company recognized share-based compensation expense of $8.9 million and $7.3 million, respectively. During the nine-month periods ended September 30, 2015 and 2014, the Company recognized share-based compensation expense of $24.7 million and $20.6 million, respectively. Activity in options and restricted stock during the nine-month period ended September 30, 2015 and related balances outstanding as of that date are reflected below. The weighted average fair value per share of options granted to employees for the three-month periods ended September 30, 2015 and 2014 were approximately $14.74 and $14.88, respectively. The weighted average fair value per share of options granted to employees for the nine-month periods ended September 30, 2015 and 2014 were approximately $15.89 and $18.04, respectively.

The following table summarizes share-based compensation expense included within the consolidated statements of operations:

(In millions)	For the three-month period ended September 30, 2015	2014	For the nine-month period ended September 30, 2015	2014
Research and development	$ 2.2	$ 1.5	$ 6.2	$ 4.1
Selling, general and administrative	6.7	5.8	18.5	16.5
Total	$ 8.9	$ 7.3	$ 24.7	$ 20.6

A summary of share-based compensation activity for the nine-month period ended September 30, 2015 is presented below:

Stock Option Activity

	Number of Shares (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Intrinsic Value (In thousands)
Balance at January 1, 2015	7,787	$ 29.05		
Granted	1,561	35.42		
Cancelled	(261)	34.75		
Exercised	(327)	24.49		
Balance at September 30, 2015	8,760	$ 30.19	6.7	$ 14,685
Vested and expected to vest at September 30, 2015	8,655	$ 30.12	6.7	$ 14,685
Vested and exercisable at September 30, 2015	5,202	$ 27.05	5.4	$ 14,543

Restricted Stock Activity

(In thousands) Restricted Stock	Number of Shares
Nonvested at January 1, 2015	502
Granted	219
Vested	(17)
Forfeited	(30)
Nonvested at September 30, 2015	674

Unrecognized compensation cost for unvested stock options and restricted stock awards as of September 30, 2015 totaled $66.0 million and is expected to be recognized over a weighted average period of approximately 2.5 years.

(5) Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and nine-month periods ended September 30, 2015 and 2014:

(In thousands, except per share data)	Three-month period ended	Three-month period ended	Nine-month period ended	Nine-month period ended

	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Basic and diluted				
Net income	$ 3,941	$ 11,953	$ 1,853	$ 17,342
Weighted average common shares outstanding used in computing net income per share—basic	42,174	41,094	42,097	41,022
Plus: net effect of dilutive stock options and restricted common shares	1,258	1,271	1,337	1,324
Weighted average common shares outstanding used in computing net income per share—diluted	43,432	42,365	43,434	42,346
Net income per share—basic	$ 0.09	$ 0.29	$ 0.04	$ 0.42
Net income per share—diluted	$ 0.09	$ 0.28	$ 0.04	$ 0.41

The difference between basic and diluted shares is that diluted shares include the dilutive effect of the assumed exercise of outstanding securities. The Company's stock options and unvested shares of restricted common stock could have the most significant impact on diluted shares.

Securities that could potentially be dilutive are excluded from the computation of diluted earnings per share when a loss from continuing operations exists or when the exercise price exceeds the average closing price of the Company's common stock during the period, because their inclusion would result in an anti-dilutive effect on per share amounts.

The following amounts were not included in the calculation of net income per diluted share because their effects were anti-dilutive:

(In thousands)	Three-month period ended September 30, 2015	Three-month period ended September 30, 2014	Nine-month period ended September 30, 2015	Nine-month period ended September 30, 2014
Denominator				
Stock options and restricted common shares	4,630	4,380	4,517	3,959
Convertible note – Saints Capital	19	29	19	29

Additionally, the impact of the convertible debt was determined to be anti-dilutive and excluded from the calculation of net income per diluted share for the three and nine-month periods ended September 30, 2015 and 2014.

(6) Income Taxes

For the three-month periods ended September 30, 2015 and 2014, the Company recorded a $17.8 million and $4.5 million provision for income taxes, respectively based upon its estimated tax liability for the year. For the nine-month periods ended September 30, 2015 and 2014, the Company recorded a $16.9 million and $13.4 million provision for income taxes, respectively, based upon its estimated tax liability for the year. The provision for income taxes is based on federal, state and Puerto Rico income taxes. The effective income tax rates for the Company for the three-month periods ended September 30, 2015 and 2014 were 82% and 28%, respectively. The effective income tax rates for the Company for the nine-month periods ended September 30, 2015 and 2014 were 90% and 44%, respectively. The variances in the effective tax rates for the three and nine-month periods ended September 30, 2015 as compared to the three and nine-month periods ended September 30, 2014 were due primarily to the non-deductible $8.75 million payment in July 2015 to the former equity holders of Neuronex. As a result of the Federal research and development tax credit not being extended during the first three quarters of 2015, the Company was not able to receive a benefit in the effective tax rate for this in 2015. The Company, however, was able to receive a benefit in the effective tax rate for 2015 for the Massachusetts state research and development tax credit in addition to the Federal orphan drug credit.

The Company continues to evaluate the realizability of its deferred tax assets and liabilities on a periodic basis and will adjust such amounts in light of changing facts and circumstances including, but not limited to, future projections of taxable income, tax legislation, rulings by relevant tax authorities, the progress of ongoing tax audits and the regulatory approval of products currently under development. Any changes to the valuation allowance or deferred tax assets and liabilities in the future would impact the Company's income taxes.

(7) Fair Value Measurements

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014 and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are observable, such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs utilize unobservable data points for the asset or liability. The Company's Level 1 assets consist of time deposits and investments in a Treasury money market fund and the Company's Level 2 assets consist of high-quality government bonds and are valued using observable market prices. The Company's Level 3 liabilities represent acquired contingent consideration related to the acquisition of Civitas and are valued using a probability weighted discounted cash flow valuation approach. No changes in valuation techniques occurred during the three or nine-month periods ended September 30, 2015. The estimated fair values of all of our financial instruments approximate their carrying values at September 30, 2015, except for the fair value of the Company's convertible senior notes, which was approximately $314.4 million as of September 30, 2015. The Company estimates the fair value of its notes utilizing market quotations for the debt (Level 2).

(In thousands)

	Level 1	Level 2	Level 3
September 30, 2015			
Assets Carried at Fair Value:			
Cash equivalents	$ 50,142	$ —	&#1